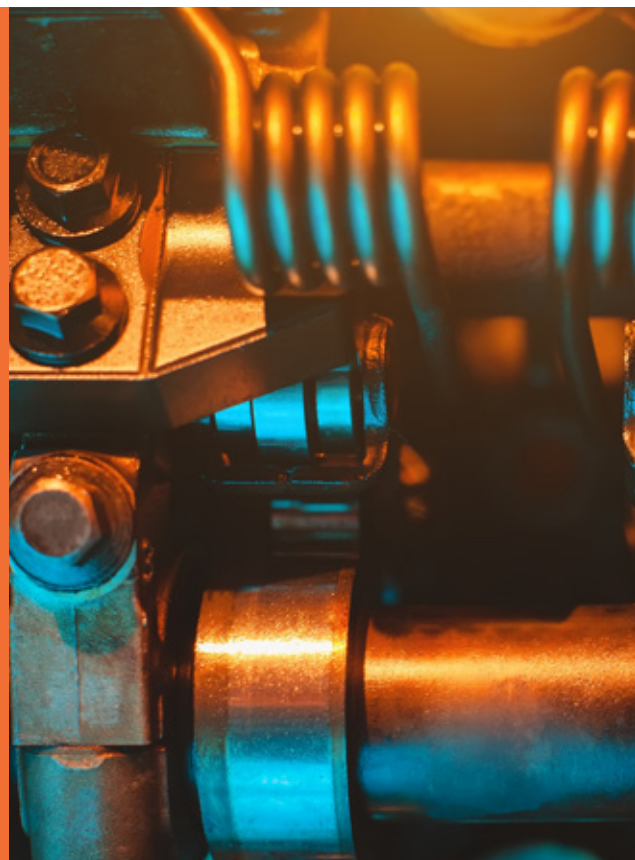


Is Your Business Operating on All Cylinders?

Here's how to leverage the leadership engine that drives business performance



Companies with a fully activated Engine Room — one equipped with the right processes, capabilities and support — are better able to drive strategy and change and achieve greater performance.

Why do some companies struggle to transform or execute new strategies while, at others, strategies gain traction and the organization thrives? The answer lies, in large part, in the strength, engagement and vitality of a layer of leadership we call the “Engine Room.” Companies with a fully activated Engine Room — one equipped with the right processes, capabilities and support — are better able to drive strategy and change and achieve greater performance. Our research shows that fully activated Engine Rooms have financial performance ratings 2.7 times greater than those with little or no activation.¹

¹ From Spencer Stuart’s 2023 Global Employee Survey panel study conducted in December 2022 with over 700 VP+ level leaders in 19 countries across a range of organizations and industries.

So what is the Engine Room?

The Engine Room embodies a select group of leaders who operate below the C-suite and are responsible for mobilizing the company's vision, strategy and global initiatives throughout the entire organization, collectively driving business performance. Every organization has an Engine Room, often referred to by labels such as the top 100, S-suite, N-3, senior VPs or similar. Whether or not these individuals report directly to the CXOs, they make or break the success of strategy and transformation initiatives because of their influence individually and collectively on the organization's activities and culture.

A fully activated Engine Room does not merely act on orders; these leaders are true co-creative partners with the executive team in executing strategy, culture and change by interpreting the strategic vision into concrete plans for their teams and providing upward feedback about what is and is not working. The Engine Room also is a talent succession pipeline to the C-suite, so identifying and developing critical future capabilities strengthens their skills today and helps future-proof the business.

Optimizing the Engine Room can deliver considerable upside for businesses; it can also help prevent or mitigate serious organizational failures. For example, Boeing's shift from an open culture to one of concealment can be connected in part to pressure on the Engine Room to stifle reports of bad news to the executive suite. Nokia lost the mobile market not because of inferior technology, but because of paralysis created by top leadership. This prevented innovation, open dialogue and agile change from happening at the Engine Room level that could have potentially saved the business.

Although Engine Rooms are present in every organization, many management teams fail to activate them by intentionally enhancing their capabilities and fostering strong relationships with these leaders. There are a few common reasons for this:

- » Lack of confidence that Engine Room leaders have the capabilities to execute autonomously
- » Misplaced assumptions about the information and resources Engine Room leaders have
- » A failure to recognize the value of leveraging the Engine Room as a cohesive entity of inter-dependent leaders that should be working together

Regardless of the reason, the inability to engage and fully activate the Engine Room with the right processes, capabilities and support carries a significant cost to the business in terms of poor or inconsistent performance and lost momentum.

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Though you may be convinced that you have a fully activated Engine Room, the odds are against you. Our study found that 57 percent of Engine Room leaders lack the necessary skills, support and processes to be effective, and 32 percent report no or very limited support on the key factors that create the conditions for a fully utilized and effective Engine Room. In general, these leaders want more support for autonomous decision-making, career development, alignment to vision, clarity around change and transparent communication from the C-suite. Addressing these concerns and intentionally building a program to activate your Engine Room can accelerate your business performance in a way that will likely outpace the cost of developing them.

How the Engine Room drives performance: Three key roles

We've already noted how critical the Engine Room is to translating strategy into actions at all levels of the organization. In addition to the day-to-day responsibility they have to manage their function or business, there are three key roles the Engine Room plays, each requiring different capabilities and focal points to maximize performance.

Essential culture carriers. Engine Room leaders often serve as the “culture carriers” by embodying and propagating an organization’s desired values. They both educate and exemplify the behaviors that reflect these values. In one multinational retail client, for example, Engine Room leaders were intentionally reassigned within various divisions during its restructuring phase. These individuals not only communicated the company’s values but also actively role-modeled desired behaviors and recognized those who exemplified the target culture. This reinforced the connection between values and daily actions, contributing to a notable decline in employee turnover and an increase in overall morale amid a challenging transition.

Change agents. Activated Engine Room leaders also emerge as essential change agents in strategic and large-scale transformations. Their influence extends beyond simply communicating strategy and change; they actively facilitate collaboration across departments and functions, thereby breaking down silos that inhibit progress. During a significant digital transformation initiative at a financial services firm we worked with, for example, the Engine Room empowered cross-functional teams to form ad hoc groups focused on developing innovative solutions. By working agilely and securing necessary resources, these teams effectively addressed barriers to transformation in real time. The result was a remarkable acceleration of project timelines, positioning the firm ahead of competitors in adopting new technologies.

Innovation drivers. In another example, a highly decentralized energy infrastructure firm built from a series of acquisitions brought Engine Room leaders together from across the organization for the first time to discuss ways to partner to better serve customers and hone their leadership capabilities as a cohort. This effort led to innovative solutions for growing relationships with regional customers (while reducing cross-unit friction) as well as providing new collaboration networks for Engine Room leaders across the organization.

When these Engine Room superpowers are leveraged holistically in support of business goals, they can have a sizable impact on the business, including financial performance, transformation and innovation. Furthermore, fully activated Engine Room leaders are more engaged and are more likely to stay and thrive at their organizations. “Activated” leaders rate empowerment, performance management and career development at their organizations 1.5 times higher than their less activated peers. Almost all activated Engine Room leaders (94 percent) say they are motivated by their business strategy compared to just 29 percent of those who are not fully activated.

What hinders Engine Room performance?

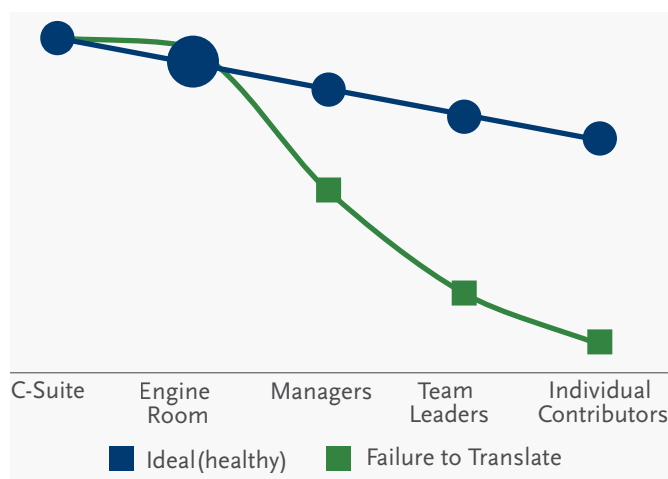
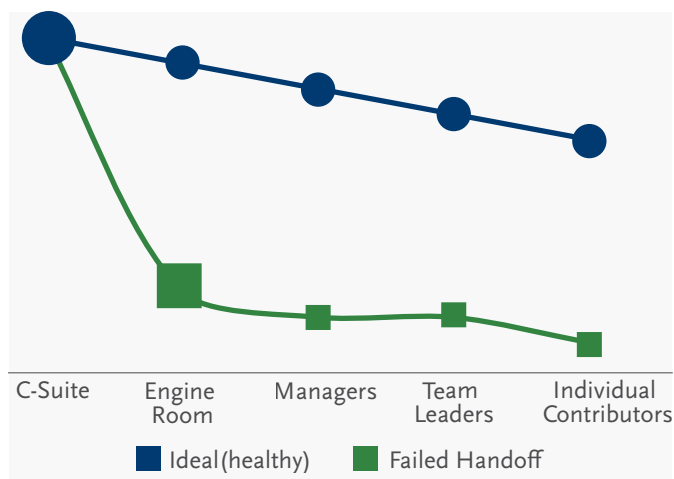
Organizations that thrive in today’s competitive landscape purposefully recognize and empower these leaders, activating them together as a force rather than a set of individual leaders. Their impact is the bridge between strategic intention and operational success. The challenge lies in ensuring that these leaders are fully engaged, equipped and supported to carry the mission forward.

Although there are many ways a poorly utilized Engine Room can stall business performance, we have identified four common patterns of Engine Room dysfunction. If any of these look familiar, there is an opportunity for you to get more out of these leaders.

- » **Failure to engage with strategy.** The Engine Room does not genuinely embrace the organizational strategy, so the vision is not communicated down through the organization or connected to people’s work. Consequently, actions by individuals and teams become disconnected from the overarching strategy. This happens when management fails to communicate strategy in a way that Engine Room leaders truly engage with and understand. Rather than feel they are an active part of developing and bringing the strategy to life, Engine Room leaders instead feel like passive order takers, and the motivation to act on strategy is “because we told you so” versus a true embracing of its value.
- » **Failure to translate strategy into action.** Although Engine Room leaders support the strategy, they fail to effectively translate it into actionable steps deeper within the organization, resulting in a disconnect between strategic intent and behavior at lower levels. This can happen when the executive team and Engine Room do not discuss how to act on strategy, or because Engine Room leaders lack the capability to translate strategy into actions and effectively lead change for their teams.
- » **Misaligned actions.** Here the Engine Room disregards the strategy or has unclear performance goals relating to strategy. Consequentially, they cascade more of their own functional or departmental priorities into the organization, and people in lower levels are not truly executing on the executive direction, even if they feel they are. This may be due to lack of confidence in top management, a belief by Engine Room leaders that their priorities are not being heard by the C-suite, or because of misalignment between stated strategic expectations and actual performance demands (being rewarded for A, while executives are hoping for B).
- » **Inconsistent engagement.** The Engine Room is ambiguously engaged with the strategy, gradually weakening or slowing its implementation across the organization and impairing business performance. This commonly occurs when people get busy and distracted, losing the focus on the strategy or change initiative, and when processes and employee experience are inconsistent across the organization, resulting in variability of behavior and focus.

Every organization's Engine Room faces its own challenges

Below are four common patterns of Engine Room dysfunction.²

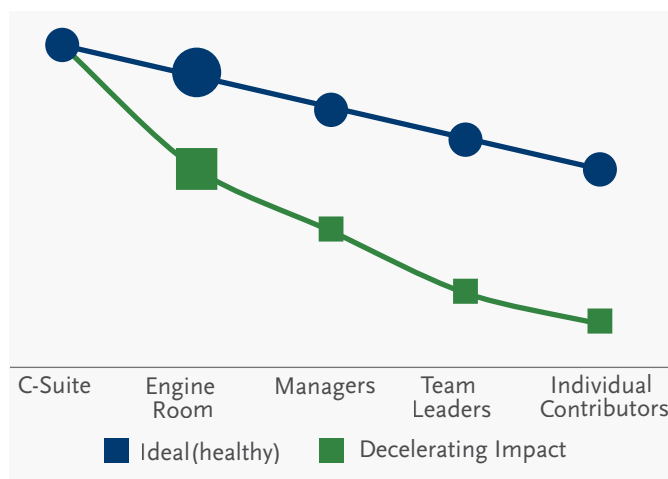
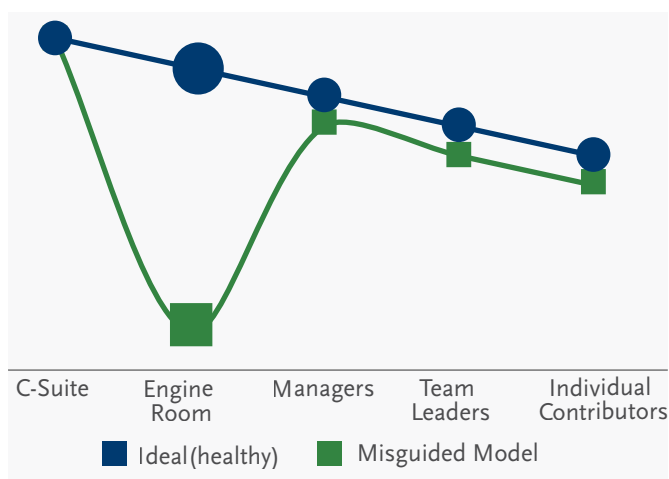


Failure to engage

- » Engine Room does not engage with strategy (lack of authentic buy-in or lack of communication of strategy).
- » Vision and strategy fails to cascade into the organization.
- » Actions are disconnected from strategy, minimizing business impact.

Failure to translate strategy to action

- » Engine Room appears to engage with strategy.
- » No real communication of vision/strategy or translation into action due to lack of skill or motivation.
- » Lower levels left to own accord on how to execute, minimizing business impact.



Misaligned actions

- » Engine Room does not engage with strategy (lack of authentic buy-in or collaboration on action) or lacks clear performance goals.
- » Engine Room cascades own priorities and desired behaviors into organization.
- » Lower levels feel connected to a strategy but are not aligned to overall vision or broader culture.

Inconsistent engagement

- » Engine Room may not be fully engaged, weakening the link between strategy and actions at each level of the organization.
- » Poor team effectiveness among Engine Room leaders creates a decaying effect.
- » Those at lowest levels are more inconsistent, holding company back from full business impact.

² Various cases derived from a global database of Spencer Stuart client surveys.

Activating the Engine Room

Although there are any number of dysfunctions that can limit your Engine Room's potential, especially the ones noted above, it's important to acknowledge that your business is unique, your Engine Room is unique and thus the path to full activation will be unique as well.

Rather than taking a scatter-shot approach to developing your Engine Room, it is best to have a prioritized plan for sequentially addressing both the business needs and specific requirements of the Engine Room itself.

Rather than taking a scattershot approach to developing your Engine Room, it is best to have a prioritized plan for sequentially addressing both the business needs and specific requirements of the Engine Room itself. For example, when working with clients undergoing a large-scale transformation, we prioritize developing behaviors critical to change, such as collaboration and effective teamwork. Other issues, such as how leaders manage their own teams, can be addressed later. Similarly, during a merger/de-merger scenario, you might choose to focus on strategic alignment before moving to the talent agenda.

The goal isn't to fix everything all at once; trying to do so can create a "boil the ocean" feeling that stalls progress.

By starting with the business strategy and understanding the scope of necessary development, you can provide a clear roadmap for increasing the impact of the Engine Room in the short term while achieving full activation over time.

Tracking Engine Room ROI

As you activate the Engine Room, look for ways to quantify these leaders' impact on the business — be it financial, customer satisfaction, quality and performance, or employee retention. A typical strategy we take to evaluate impact is four-fold:

- » Measure satisfaction with the development efforts.
- » Track adoption of new behaviors and processes (and what might be hindering adoption).
- » Evaluate improvements in leaders' performance and engagement.
- » Appraise actual impact on key business measures.

The more you monitor and connect Engine Room effectiveness to business effectiveness, the better you can identify obstacles that may limit activation (e.g., ineffective communication or lack of C-suite support), stay intentional in managing the Engine Room for your organization and see a real return on your investments.

Bridging strategic intent and operational execution

The success of any organization hinges not only on the strategic vision set by the C-suite but also on the effective activation and empowerment of the Engine Room leaders who translate that vision into actionable outcomes. By prioritizing the development and support of these critical drivers of strategy and transformation, organizations can bridge the gap between high-level intent and operational execution. This requires a holistic approach to foster a culture of collaboration, innovation and agility — enabling businesses to be future-ready and adaptable to an ever-evolving landscape. Furthermore, developing the Engine Room cultivates a broader set of capabilities that position the organization to respond more effectively to future challenges and enhances succession planning options for the C-suite. In short, companies investing in their Engine Rooms are more likely to be equipped to meet the demands of today's competitive environment and tackle whatever challenges lie ahead.

Is your Engine Room running on all cylinders?

Like any system, the Engine Room achieves its maximum impact when all of the elements are working together harmoniously, not just when one or two things are going well. To assess how your Engine Room is performing, consider the following questions, drawn from the diagnostic tool we use with clients. If you are unsure or answer “no” to any one of them, you likely have some opportunities to strengthen the performance of your Engine Room.

- » Do you feel your strategies are “sticking” and your plans are gaining appropriate traction throughout your organization?
- » Do you know what leaders have the greatest impact as culture carriers and strategy activators (and do they know this is part of their role)?
- » Are many leaders struggling to effectively engage their organizations in needed change?
- » Do transformation efforts integrate quickly and smoothly into the organization — or get stuck, derail or die off?
- » Is there a culture of collaboration and open communication between your organization's C-suite and other leaders?
- » Are you confident that leaders within your organization have the potential to step into C-suite roles in the future?



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About Spencer Stuart

At Spencer Stuart, we know that leadership has never mattered more. We are trusted by organizations around the world to help them make the senior-level leadership decisions that have a lasting impact on their enterprises, on their stakeholders and the world around them. Through our executive search, board and leadership advisory services, we help build and enhance high-performing teams for select clients ranging from major multinationals to emerging companies to nonprofit institutions.

Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning more than 60 offices, over 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment, employee engagement and many other facets of culture and organizational effectiveness, particularly in the context of the changing stakeholder expectations of business today. For more information on Spencer Stuart, please visit www.spencerstuart.com.

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