Collaboration and the Role of Rewards: What Can We Learn From the Best Organizations for Leadership?

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Hay group’s recent global research study on the best companies for leadership found that the best companies are transforming the very notion of leadership from traditional hierarchical views of executive-led leadership to collaborative based leadership across all levels in the enterprise. This emphasis on collaborative based leadership styles is often a function of more complex matrix-based organization and job designs. Those organizations that are most successful have also modified their reward systems to recognize and reward for collaborative processes primarily via the use of team based variable pay programs and collaborative behavior assessment in terms of performance management assessments and executive succession planning decisions.

Hay Group recently released its sixth annual Best Companies for Leadership study and top 20 list. The research ranks the best companies for leadership around the globe and examines how those companies develop current and future leaders. This year, General Electric topped the list, followed by Procter & Gamble, Intel Corporation, Siemens and Banco Santander. A complete list of the top 20 Best Companies for Leadership is provided in Figure 1 below.

The most recent survey included over 1,800 organizations worldwide. The survey was based on the organization’s responses to an online questionnaire of leadership practices as well as peer nominations. Respondents that completed the survey were from 96 countries, with 27 percent from North America, 23 percent from Europe, 4 percent from the Middle East, 20 percent from Asia, 24 percent from South America, 3 percent from the Pacific, and 1 percent from Africa. To see the

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The top 20 list from 2005 through 2010, please visit the Best Companies for Leadership site at www.haygroup.com/BestCompaniesforLeadership.

One of the key findings of the study is that the best companies for leadership are at the forefront of a significant shift away from traditional hierarchical organizational operating models. Leadership in the 21st century is about leading at ALL levels—and not restricting leadership to title. As organizations become flatter, 100 percent of the best companies for leadership are learning that everyone at every level of the organization has the opportunity to develop and practice the capabilities needed to lead others, compared to less than 70 percent of all other companies in the study. In addition, 90 percent of the Top 20 organizations report that people are expected to lead regardless of whether they have a formal position of authority, compared to only 59 percent of other companies.

**COLLABORATION IS CRITICAL**

This year’s top 20 is a group of organizations that are moving quickly to improve their efficiency and competitive positioning by flattening their business structures and management processes. As a result, this places much more emphasis on collaborative management processes.

Collaboration is the act of people working together to reach a common goal. It involves getting the right information to the right people at the right time to make the right decision. Collaboration is NOT about just being a team player, holding lots of meetings and getting everyone to agree and having good discussions. It is about solving critical business problems that require a group of people to co-develop strategies, innovate, improve business operations and execute with excellence.

Hay Group’s study found that there are large differences in collaborative management processes between the Best Companies and other organizations. The top 20 companies understand that effective collaboration involves people from across the organization coming together with clear goals and the right enabling processes and capabilities to support each other.

- All of the top 20 compa-
nies encourage their local leaders to participate in decisions made at headquarters, compared to 72 percent of all other companies.

- All of the top 20 companies report having programs designed to develop leaders who can creatively bring together resources across different parts of the organization compared to 66 percent of all other companies.

- Most of the top 20 (90 percent) report that their leaders cannot avoid cooperating with each other across functions/silos compared to 66 percent of all other companies.

- Similarly, 95 percent of the Top 20 report that ideas coming from subsidiary leaders are just as likely to be implemented as those from headquarters, compared to 76 percent of all other companies.

The Top 20 understand that collaboration is not for the sake of building good relationships, but for solving critical business problems that require collaboration for execution. Moreover, they understand that collaboration opportunities significantly improve innovation from cross-business product development and creation of new businesses, driving sales through cross-selling and improved customer service and increased operational efficiency through sharing of best practices and improved decision-making. And the best companies encourage collaboration by establishing the conditions to drive it throughout their organizations. They create a culture that makes collaboration central to achieving the organization’s vision and strategy, they use technology to make it easier for people to connect with each other and share critical information, and they provide the training and development to grow collaborative leaders early in their careers.

CONSIDERATIONS AT THE ROLE LEVEL

One of the criteria for success in creating a more collaborative environment is in creating doable, collaborative roles. At the role level, there are some jobs that based on their intent and design are required to be more collaborative than others, primarily as a function of their proximity to end results. At a high level, there are three types of “role profiles” that cover approximately 90% of roles in most companies. These are:

1. **Advisory roles**: Guidance and advice to support achievement of business results by developing function capability. These include many HR, IT, R&D, Finance roles.

2. **Collaborative roles**: Coordination of internal resources or relationships with external partners to deliver measurable business results. These include many marketing, product management, customer service, cross functional project team management and supply chain roles.

3. **Operational roles**: Directly accountable for achieving business results through direct control of significant results. These include many manufacturing, sales and operations management roles.

While there are advisory, collaborative and operational elements to all roles, the dominant characteristics of role profiles also result in different competencies required for success based on role type as given in the table below. For example, collaborative roles require a much higher need for teamwork, interpersonal understanding, relationship building and commitment to the enterprise than roles primarily engaged in advising others or leading operational success (see Figure 2 below).
There are several considerations or “passage” issues that should be considered before moving an individual into a collaborative role. These include:

- **Sharing ownership:** Will this person get frustrated that for some parts of his/her role, he/she will need to rely on influencing rather than directing to get things done?

- **Letting go:** Will this person get frustrated by the need to step back and let others deliver?

- **Leading diverse groups:** Has this person demonstrated the ability to work with and motivate groups of diverse individuals i.e., not just like-minded professionals?

- **Decision making:** Has this person demonstrated the ability to make business decisions and implement in collaboration with others?

- **Engaging others:** Can this person implement when he/she has no direct control over people and resources?

Considering these passage issues, targeting individuals who excel in the competencies noted above as well as providing role opportunities to lead cross-functional teams incorporating a range of expertise will result in a higher likelihood of collaboration success in the role.

**IMPACT ON REWARD SYSTEMS**

To ensure a sustained collaborative environment, reward systems are core reinforcement tools in order to promote a more unifying direction for the organization and to reward for coordinating and managing internal resources to deliver collective and individual performance. As you might suspect, there are differences in reward systems for the Top 20 Companies for Leadership. The vast majority of the Top 20 (90 percent) report that their organization’s incentive system rewards collaboration across the business. This compares to 66 percent of all other companies.

FORTUNE’s Most Admired Companies also do a much better job than their peers in terms of:

- incorporating performance measures in their reward system that encourage cooperation and collaboration among senior company executives within the organization

- providing more balance between short-term and long-term performance measures, which encourages executives to think not just in the short term, but into the future as well

- providing a strong linkage between the reward program and corporate performance (i.e., more so than business unit or individual performance)
In a separate Hay Group 2010 study on “The Impact of Executive Reward Systems on Collaboration,” we found from 23 large multi-nationals (totaling $600B in revenues) that short-term incentive plans were the most common compensation program identified in which collaboration has a significant impact, although some reported that base pay level and non-financial recognition programs were also impacted by collaboration.

We found however, that participants’ definitions for “collaboration” were as wide and varied as the different methods for collaboration. Some participants saw any type of corporate wide goals as vehicles for rewarding collaboration while others took a much more micro level approach to the idea of collaboration and how it is tied to compensation administration.

Respondents report that the typical balance in weights in executive short term incentive programs is 50% corporate measures, 25% business unit measures and 25% individual measures. In addition, 100% of...
participants report that long-term incentives are weighted 100% to corporate performance measures. This clearly indicates that most Boards and CEOs desire corporate performance first and foremost from their executive teams and the collaborative processes to achieve this performance.

Beyond incentive systems, 86 percent of organizations report that collaboration is a dimension that is directly assessed in the performance assessment of its executives. The vast majority of organizations studied report that collaboration is most often measured against “soft” key performance indicators, data for which is typically collected in a multi-rater approach to assessment. Lastly, collaboration was also called out in a vast majority (i.e., 87 percent of organizations) as a differentiating competency in assessing leadership talent for development or succession purposes.

**PERCEIVED EFFECTIVENESS OF COLLABORATION EFFORTS**

Organizations participating in our “Impact of Executive Reward Systems on Collaboration” research sensed saw varying degrees of effectiveness in improving their organization’s culture of collaboration and the use of reward systems in reinforcing this. Several representative quotes are given below:

- “It has been effective through our performance management process and through development programs that emphasize the importance of collaboration (often referred to as ‘teamwork’).”
- “We consider ourselves quite effective on this forefront. Of course, collaboration is modeled at the top levels for all others and if its fostered by top management and the culture is not political in nature, it can work quite well.”
- “We find it highly effective to align priorities and ensure that our targets are achieved.”
- “It’s important that you make sure you tie it back to business results. After all, it is not collaboration for collaboration’s sake.”
- “It is important to limit the number of initiatives so people can focus and be efficient.”
- “Overall effectiveness has been mixed. Some of the business leaders themselves question what it is they can do in area of collaboration that will have any tangible impact. So while we can emphasize it and put people in a common reward boat, the net effect is they often feel they are being held accountable for something they cannot impact. I am not sure if we really know if or where collaboration really helps.”

We know from experience that more forward thinking organizations use key differentiators of their organization culture—like the importance of, and respect given to, collaboration—as part of their approach to total rewards. They take deliberate actions to ensure these corporate differentiators are inherent in their talent supply and ongoing talent management strategies and ongoing employment value proposition.