

**LICENSE TO CHANGE:
THE FIRST NINETY DAYS AS HEAD OF AN ORGANIZATION**

by

DAMIEN LIOT

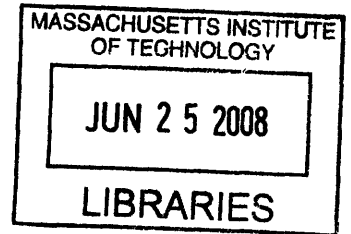
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A handwritten signature in dark ink, appearing to read "Damien Liot".

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Submitted to the MIT Sloan School of Management on May 9, 2008
in partial fulfillment of the requirements for the Degree of
Master of Business Administration

ABSTRACT

Human nature does not like change, and unfortunately, in some areas, changes must be made. From an economic standpoint, firms have to adapt to new technologies, the size of markets change constantly as a result of globalization, and customers' needs are never-ending and wide-ranging. In a word, market dynamics mean change. Thus, when a new CEO must be hired, it becomes necessary to find the right person to handle this fluid situation. The task before a new CEO is tough: building a strategy that achieves the goal(s) set by the governance of the company.

This thesis considers just such a situation: once in his/her position, what decisions must a new CEO make? Will this person have considerable latitude to implement his/her ideas? What must be accomplished before setting a strategy? What first measures should be implemented? What will those first 90 days at the top of the organization be like? Indeed: What is her/his *License to Change*?

Thesis Supervisor: Henry Birdseye Weil

Title: Senior Lecturer



(used with apologies to Sean Connery, Timothy Dalton, Daniel Craig, and their other James Bond brethren)

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and my greatest supporter for 17 years.

Damien Liot

Cambridge, Massachusetts

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TABLE OF CONTENTS

	<u>Page</u>
Abstract	2
Acknowledgements	4
Chapter 1 Introduction	7
Chapter 2 Why a New CEO?	15
2.1 Market Dynamics	18
2.2 Freedom to Implement Change	23
2.3 Delivering the First Clear Message	31
2.4 Summary	33
Chapter 3 The Birth of a New Strategy	35
3.1 Make Sense: Picture the Company.....	36
3.2 Make Choices: Evaluation, Analysis Lead to Choices	41
3.3 Make Things Happen: First Step of a New Strategy.....	48
Chapter 4 Conclusion	60
References	64

CHAPTER**1****INTRODUCTION**

While working for large companies over the past twelve years, I had opportunities to work in a variety of managerial positions in different types of organizations. I observed the French Army from the bottom to the top as a General Aide, and more specifically, a unit of the French Special Forces, where resources and risks are high but with a small number of dedicated members. In my own construction company Vinci, I learned to define the strengths and weaknesses of a large company of more than 150,000 employees. Daily I confronted a lack of communication and inertia, which made me focus more on the weaknesses than on the strengths. However, I also learned that criticizing is an easy task when being creative; being efficient while undergoing change is really challenging. I decided to put myself (virtually) in the CEO's chair and try to understand what could be done to improve the situation.

First, I had to define the function of a CEO. According to William Pounds, the CEO's role can be defined as the interface between two environments: (1) governance, which consists of the shareholders, the board, and the CEO, and (2) management, comprised of employees, executives, and the CEO.

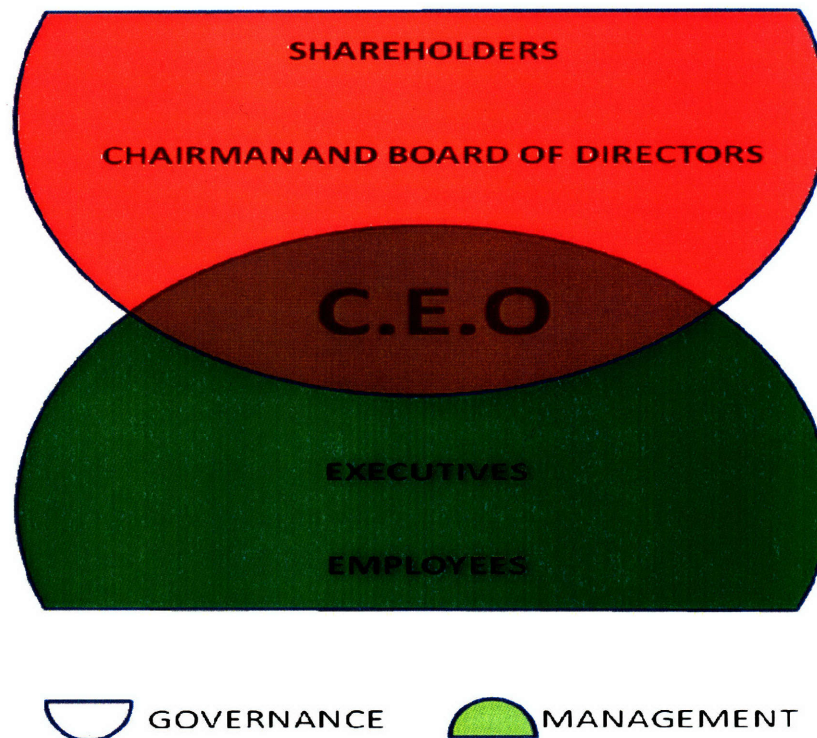


Fig. 1-1 The critical CEO position

Source: William Pounds

After being selected by the shareholders and the board, the CEO is expected to accomplish a mission defined by the governance: implementing a strategy to fulfill the mission, aided by the participation of employees and executives.

Here I must introduce a European particularity: contrary to most U.S. firms, top management in European firms is two-pronged: on one hand, the chairman and president functions, and on the other hand the CEO function. Complications arise because the former CEO is commonly elected as chairman. And in the case where the new CEO wants to implement a strategy that is opposed by the predecessor, he/she could find him/herself in a

position where the chairman's power will offset or block the CEO's project. Thus even if a new CEO has been chosen to implement change, I found that his/her latitude to accomplish the task has limits. The different graphs below highlight the impact of this dual policy in term of region and profitability.

	1995	1998	2000	2001	2002	2003
North America						
Chairman and CEO at Start	37%	39%	39%	50%	41%	33%
Named Chairman Later	47%	40%	33%	20%	25%	41%
Never Chairman	16%	22%	29%	30%	33%	26%
Europe						
Chairman and CEO at Start	7%	37%	50%	27%	43%	24%
Named Chairman Later	20%	0%	8%	0%	9%	9%
Never Chairman	73%	63%	43%	73%	48%	67%
Japan						
Chairman and CEO at Start	2%	3%	2%	2%	7%	0%
Named Chairman Later	1%	3%	0%	0%	0%	4%
Never Chairman	97%	95%	98%	98%	93%	96%
Rest of Asia/Pacific						
Chairman and CEO at Start	9%	50%	40%	0%	20%	7%
Named Chairman Later	0%	0%	20%	0%	5%	14%
Never Chairman	91%	50%	40%	100%	75%	79%

Fig. 1-2 The CEO as Chairman, Status by region

Source: Booz Allen Hamilton

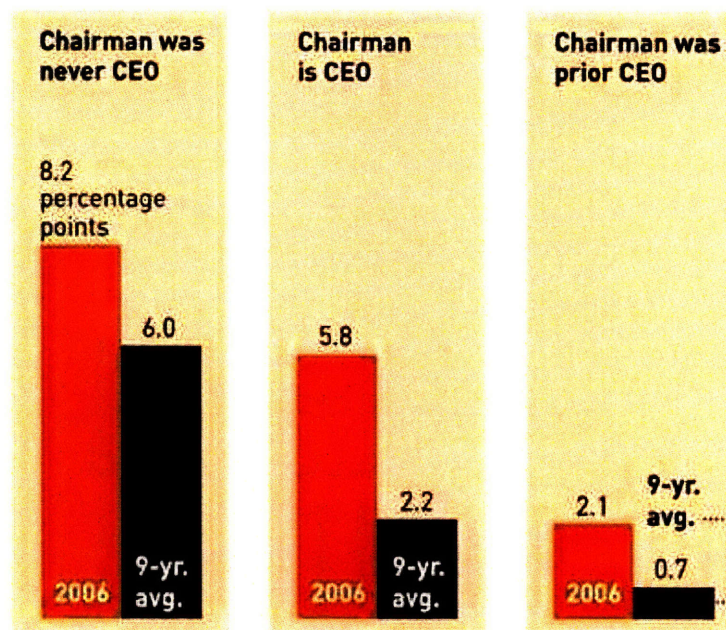


Fig. 1-3: Annual return to investors relative to a broad market average

Source: Booz Allen Hamilton

Once this perimeter is identified, the new CEO must analyze the situation to define the areas that need change before creating and implementing a strategy.

These factors led to the subject I will develop in this thesis: the license to change, its size, its methodology, and its implementation.

I am aware that this is a wide-ranging topic. Owing to the short period of time allocated to this study, I have chosen to focus only on large organizations in my research. I also decided that collecting information from conversations I could have with CEOs, MIT faculty, and my Sloan Fellows classmates (who represent a formidable range of companies), would be as efficient, more lively, and certainly more entertaining than a strict academic approach. My meetings in the U.S. and Europe over the past four months, Jack Welch¹ conversations MIT course (former CEO of GE), my own reading, and classes at MIT on

¹ Welch, Jack F., Harris Collingwood, & Diane L. Coutu. "Jack on Jack." *Harvard Business Review*, February 2002.

various aspects of organizations, gave me many opportunities to identify and store key information, and to sum up the highlights of many conversations. This thesis hopes to provide some keys to a new CEO who may have recently joined a large organization that is infected with the all-too-common symptoms of inertia, bureaucracy, lack of communication, and little or no adaptation to globalization.

I split the CEO life cycle into three phases illustrated by figure 1-4: The CEO life cycle system dynamics: before the CEO arrival, period which is examined in the first part of this thesis; the first 90 days, and the implementation, phases which are studied in the second part.

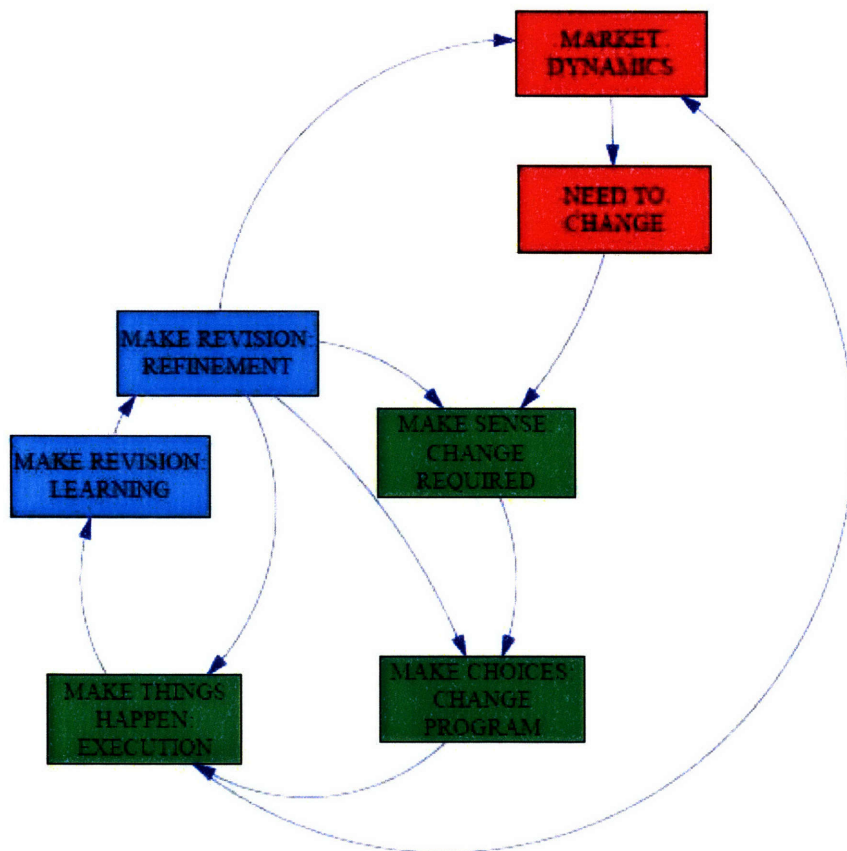


Fig. 1-4 The CEO life cycle system dynamics

The CEO life cycle system dynamics:

According to me the CEO of a large organization is like the Captain of a super tanker, prey of inertia, sailing on oceans made of market dynamics; who relies on his large crew to define and maintain the course. Each of these components interact with the others.

- Market dynamics and need to change:

In a fast moving economy, the captain has to make decisions and it sometimes appears that overwhelmed by the pace the captain chooses a wrong direction or cannot even adapt. In such situations the shipowner, - the shareholders - in order to prevent the shipwreck, has to consider the replacement of the captain.

- The Donald Sull loop²: Making Sense, Making choices, Make things happen, Making revisions.

As I have just explained, the economic world is not frozen but moves. Thus, to execute a strategy, leaders must take new information into account and redefine the strategy which must be rethought as an alive process. Hence strategy has a linear process must be abandoned due to its lack of flexibility. Indeed, in this case, the goal is usually defined on the long run and the strategy is imagined to be implemented very strictly. Nothing can be changed accordingly to new circumstances.

Executing a new strategy generates new information such as responses of competitors and consumers that thus becomes difficult to incorporate in the prefabricated plan. In addition to that, human is reluctant to admit his error, but we cannot predict the future and how events can unfold. The only thing we can do is bet and adapt. It is how strategy process must be approached, as a one subjected to

² Sull, Donald N. "Closing the Gap between Strategy and Execution." *MIT Sloan Management Review*, Summer 2007:30-38

revision accordingly with new information or circumstance. The fundamental tool of a lively strategy is discussions, formal and informal, short and long, one to one or in groups. That is the key mechanism to make information emerged. Here the strategy process becomes a loop made of 4 steps referring to Donald Sull.

- Making Sense of the situation: the goal of discussions is to gather data, “to develop a shared mental model that helps people anticipate how events might unfold” (Sull 2007). Curiosity and open minds must be the bedrocks of these discussions.
- Making Choices: the goal is to organize priorities. As it is very unusual that people all agree and because time is limited in a changing economic world, a rule must be defined in advance in how the decision should be taken. A qualified consensus for instance, may preside to the decision process.
- Making things happen: people involved in the process must make and keep promises. Some companies use the scrum model referring to Rugby, to track promises publicly. “The public forum is effective because of the peer pressure; (...) Scrums also allow people to actively talk trough what they are promising.” (Sull 2007).
- Making revisions: the goal is to find anomalies, in other words to analyze what was expected to happen and confront it to what actually happened: “explores any gaps between expectations and reality.” It is probably one of the most difficult part of the process as people have to show “intellectual humility, which is admittedly not the most common attribute among executives”(Sull 2007).

Discussions must lead to a revision, refinement of the strategy accordingly to the new information and circumstances.

In the next chapter, I will evaluate two key factors: the economic health of the company, and where the CEO has come from. These factors have an enormous impact on the new CEO's latitude to implement changes called for by the market dynamics.

CHAPTER

2

WHY A NEW CEO?

HIS LEEWAY TO IMPLEMENT CHANGES

Change at the head of an organization can be very disruptive. But normal retirement (Jack Welch), resignation due to personal reason or to nomination to government position (Henry Paulson , Thierry Breton), merger and acquisition, life accidents (Edouard Michelin), crises, or poor business results can force a board of the directors to choose another person to lead the organization. See the 2.1, 2.2, 2.3 and 2.4.

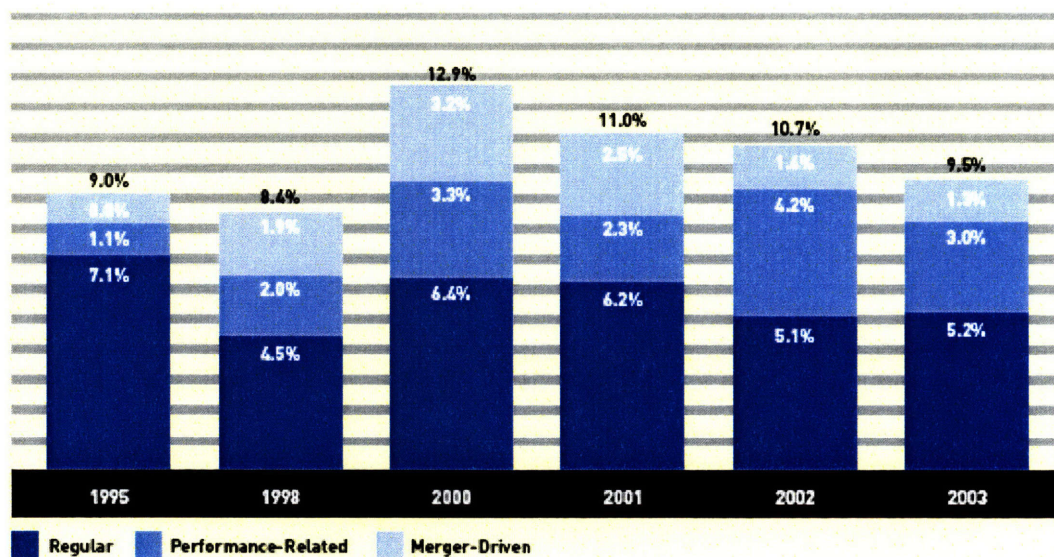


Fig. 2.1 Global rates of CEO Succession, by reason for succession

Source: Booz Allen Hamilton

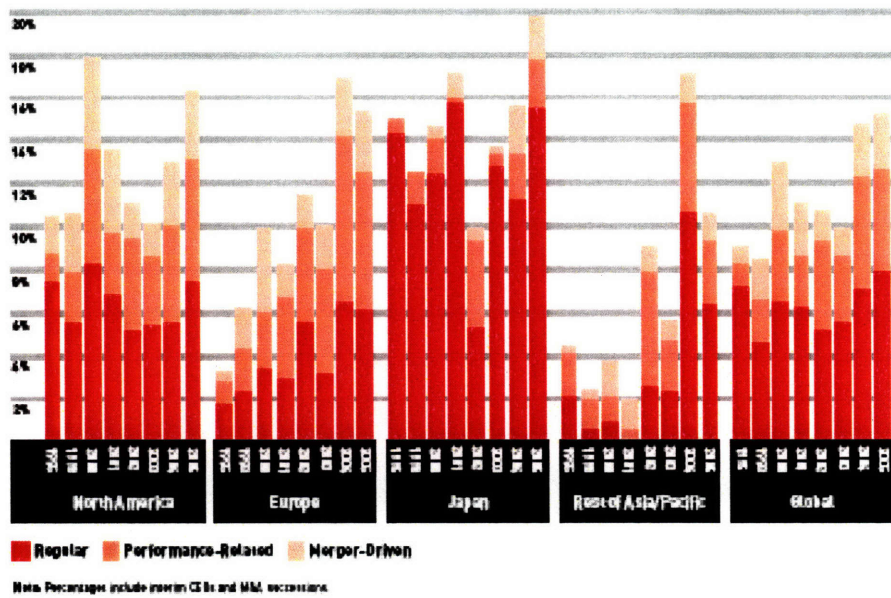


Fig. 2.2 CEO succession Rates, by Region and Reason for Succession

Source: Booz Allen Hamilton

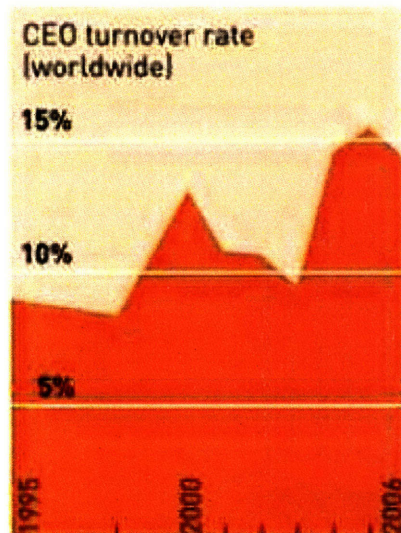


Fig. 2.3 CEO Turnover rate

Source: Booz Allen Hamilton

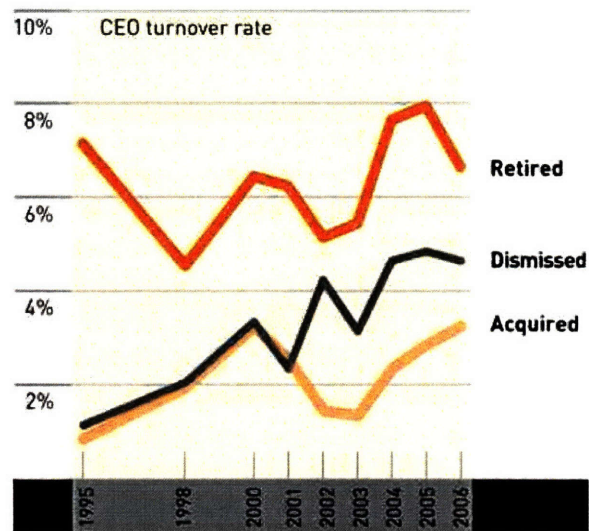


Fig. 2.4 CEO Turnover rate by reason

Source: Booz Allen Hamilton

Selecting the new CEO is one of the most important tasks for a board of directors. Board members must select the right person, at the right place, at the right time to function in a specific environment. To understand the various factors influencing the selection process, I have studied the market dynamics that call for change, the power conferred in the license to change, and the new CEO's first messages.

This need for change is usually not sudden or unforeseen. Rather, it is the result of a long process where bad news abounds, and incentives are lost. Finally, for the good of the company, the board of directors decides to stop the hemorrhaging. Figure 2-5 is a system dynamics diagram reflecting the stages of change.

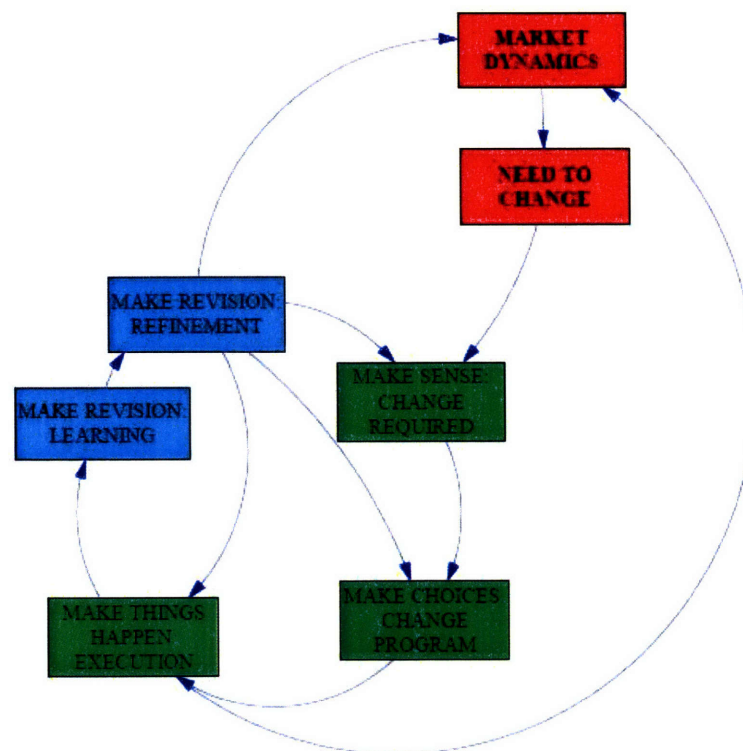


Fig. 2.5 Why a new CEO: Market Dynamics call for Change

Source: Sull, Donald N, Henri Birdseye Weil

2.1 Market Dynamics call for change³

The term “market dynamics” is defined as the sum of all the elements that can affect an organization⁴. I will analyze three of these elements: the CEO, external pressures, and internal problems.

2.1.1 The CEO

Due to the increasing power of the media in society today, the CEO is more exposed than ever before to public opinion and judgment. Therefore, he/she must be an excellent communicator not only inside the organization or with clients, but also has to be able to communicate with the world through the media. If the company is big enough, his/her strategies will be analyzed, criticized, and judged by analysts around the world.

During the last decade, more CEOs' names can be found in the celebrity columns in the media. Jack Welch defined a corporate leader as “a public celebrity”⁵. As a consequence, their private life is no longer private and even their families became public targets. Jack Welch's personal and family is an example⁶. It is not unusual nowadays to see a board forced

³ Birdseye Weil, Henry , & White, Leon S. “.Business Transformation: The key to Long-Term Survival and Success”, May, 1994

⁴ Dattée, Brice, & Henry Birdseye Weil.”Dynamics of social factors in technological substitutions, *Technological Forecasting & Social Change*, March 03, 2007.

⁵ Welch, Jack F., Harris Collingwood, & Diane L. Coutu. “Jack on Jack.” *Harvard Business Review*, February 2002.

⁶ Donegan, Lawrence. “Neutron Jack and his electric affair.” *The Observer* 17 March 2002.

to encourage the CEO to resign if he fails on the communication side, a good example is provided with what happened to the former BP CEO John Browne⁷.

We can examine now the external problems that can lead to the end of a CEO's era.

2.1.2 External Pressures

Michael Porter⁸⁹ developed a framework that analyses the five forces that influence the market.

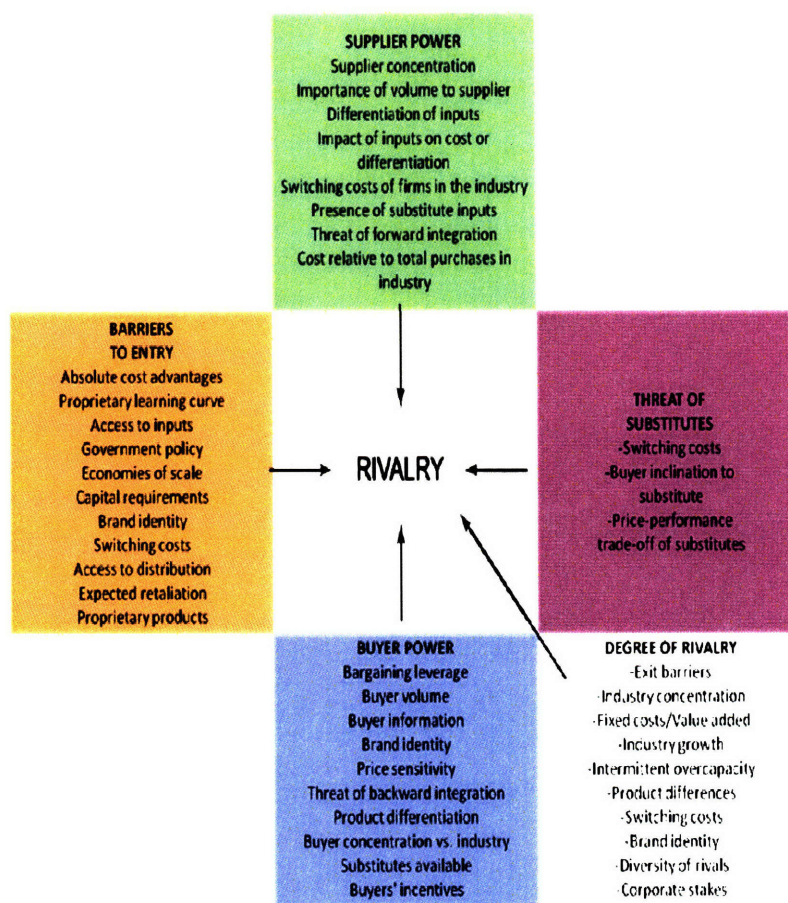


Fig. 2.6 Diagram of Porter's Five Forces

Source: Porter, 1985

⁷ "BP boss quits after allegations." CNN.com POSTED: 0822 GMT (1622 HKT), May 2, 2007

⁸ Porter, Michael. "Competitive Strategy", Free Press, New York, 1980.

⁹ Porter, Michael. "Competitive Advantage", Free Press, New York, 1985

1. Bargaining power of suppliers: globalization, increase of supply

A producing industry requires raw materials: labor, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and the firms that supply raw materials. Suppliers, if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits. Globalization and new technologies have changed many of the supply chain characteristics, such as the time needed to get the goods to market, and the emergence of developing countries that may have increased or decreased supplies.

Example: in Aeronautic Industry: the Boeing 747 dominant position for 40 years

2. Bargaining power of customers

The power of buyers is defined as the impact that customers have on a producing industry. In general, when buyer power is strong, the relationship to the producing industry is near to what an economist terms a monopsony—a market in which there are many suppliers and one buyer. Under such market conditions, the buyer sets the price. In reality, few pure monopsonies exist, but frequently there is some asymmetry between a producing industry and buyers.

Example in Aeronautic Industry: Military programs

3. Intensity of rivalry

In the traditional economic model, competition among rival firms drives profits to zero. But competition is not perfect, and firms are neither unsophisticated nor do they simply accept prices passively. Rather, firms strive for a competitive advantage over their

rivals. The intensity of rivalry among firms varies across industries, and strategic analysts are interested in these differences.

Example in Aeronautic Industry: Airbus-Boeing competition

4. *Threat of new entries*

It is not only incumbent rivals that pose a threat to firms in an industry; the possibility that new firms may enter the industry also affects competition. In theory, any firm should be able to enter and exit a market, and if free entry and exit exists, then profits should always be nominal. In reality, however, industries possess characteristics that protect the high profit levels of firms in the market and inhibit additional rivals from entering the market.

Example in Aeronautic Industry: EMBRAER, BOMBARDIER, SUKHOI

5. *Threat of substitutes*

In Porter's model, substitute products means products in other industries. To the economist, a threat of substitutes exists when a product's demand is affected by the price change of a substitute product. A product's price elasticity is affected by substitute products; thus, as more substitutes become available, the demand becomes more elastic since customers have more alternatives. A close substitute product constrains the ability of firms in an industry to raise prices.

Example in Aeronautic Industry: High Speed Train

Mismanagement of any of these factors by the top directors could lead to a situation where no return is possible, which obviously has an enormous impact on the business. It is often at that point that the CEO's corporate "lifetime" starts to regress.

2.1.3 Internal Factors

Internal factors are strongly related to the stakeholders' position. Indeed, board members, shareholders, and employees are affected by the CEO's decisions, so they are all concerned with the consequences.

Shareholders judge the CEO's actions on the basis of the performance of their investments in the company. If the return on equity and the share price are not as high as expected, and/or if they disagree with the strategy(ies) implemented by the CEO¹⁰, the shareholders may start arguing for another CEO, or may confront the board with this idea. In the same way, employees and unions may disagree with a strategy, do not trust it, or may be unhappy with their income. This can lead to a strike, and if the CEO is unable to handle the situation¹¹, that also may cause the board to considering replacing the CEO.

Finally, even without or before these circumstances, the board can decide to replace the CEO if his vision or strategy are not clear or convincing enough¹².

Let us imagine that one of the three factors discussed above has affected the company to the point that the CEO has been replaced. A new CEO has arrived, and hopefully he will implement the requested or expected changes. The question then arises: what leeway will he/she have to complete the mission?

¹⁰ Zhao, Mengxin, Kenneth Lehn, & Joseph M. Katz. "Acquisition Decisions, Corporate Governance, and CEO Turnover: Do Bad Bidders Get Fired? Pittsburgh: University of Pittsburgh Graduate School of Business, January 2003.

¹¹ Carty, Donald J. "American Airlines CEO Resigned." Bnet, April 25, 2003 .

¹² Charan, Ram, & Geoffrey Colvin. "Why CEOs Fail, *Fortune*, June 21, 1999.

2.2 Freedom to Implement Change

During the selection process, the board of directors and the CEO applicant undoubtedly discussed the current situation facing the organization. So when the new CEO arrives at the organization, he/she usually has many ideas in mind. But the latitude to implement change depends on one major issue: the economic health of the company.

I will discuss two scenarios: the company in good shape and the company facing crisis.

2.2.1 When the Company is in Good Condition

During the process of choosing the new CEO, the first question the board had to decide was: should the person be a company insider or should he/she come from outside the company¹³?

Coming into a company that is in good shape does not confer a larger leeway on a new CEO. Indeed, in such companies change may not be needed immediately, or otherwise the company would have been in bad health. In that case, the new CEO must focus on the long run and design a strategy with benefits that will make it easier to implement. In fact the new CEO would have to take advantages of profits to make large investments, to update means of production, to motivate people who remain in the company, and encourage those who should leave to find the exit.

Doing this is not easy because humans are naturally disinclined to change, and if the company is in good shape, the need to transform, to adjust, is not obvious. Thus the new CEO has to be convincing and develop a communication style that is understandable by anybody in the company. And through all of this, he should be seen as reliable and trustable.

¹³ Ocasio, William. "Institutionalized action and corporate governance: the reliance on rules of CEO succession," *Administrative Science Quarterly*, June 1999

(1) If the New CEO is an Outsider

The surprise factor could work in favor of a new CEO who comes from outside the company. Few people know him/her, so often he/she is given more latitude than would be given to an insider to implement change, as explained above. In fact, as an outsider the new CEO will not have to manage or deal with people who were colleagues or executives, which could give him/her greater freedom than coming from inside the company. Furthermore, the new CEO may be more creative, as he/she will look at the organization with fresh eyes. Moreover, it will probably be easier for him/her to make tough decisions, as there are no connections to the past.

When a company is in good shape, the replacement CEO follows the retirement of the previous one. Indeed, it is not common that the board must remove a CEO if the organization is functioning well. But when a CEO retires, part of the company's memories and culture leave with him/her. Studies show that outsiders coming in to an in-shape company often see results drop by 4%¹⁴ owing to the threat felt by stakeholders that there could be a break in the corporate strategy or the company's values.

This possibility of negative growth reinforces my own belief that a new CEO should come from inside the company. Indeed, if nobody can be found from within the organization, it can be interpreted as a sign of bad management. Good managerial policy should take into account the possibility that the CEO might one day have to be replaced. Thus the recruitment of people suitable for this function should be anticipated, especially when most companies begin a new CEO selection process as much as ten years in advance¹⁵.

¹⁴ Andrews, Katherine Z. "The Performance Impact of New CEOs." *MIT Sloan Management Review*, vol. 42, no. 2, Winter 2001:14.

¹⁵ Ocasio, William. "Institutionalized action and corporate governance: the reliance on rules of CEO succession," *Administrative Science Quarterly*, June 1999

(2) If the New CEO Comes from Inside the Company

Coming from inside the organization is advantageous for the new CEO because people who know the organization well are more likely to appreciate its strengths and recognizes its weaknesses. Therefore designing a strategy should be easier and stakeholders, aware of this advantage, will be more confident about the changes planned by the new CEO. Consequently, a new insider CEO will be given greater leeway than a one coming from the outside. People will trust him/her faster¹⁶. In addition, an insider can quickly identify those who can participate in and support the implementation of the new strategy, and those who will be reluctant or who do not share the same values.

The problems that might surface could be: having been in the organization for a period of time, will the new CEO have enough authority and distance to evaluate people? How long will it take for him/her to convince, motivate, and involve former colleagues who may have been competitors for the CEO position? How much energy and money will be wasted on solving personality problems? These are broad questions that could be the topic of further research.

Finally, when compared to a new CEO who comes from the outside, studies¹⁷ done by Joseph Bower how that a CEO from inside leads to status quo growth but not to negative growth.

¹⁶ *Economist (The)*. "The difficulty of being a dauphin: Henri de Castries named by Claude Bebear as his successor at AXA Group. September 1999.

¹⁷ Bower, Joseph L. *The CEO Within: Why Inside Outsiders Are the Key to Succession Planning* HBS Press, 2007.

Thus, for all the reasons detailed above and in referring to Fig. 2.10 “Median Shareholder Returns of Insider vs. Outsider CEOs, by region”, it is my opinion that a new CEO should be an insider when the company is in a good shape.

2.2.2 When the Company is in Poor Condition

Bad economic conditions force stakeholders to face reality: the company needs to change, and it should be done quickly and explicitly. Most groups, organizations, or countries finally change when they are approaching the possibility of bankruptcy. Emergency measures, such as decreasing wages or reducing the number of employees, are more likely to be accepted in such conditions because everyone understands that such changes have to be tried in order to save the company. In such a case, would a CEO who comes from outside the company have more freedom than an insider CEO to develop and implement a new strategy?

Based on my research, the answer is yes, and this is confirmed by the case of Ford¹⁸, where the CEO was not involved with the company as the trouble was growing. In fact, if the new CEO did come from the inside, employees might wonder whether they could trust someone who did not implement ideas that could have improved the situation while the new CEO was in his/her prior position in the company. In addition, if a company is in such poor shape that the CEO must be replaced, it can be assumed that several strategies have already been tried. Thus, a new eye from someone who has experience in a different company is appealing. Stakeholders could put their hope in this leader who, with a different background, will hopefully be creative.

(1) *If the New CEO is an Outsider*

¹⁸ Aisner, James. “CEO Succession: The Case at Ford.” Harvard Business School. November 22, 2006.

Most of the time, the difficult situation can be resolved by people who were not involved in the previous troubles and who have no relationship with the organization's stakeholders. If the outsider is unknown, it allows him/her to be free of moves to implement change. It is easier for him/her to make the necessary tough decisions. A new strategy has to be identified and established.

However, it is difficult to find someone who has the skills of adaptability and understanding of the situation. Headhunters and board members can try help find the right person, but the mission has to be clear and formatted for the short run: save the company from bankruptcy. This kind of person, who is able to think out of the box and to do the dirty jobs, very often will come from another industry or another country. These people have nothing to lose, and therefore they hold a powerful license to change¹⁹. Some, like Gerhard Schulmeyer²⁰, are well known for being able to do that, and they have the necessary qualifications to be the professionals for companies in trouble. After they succeed in their tasks, they prefer to leave the company and look for a new challenge.

(2) *If the New CEO Comes from Inside the Company*

Coming from inside the organization is important because people who know the organization well are more likely to appreciate its strengths and weaknesses. Knowing people for a long time helps to identify those who can help implement change and those who will be reluctant or who do not share the same values. But when people are in an organization for a long time, do they have sufficient authority to do it? How long does it take for a new CEO to ask a former competitor for the job to work together? How much energy and money is

¹⁹ Gerstner, Louis V. "Who Says Elephants Can't Dance?" *HarperBusiness*, 2002.

²⁰ Schulmeyer, Gerhard, CEO of Siemens Nixdorf. Available at: <<http://www.zoominfo.com/search/persondetail.aspx?personID=592170>>.

wasted on solving personality problems? The limited autonomy and the pressure on them in the short run give them a fragile license to change. When the new CEO Tony Hayward came into BP, he faced a political crisis and a lack of confidence in addition to poor results²¹.

COMPANY IN BAD SHAPE	Licence to change = - Vision = short-term	Licence to change = ++ Vision = short-term
COMPANY IN GOOD SHAPE	Licence to change = -- Vision = long-term	Licence to change = + Vision = long-term
	CEO INSIDER	CEO OUTSIDER

Fig. 2.7 The LICENSE TO CHANGE Matrix

Source: author, 2008

COMPANY IN BAD SHAPE	EADS: Louis Gallois BP: Tony Hayward Apple: Steve Jobs	IBM: L. Gerstner France Telecom: T. Breton Siemens Nixdorf: G. Schulmeyer Ingenico: D. Znaty
COMPANY IN GOOD SHAPE	GE: J. Immelt AXA: H. de Castrie	AIRFRANCE: J.C. Spinetta EIFFAGE: CEO in Summer 08
	CEO INSIDER	CEO OUTSIDER

Fig. 2.8 The outsider/insider CEO's Matrix

Source: author, 2008

²¹ Egoy, Monica. "New BP CEO praises Browne for his 'outstanding' leadership," *Forbes*, May 3, 2007

The graphs below help us to understand the outsider/insider approach and their impact on the shareholders.

	1995	1998	2000	2001	2002	2003
North America	10%	17%	20%	12%	12%	28%
Europe	56%	19%	29%	13%	13%	44%
Japan	14%	3%	12%	4%	7%	4%

Fig. 2.9 Proportion of outsider CEOs, by region

Source: author, 2008

	2003		All Six Years	
	Insiders	Outsiders	Insiders	Outsiders
North America	2.7%	1.3%	1.4%	-0.8%
Europe	1.6%	-3.5%	1.0%	-3.5%
Japan	4.9%	-2.6%	-1.4%	0.7%
Rest of World	1.4%	14.1%	2.2%	13.2%
Global	3.0%	-0.5%	0.7%	-0.8%

Fig. 2.10 Median Shareholder Returns of Insider vs. Outsider CEOs, by region

Source: author, 2008

2.2.3 Which Scenario Allows Fast Change in the Organization?

It is difficult to identify the scenario that best fosters fast change in an organization. This is because not only are the economic health of the company and the origins of the CEO extremely important, but there are other factors as well: stockholders, the media, customers, and competitors. However, the following rules of thumb offer guidelines for attaining the goal:

- Economically, the company has to be close to death;

Example: Apple

- Leaders who come from the outside have more opportunities to develop their own strategy;

Example: Thierry Breton

- Competition and market conditions force the company toward transformational acquisitions.

Example: IBM

- Policies of change need to be implemented by charismatic leaders, and should have the strong support of the board of directors.

Example: Jack Welch

There is an alternative—a mix of both situations: i.e., the CEO who comes from outside but who knows the company very well²². Among former employees who went to work in a competitor company but came back as CEO; Steve Jobs is one of the most famous examples²³; the Inside-Outsider referring to Donald Sull.

²² Bower, Joseph L. *The CEO Within: Why Inside Outsiders Are the Key to Succession Planning* HBS Press, 2007

²³ Montgomery, Cynthia A. “Putting Leadership Back Into Strategy.” *Harvard Business Review*, January 2008.

2.3 Delivering the First Clear Message

The first message coming from the new CEO is as important as anything he/she will do during his/her CEO mandate²⁴. Many employees are waiting to see and assess this key link between the former management and the new one, and stakeholders have their own set of expectations for that message.

Thus this message from the new CEO must be clear. Everyone must be able to understand it, remember it, and be able to repeat it to peers, subordinates, and others company actors. Every available tool for communication should be used to transfer the message quickly throughout the organization and to key entities outside the main company.

In addition to portraying the CEO's personality, the message should contain several key ideas that will benefit the company and its stakeholders.

2.3.1 Take the Legacy as it is, No Polemic

Following a good or a bad leader will not change one thing: the new CEO will always be subject to critique, commentary—perhaps even controversy. Even if some circumstances could be used to push off responsibility to a former CEO, it is better if the new CEO takes responsibility for the past. Poor former strategies were designed and implemented under other conditions, so blaming a former CEO just reinforces the concerns of those who are against new experiences, curiosity, and risk taking.

2.3.2 The Introduction

It is crucial for everybody (clients, management, governance, suppliers, politicians) to understand who this new CEO is, and some inkling of his/her personality and character.

²⁴ Porter, Michael E., Jay W. Lorsch, & Nitin Nohria. "The New CEO's Wrong Message," *Harvard Business Review*, November 1, 2004.

Where did he come from, what was her former job, what is his/her professional experience? Is his personal life acceptable? Did she have failures or victories? How can the past help stakeholders to understand and support their opinions?

2.3.3 First Bedrock: Relationships Based On Trust

The first message is an opportunity to explain the kind of atmosphere and relationships the CEO imagines for the company²⁵. It can be aligned with the former era or establish something completely different. Even without knowing the company well, it is important to describe one's hopes and expectations. Internal relationships have to be based on an open-minded spirit and trust²⁶. Even before attempting to fully understand the company, the CEO has to ensure that everybody believes he/she is honest and earnest. In the same vein, the message should convey an expectation that all levels of management can express their opinions and views about how to run the business and to improve the company's assets and skills.

2.3.4 Second Bedrock: Ask for New Ideas, Solutions are Inside the Company

Most companies have the solutions to their problems already existing inside their own organization, but perhaps the organization style, its size, or issues of globalization have not allowed them to come forward for discussion and exchange. Most companies do not need consultants to solve their problems if the willingness to be opened-minded and curious

²⁵ Govindarajan, Vijay, & Anil K. Gupta. "Building an Effective Global Business Team." *MIT Sloan Management Review*, vol. 42, no. 4, Summer 2001: 63–71.

²⁶ Ross, Judith A. "Trust Makes the Team Go Round." *Harvard Business Review*, June 2006.

is present. If the need for change is obvious, middle management can be helpful—or a total disaster. For better or worse, it is the funnel for information from the top, and vice-versa.

The first assignment for everybody is to think how to improve bottom-to-top and peer communications. In some form in every organization, bureaucracy, habit, inertia, and communication are key issues. Everybody needs to take this time of observation to brainstorm about how the job can be done and consider how to improve it. Understanding the past and looking forward toward the future while taking responsibility for the present situation, is the main concern.

To prepare for the observation phase, people have to think about three problems that exist in the company, together with three good ideas or functions that the company already has. In addition to looking for efficiency, this time helps the CEO to understand the values and the culture of the company.

People must be assured that the new CEO has the desire to improve the organization's performance. A change in top management is often a period of hope for people with good ideas and willingness. So the CEO's first message needs to be understood as supporting those who have this willingness, even if they are not managers.

Example: the GE mutation under Jack Welch era, Microsoft moving to internet

2.4 Summary

I have shown that choosing a new CEO is a difficult responsibility and decision for any board of directors. Even if the company feels it is well prepared for that possibility, external conditions can negate earlier preparations and make an old strategy irrelevant and/or useless. Market dynamics (i.e., external pressures, internal company factors) and time constraints often influence the designation of many a new CEO. And it is these same conditions that establish the amount of leeway for the license to change. If the company is in

a bad shape and the CEO is an outsider, then the freedom to implement change will be greater. A company in good shape, with a new CEO from inside means the CEO will have a smaller window for renovation and innovation, often complicated if the former CEO has been promoted to chairman of the board of directors.

Finally, I showed that the new CEO's first message is extremely important because stakeholders put great hope in the new team that will lead the company and the first impression can empower—or demotivate—everyone. That is the reason why this communication has to be clear, ideas have to be easy to remember, and trust and openness have to be the foundation of the new policy going forward.

That first message is the kickoff of an amazing period when the new CEO will explore gaps between expectations and reality, when she/he will design a strategy to successfully implement the mission assigned by the board of director. What is the recipe for the plan? Will she/he find surprises? What will she/he propose to implement change?

CHAPTER

3

The Birth of a New Strategy

In order to implement changes, the CEO first needs an accurate idea of the company's actual situation. The idea is to understand how the company works, where it stands in its industry, and most important, its values.

After a few weeks dedicated to completing the first step, the CEO will analyze all the information collected. The weeks spent on this evaluation are essential for defining where changes are needed and their size. The strategy loop shown in Figure 3.1 illustrates this process, and Figure 3.2 shows the system dynamics loop discussed in the following sections.

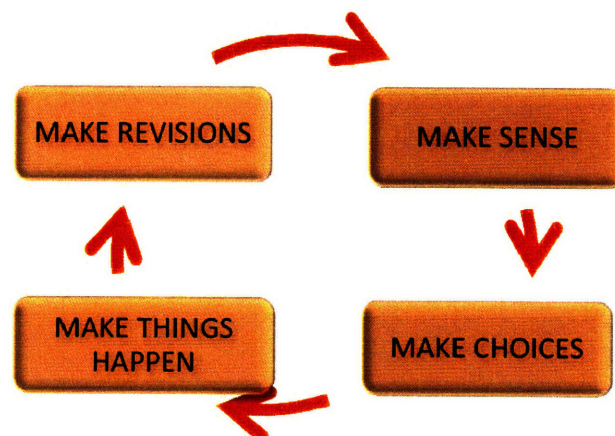


Fig. 3.1. The strategy loop

3.1 Make Sense: Picture the Company

The first task of the new CEO is to picture the company, to understand its culture, its values, and the people who make it alive. In order to do that the new CEO must collect information, in other words, make sense of what the company is (Roberts & Tripsas, 2004). This is accomplished in several ways.

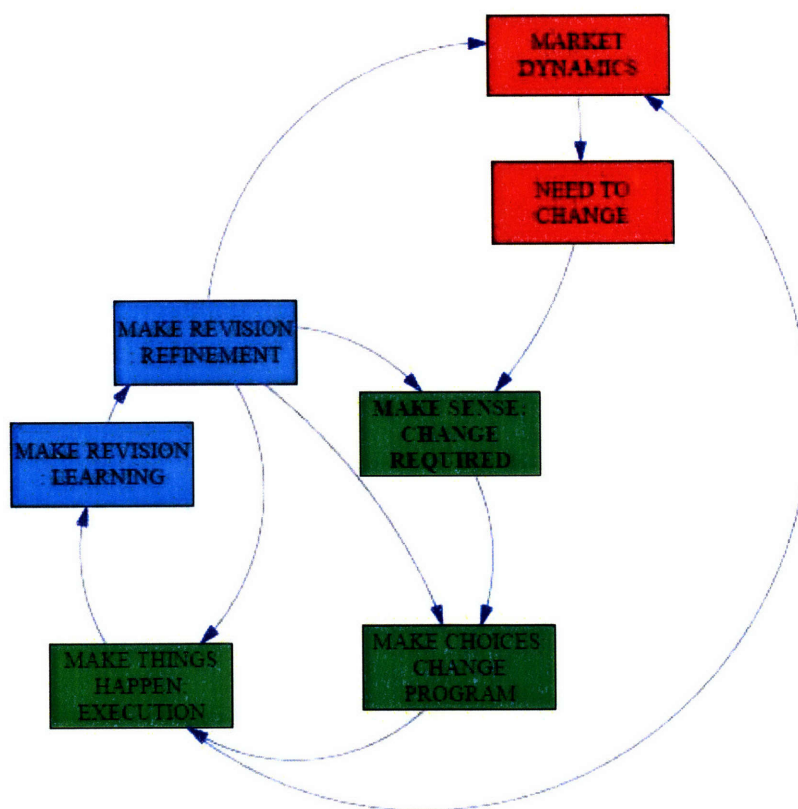


Fig. 3.2 Make Sense sector of the loop

Source: Sull, Donald N, Henri Birdseye Weil

3.1.1 Understanding Its Culture and Values

The culture of the company is one of the most difficult concepts to understand for the new CEO because the founders built the bedrock and the shareholders draw its

boundaries through their personalities and decisions²⁷. In essence, it is a matter of human relationships. Even if it takes a long time to understand, it is critical that the CEO devotes time to acquiring an understanding. It will give her/him the perspective from which to presenting future strategies and ideas.

Referring to Donald Sull²⁸, it is human nature to hang onto old beliefs, it can be difficult to change the company's culture. Thus a period for learning can be useful to help the CEO implement a new footprint. In addition, the larger the company, the more challenging change will be; it took ten years for Jack Welch to implement a new culture based on competition and differentiation.

Understanding the culture of the company has to be undertaken from two perspectives: outside the company and from within.

Perspectives From Outside of the Company

- *Clients, Suppliers, and Recruiters*

Clients, suppliers, and recruiters who function outside the organization tend to have a more objective understanding of the company's values. Because they see the company in another context, they are often aware of its weaknesses and strengths, which are part of its culture. For the same reasons, they are able to identify powerful company members who directly influence its principles. Outsider stakeholders' opinions are helpful because they are generally objective and less sensitive than opinions from insiders.

²⁷ Ferguson, Glover, Sanjay Mathur, & Baiju Shah. "Evolving from information to Insight," *MIT Sloan Management Review*, Winter 2005.

²⁸ Sull, Donald N. "Revival of the Fittest: Why Good Companies Go Bad and How Great Managers Remake Them," *Harvard Business Review*, April 8, 2003.

- *Consultants*

Consultants are useful because they work in various types of companies and organizations. Because they confront a variety of structures and models, they can help the new CEO to identify the company's values and culture.

- *Retirees and Former Employees*

“When an old person dies, it is like a great library in flames” (Arabic proverb). Making the most of the networks and knowledge possessed by seniors who are preparing to retire or leave the company is critical²⁹. This problem is especially keen now as the “baby boom” generation prepares to retire in the next few years. The large-scale departure of both blue-collar and white-collar employees can leave their respective teams in complete disarray. To prevent such a situation, a kind of mentoring system could be created between junior and senior staff, perhaps establishing part-time positions that would allow a transfer of the senior staff's legacy.

3.1.2 Meeting People

Another aspect of the new CEO's mission is to involve people in the change process, to help them understand the need for change. To do that, the new CEO will meet people everywhere, among them those who will help him understand and picture the company. Globalization can make this exercise especially long and arduous, so the CEO will have to travel and take advantage of new technologies.

Traveling

²⁹ Leonard-Barton, Dorothy. Retirement at JPL. Video (DVD). *Harvard Business Review*, June 1, 2003.

Most new CEOs use their first two months to meet people in different subsidiaries across the globe. They meet employees, management, union members, and stakeholders such as clients, suppliers, key economic and political people—all to understand the mentality and culture of employees throughout the company. Nothing can replace direct contact with human resources. It simplifies information exchanges so that they will be more direct and avoid counterproductive interactions. As the new CEO meets each person, he/she no longer talks to a name but rather to a person. This helps build relationships based on trust.

If the company is large and far-flung, and time is limited, much of the new CEO's time will be spent meeting only top management. Ultimately, this will not be satisfying, and the CEO will have to rely on new technologies to pursue her/his goal of meeting all the company employees.

Videoconferencing

Although this tool has existed for some time, because the transmission signal containing the information was of such poor quality, it was rarely used. High-speed telecommunication infrastructure was needed in order to obtain a realistic conversation between people located around the world. Today the technology has improved and good product are now available, including high-definition cameras, software for compressing and encoding, high-speed cables, and GSM or satellite communications³⁰.

This new virtual conference room can help the new CEO to “travel” without leaving his home base, thus saving money and time. There is one big limitation, however: the lack of a human relationship, the irreplaceable advantage of the direct contact.

³⁰ Wreden, Nick. “How to be in Two Places at Once,” Harvard Management Communication Letter, October 1, 1999.

Of lesser importance, but often a problem is that videoconferencing requires many company members to fit into a meeting room, which rarely happens. For this reason, phone calls and emails—although more impersonal and cold—are used to reach every employee.

E-Mail

Another way to touch every person is to talk or send e-mail. The development of computing technology makes Internet access affordable, so every employee should have his/her own e-mail address. Information such as CEO speeches, a monthly company newsletter, last-minute news or personal information can be sent directly within a few seconds. This powerful tool also prevents the transfer of information through middle management, which sometimes results in misinterpretation or a change in the message. Such a funnel effect is often the beginning of problems, which would not happen if the information were sent directly to employees.

On the downside, however, because e-mails are impersonal, they are sometimes used to avoid responsibility. Some people use this form of communication to send their decisions to downward management and copy to their upward managers. And human nature being what it is, it is sometimes tempting to announce bad news by e-mail to avoid a direct confrontation.

Now that I have identified the elements available to the CEO to help him/her understand the situation, it is time examination and analysis of the company situation. The first step is to evaluate people and then analyze the structure of the company (see Figure 3.3).

3.2 MAKE CHOICES: EVALUATION AND ANALYSIS

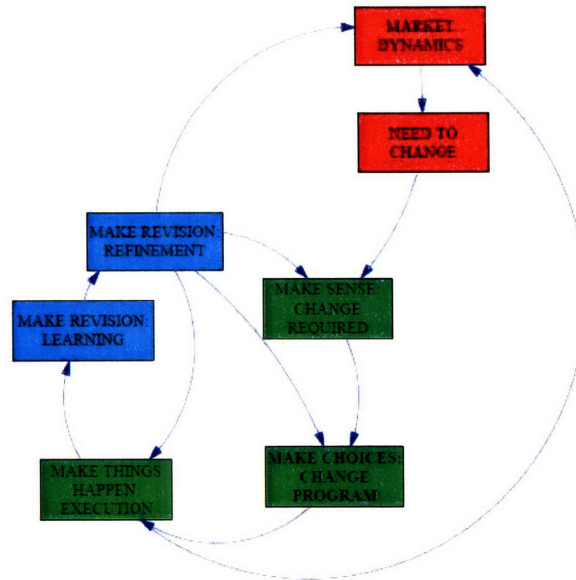


Fig. 3.3 Make Choices sector of the loop

Source: Sull, Donald N, Henri Birdseye Weil

3.2.1 Evaluate People

One of the new CEO's first tasks is to identify people that can help to implement his/her strategy³¹. These people will be the messengers who carry out into the company the new CEO's message. Another task is to ensure that people are in the right place.

To achieve these goals, an evaluation of people is required. I will discuss two main tools used in this task: (1) direct report, and (2) a 360° evaluation.

- *The Direct Report*

³¹ Farson, Richard E., & Ralph Keyes. "The Failure-Tolerant Leader," *Harvard Business Review*, Aug. 1, 2002.

Direct report is the most common tool used to evaluate people. This one-to-one meeting is flexible in the sense that it can be formal or informal. Top management often sets up an evaluation grid with specific questions, or it can give the evaluator freedom to lead the interview.

Even if everything is well defined, however, one problem with this technique is that it depends on a single person. This may not be appropriate because human nature and earlier relationships can skew what should be an impartial observation. The evaluation cannot help but be subjective. Even if the tools used are objective, the results may vary from one evaluator to another.

Another problem is that this type of evaluation does not require people to include the entire organization, but instead allows them to focus on their own department.

- *The 360° Evaluation*

The 360° evaluation³² is interesting but more difficult to implement because it requires many people to be available at the same time. The tool consists of an evaluation of one employee by at least three direct reports, three supervisors, three peers, and three customers. By looking at the employee from different perspectives, more accurate and objective data emerges compared to the subjective direct report.

Now that the tools have been presented, the goal can be examined

3.2.2 Categorize People

To maintain the circulation of information, every person in the company should be considered as a relay or interface between peers, upward management, and downward management. In that way, one person can empower or grasp the entire system. Consequently, as every link in the chain is a vehicle for the new CEO's message, it is

³² Peiper, Maury A. "Getting 360-Degree Feedback Right," *Harvard Business Review*, January 2001.

important to ensure that people with appropriate skills are in the right place. The weight and importance of the evaluation process can here be appreciated.

Studies have shown³³³⁴³⁵ that there are two components to be considered: authority and power. **Authority** deals with the level of responsibility that the company gives to one person or entity; **power** is the impact that one person or entity can have on an action or on people. To be efficient the person who is a link must possess both components. In some organizations, people have authority but have no power, so in certain situations the new CEO cannot count on them as a transmission vehicle and disorganization may ensue. Conversely, according to studies by Crozier³⁶, certain entities such as finance and accounting departments and R&D centers have power but no authority. Because they lack authority, they are not completely aware of the mission assigned by the new CEO, and thus are not using their power in the most efficient way.

Therefore, in order to implement changes, the new CEO needs to identify people who have the willingness and the capacity to help him. He/she should build a team composed of people who have passion and are able and willing to take risks. Implementing change means that mistakes will be made, then recognized and analyzed. This process cannot be completed without the support of courageous people.

After categorizing people, the CEO then needs to examine the organization.

³³ Gary, Lauren. "Why Authority Still Matters," *Harvard Business Review*, Oct. 1, 2002.

³⁴ Cialdini, Robert B. "Harnessing the Science of Persuasion," *Harvard Business Review*, October 1, 2001.

³⁵ Tannen, Deborah. "The Power of Talk: who Gets Heard and Why," *Harvard Business Review*, May 1, 2002.

³⁶ Crozier, Michel. "Le phénomène bureaucratique." Paris: Le Seuil, 1964. (English version Chicago: University of Chicago Press, 1965)

3.2.3 Analysis of the Organization

An analysis of the organization includes three segments: (1) a study of the numbers, which should produce an accurate idea of the situation facing the new CEO; (2) a study of the company structure and its active inertia; and (3) a study of the company network(s).

(1) Study the Numbers

In addition to meeting people, looking at the figures is a job required of every CEO³⁷. It is the first tool that can help him make sense of the company's health, and an objective, sometimes brutal view of the state of affairs, unvarnished by the subjective views of the board of the directors or management. In my research, I encountered an approach taken by Gerhard Schulmeyer.³⁸ He looks at figures first and only, then make the human resources fit with the numbers (through a process of eliminating and hiring) and then meeting the people who are now part of the company. Conversely, most of CEO's such as Breton and Welch meet the people first, then look at the figures and finally decide to eliminate or hire.

Numbers have to be taken with considerable caution, however, because even if they are certified by auditors, they come from inside the organization and are prepared by people who are in a position to modify them. So all numbers have to be understood in their specific context and within their competitive environment—for instance, is the market a monopoly or is it highly competitive? Many ratios and figures are available to enable the new CEO to gauge different sectors of the company: management (turnover, sales per person, net profit margin), R&D (% of R&D expenses to sales), shareholders (ROE, share price), financial services (BFR), human resources (age pyramid, age segmentation), and marketing (market

³⁷ Roberts, Michael J., & Lauren Barley. "How Venture Capitalists Evaluate Potential Venture Opportunities," *Harvard Business Review*, July 20, 2004.

³⁸ Gerard Schulmeyer. <<http://www.zoominfo.com/Search/PersonDetail.aspx?PersonID=592170>>.

shares, number of products). These figures help make sense of the company's current position and point toward possible future strategies.

(2) The Company Structure: Efficiency and Active Inertia

The actual structures of the company—its organization design and story—have put in place many kinds of behaviors. And monopoly positions, niches, best products, and best supply chains can lock companies up in an unreal world. Kodak and Firestone were highly successful but they did not think out of the box and did not see the arrivals of new technologies. In addition, even if the company is very effective with innovation, rapid growth may cause it to miss the right moment for making a strategic move. Donald Sull (2003) assigned this second symptom to active inertia³⁹. He studied two companies he believes were affected by active inertia: Microsoft and Palm.⁴⁰ The first one was saved by the Bill Gates decision to invest in the internet business and the second one failed due to organizational and strategic problems and even if the vision concerning the PDA's was fantastic.

To cure this inertia many books and consultants have proposed solutions, but one by Kotter & Cohen⁴¹ (2002) seems feasible to me: build a guiding team, get the vision right,

³⁹ Sull, Donald N. "Revival of the Fittest: Why Good Companies Go Bad and How Great Managers Remake Them," *Harvard Business Review*, April 8, 2003.

⁴⁰ **Microsoft's adoption of the Internet** - The many established product lines (esp. MS Office) did not understand how the Internet would affect their businesses. Once they did, they have been slow to accept the inevitable changes to their underlying business model. Finally the multi-year release cycle employed at MS prevented them from initially responding to the ever-changing Internet release cycle.

Palm's acceptance of color screens & keyboards - The initial success of the original Palm Pilot (with its utterly simple b/w screen and graffiti handwriting recognition) led Jeff Hawkins to ignore for years the benefits of color or the popularity of the Blackberry thumb-keyboard. While these were eventually implemented, it was at the cost of much of their initial market share.

⁴¹ Kotter, John P., & Dan S. Cohen. "Get Off the Dime!" *Harvard Business Review*, July 29, 2002.

communicate for buy-in, empower action, create short-term wins, don't let up, and make change stick

(3) Analyze the Formal and Informal Networks

Efficient use of the human networks that exist within an organization and across different organizations is important, as much of business is based on relationships⁴². Hence, if every employee relationship can be optimized regardless of its organic function or domain of activity, it could give a real advantage to the company.

Analyzing the hierarchy system⁴³ and people's years of experience could help in designing a blueprint for an informal network. Such an analysis would identify "nodal" people (see Figure 3.4), those who are interfaces and have a strategic role in the organization. Then the goal is to reinforce their role and take advantage of their assets by creating a new way of communicating without cutting the formal and hierarchical relationships.

⁴² Rizova, Polly. "Are You Networked for Successful Innovation?", *MIT Sloan Management Review*, Spring 2006.

⁴³ Krackhardt, David, & Jeffrey R. Hanson. "Informal Networks: The Company Behind the Chart," *Harvard Business Review*, July 01, 1993.

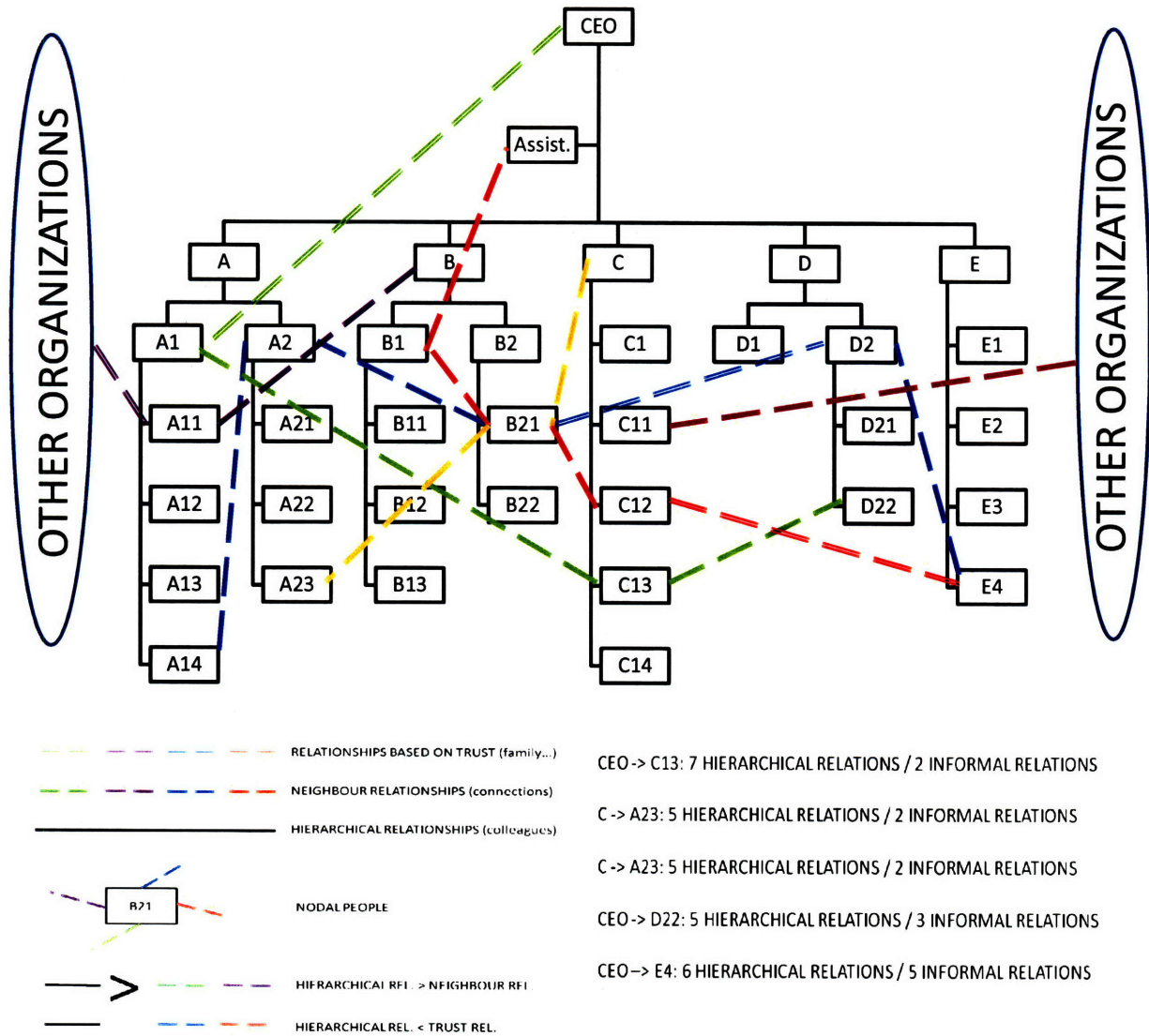


Fig. 3.4 Networking within and across big organizations

Source: author, 2008

Understanding these networks will tighten the link between the new CEO and employees while avoiding the “court-and-courtesans” effect that usually keeps the CEO distant from the employees⁴⁴. In addition, these networks can help to implement new processes or new products more quickly than competitors. They could assist in identifying leaks and loss of information to competitors. The use of these “nodal” people will be helpful when transferring current or new values (in the case of a merger or acquisition), even for multinational companies and conglomerates that have employees all over the globe. They could help identifying the level of confidence and security with and around the organization.

3.3 Make Things Happen: The First Step of a New Strategy

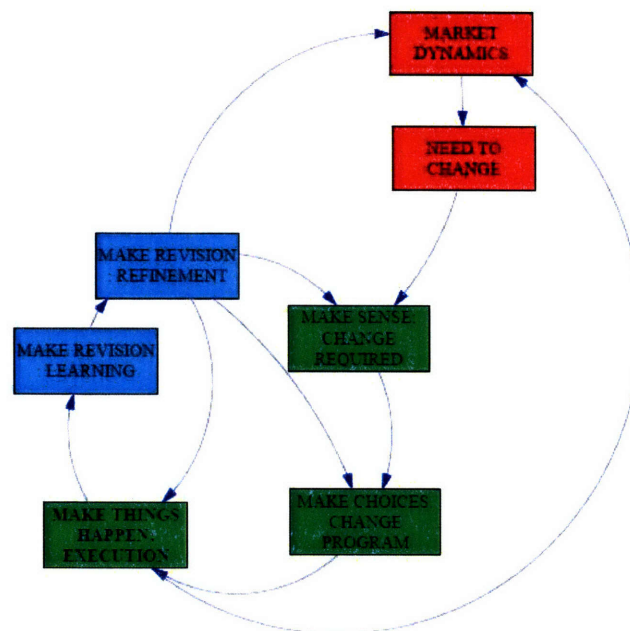


Fig 3.5 Making Things Happen

Source: Sull, Donald N, Henri Birdseye Weil

⁴⁴ Casciaro, Tiziana, Vincent Dessain, & Elena Corsi. “Moët Hennessy Espana.” Harvard Case, February 19, 2008.

After two months of traveling and meeting people to understand the industry, the company, and its people, the CEO is now able to design a new strategy and a plan to successfully implement the strategy. This plan will assign specific objectives to each entity and person, and will define how resources are allocated. The process must have a timeline: short term, mid-term, and long term. In addition, measures of performance and comparisons with milestone objectives will help to refocus the strategy and resources. This will close the period of observation and create many expectations.

Whatever the strategy, the new CEO has to announce the main change events and develop milestones to monitor progress. The plan needs to be clear and well understood by everyone in the company, and no U-turn will be possible. Employees should be able to totally understand every issue. In the case of failure, an exit plan should be prepared in advance so it can be announced.

Finally, results even small, should be celebrated! An open-minded spirit, a willingness to take risks, and tolerance for mistakes have to be understood as the new norm. Relationships based on common values and trust will help solve many problems⁴⁵.

3.3.1 Human Capital and Financial Structures

Redesigning Human Capital

Here the goal is to redesign human capital⁴⁶ and to build new teams using the evaluations made at the beginning of the process. Tough decisions will have to be made, and employees who were found to be inefficient or unable to adapt to change should leave the company. The problem is how to do this, because some people have worked for the

⁴⁵ Johnson-Cramer, Michael E., Salvatore Parise, & Robert L. Cross. "Managing Change Through Networks and Values," *Harvard Business Review*, May 01, 2007.

⁴⁶ Cross, Rob, & Laurence Prusak. "The People Who Make Organizations Go--or Stop," *Harvard Business Review*, June 01, 2002.

company for a long time but they were never told that they not performing satisfactorily. Such people have to be supported right to the last minute. Too many people are fired without dignity, which causes company adversaries who are full of anger.

On the other hand, employees who are confirmed in their positions need to understand that they were selected because they add value to the organization, and they were found to be qualified and efficient as a result of the evaluation process. They are not remaining in their job because of seniority. All dynamics for change must question employees about their job—how they do it, and how they can be more efficient. The willingness to implement change has to be supported, encouraged.

Restructuring Human Resources

In many organizations, the Human Resources division has less power than the operations departments. I believe the HR director should have a seat on the board of directors, and be given both the authority and the power to manage people. Most recruiters know the organization and the people working there better than the HR department.

Reducing Waste

It is the dream of every company to reduce its waste to zero. Waste can be categorized as follows:

- Easily identified waste, such as hidden reserves and lack of synergies (purchase, HR and R&D policies) within large companies
- Less obvious waste, such as energy, phone calls, misinformation.

Because the less-obvious kinds of waste concern every employee—even if individually they waste very little—each one added together reaches the level of easily identified waste. So it becomes each employee's responsibility to fight all kinds of waste. For instance, people have to rethink their professional relationship with money. The

development of modern payment methods, such as wire transfers, makes people less aware that money is involved. Hence they sometimes do not pay attention that the length of time for recovering money is getting very long, leading to a waste of interest. Figure 3.6 represents that effect.

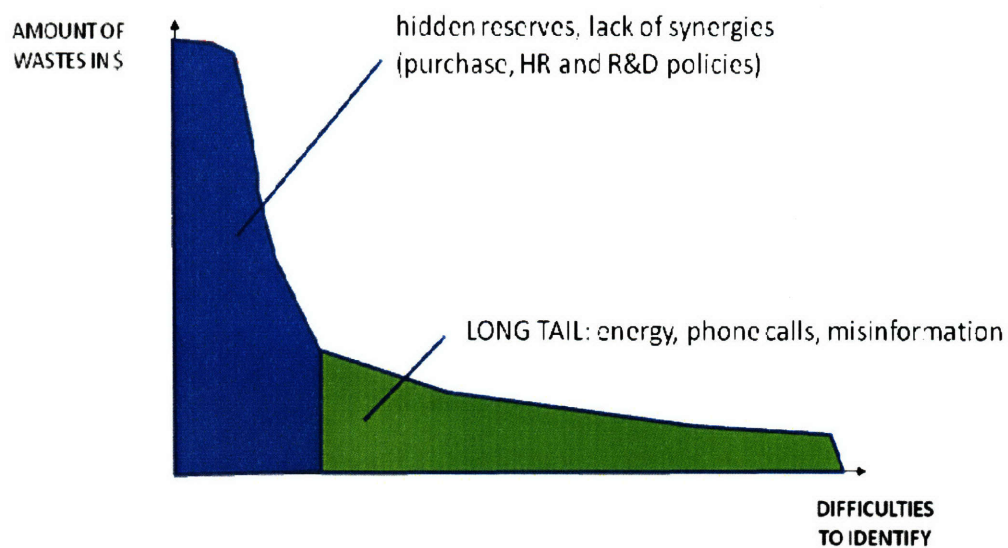


Fig. 3.6 Types of waste

Source: author, 2008

Every company has to face the problem of hidden money reserves, perhaps one of its major sources of waste⁴⁷. At each decision level, managers think about the impact and potential risk that a poor product decision could create in the future, and he/she puts money aside and hides it from the auditors. Sometimes this safety practice happens excessively and more money is put aside than is necessary for reasons of technical risk or deliberate overestimation. Hence, reserves are comprised of two parts: one is justified and the other is

⁴⁷ Gilson, Stuart C., & Perry L. Fagan. The Finova Group, Inc. (A). Harvard case, January 22, 2002.

excessive. And the latter could be used to cover poor results rather than specific risk. Such a reserve policy leads to situations in which the business unit results do not reflect reality. The business unit can state that it made a profit when in fact it has just used its excess hidden reserves to cover a loss.

The new CEO will need to identify these hidden reserves and get rid of them and the practice itself by letting managers know it is better to declare poor operating results than to cover them. They must be confident in the new CEO's policy. At the same time, poor results are often a signal that something needs to be changed or carefully reviewed, which is one of the best ways to improve technically or financially. Otherwise, the money involved as excess reserves is just wasted.

In my opinion, fighting waste and hidden excessive reserves offer incentives to people to be more creative. Instead of just using money, they will use their creativity to find new solutions. Hence, it is important to promote and encourage innovation.

Promoting Innovation

According to Christensen⁴⁸ (1997), it is very important for an organization to promote innovation, as that it will bring about improvements and involve people in the company dynamic. To be innovative, employees need to understand their work, their department goals, even the global company, as well as be able to identify weaknesses. By doing this, employees have a better understanding of where the organization is going, which leads to deeper commitment to the company. Then they will design solutions to make their job, department, or company more efficient. One way to facilitate this process is to create specific indicators that measure these actions and ideas. In addition, innovation can be outsourced to professional companies such as IDEO, to consultants, or to universities.

⁴⁸ Christensen, Clayton. *The Innovator's Dilemma*. Cambridge, MA: Harvard Business School Press, 1997.

Running a Business Unit Like a Company

In large organizations, large size and lack of vision and communication often lead to active inertia (discussed earlier in section 3.2.3). For example, within the same company, it is common to find competitive approaches taken by two subsidiaries belonging to two different divisions with a mutual, shared client. Such a mistake happens because the business unit managers have considerable power but few people can control them or dissuade them from taking action.

An excellent example of using talented people who are given autonomy and responsibility can be found in T. J. Rodgers⁴⁹ (1990) who initiated Cypress Semiconductor⁵⁰ (1998). We can take this example and develop a new way to view governance in business units.

Typical business units are managed by a general manager, with a board comprised of directors from headquarters, employees, and external people. To reinforce the team network and solve internal competition, the manager could be offered a position on the board. To improve the efficiency of the business units, a hyper-centralized network of business units could be created that would not suffocate because of too many people. In a geographic study, originally developed by Tom Allen and then by Thomas Malone⁵¹ (2004), it was found that people talk to their direct hierarchical connections, their friends in the organization, and with people who are close to their office. More than 60% of information exchanges take place within a 20-meter perimeter. The location of different operating and support

⁴⁹ Rodgers, T.J. "Excuses Management." *Harvard Business Review*, July 1990.

⁵⁰ "Cypress Semiconductor (A): Vision, Values, and Killer Software." Case Study #HR-8A. Stanford University, Palo Alto, CA. April 1998.

⁵¹ Malone, Thomas. *The Future of Work: How the New Order of Business Will Shape Your Organization, Your Management Style, and Your Life*. Cambridge, MA: Harvard Business School Press, 2004.

departments, the distance from headquarters, and global implantation can explain many of the problems found in the transfer of information and the attitude of people.

3.3.2 Reinforce the Information Channel

Creating an “Internalpedia”

Very often, people inside the company have solutions for solving problems or creating successful new projects. What is needed is a tool that collects and shares information and ideas within the company. Something similar already exists outside the organization in the form of Wikipedia, the free online encyclopedia. A similar, powerful tool could be created inside the company, which could be called an “Internalpedia.” An administrator would select specialists in each department, specific topics that would form the database, and defines the security for the information shared. The system could be totally opened or restricted in some manner. If the administrator did a good job and if the information is secure inside the company, it would become a powerful tool.

The creation of an Internalpedia forum allows each employee to add information he wants to release (whether anonymously or not), which would combat the middle management funnel effect. Hence, everyone at all levels of the company is made aware of non-strategic and non-sensitive information by using the Internalpedia. This leads to a situation in which every authorized employee can be allowed to share solutions to a problem or improve a product. Perhaps the company could enter into an internal competition to identify ideas or innovations that would make a difference in the market. This tool will reduce the effect, represented in Figure 3.7 below, where in a company, the larger the number of employees, the less shared knowledge there is.

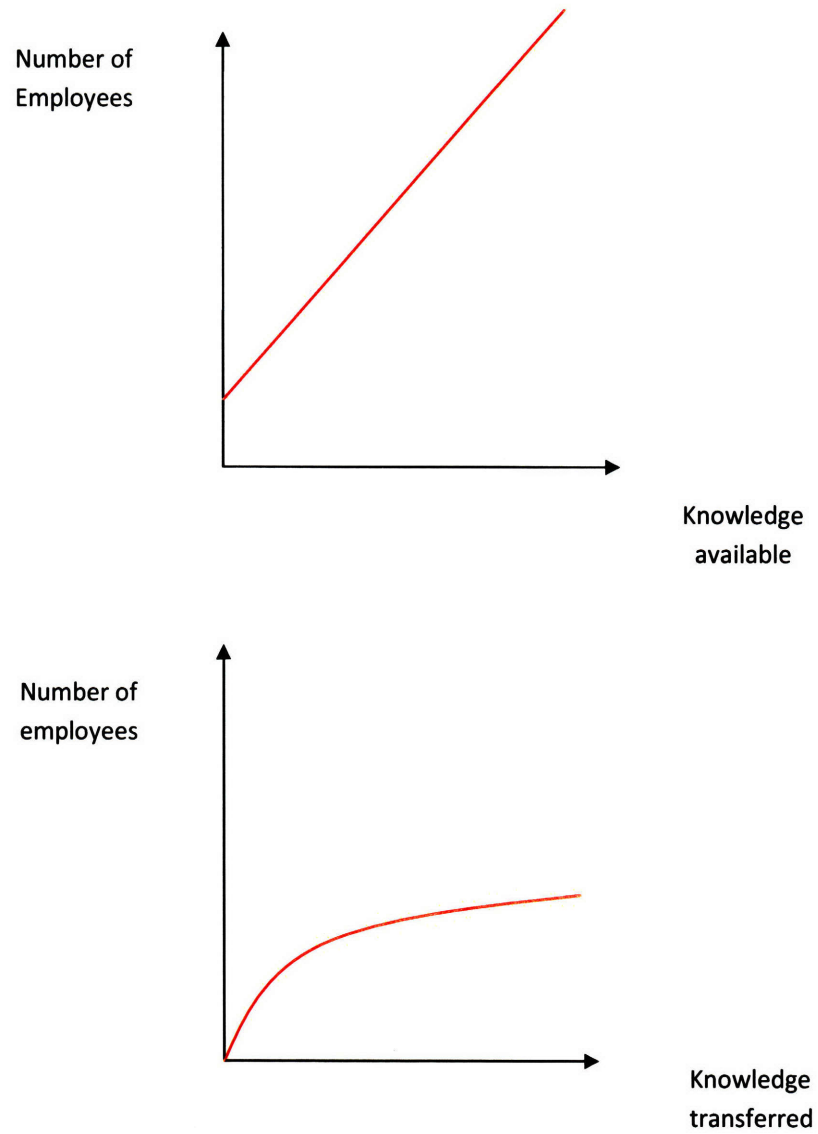


Fig. 3.7 Gap between knowledge available and knowledge transferred

Source: author, 2008

It would be important to associate an efficient research engine (e.g., Google) to this Internalpedia. The more efficient this tool can be made, the more the database will be informed and the more employees will use it.

Networking Strategies

Many websites, as well as networking software, are now available. Technology now makes it possible to have relationships that were not possible ten years ago. People like informal networks and they have become very powerful. Thus, they could be implemented within the organization to allow employees to meet other people and exchange information.

In the silos that exist in global companies, many people meet only through cross relationships. If the company provides a transparent way to collect and disseminate the information collected from these informal networks, it could use the information to add to the company database of figures and ideas.

Micro Laptops, PDAs, and Blackberries:

The circulation of internal information needs the structure of something like an Internalpedia, but if people are not provided with technology to access the accumulated information, all that information becomes irrelevant.

Thus, along with e-mail technology, tools are needed to receive the information, treat it, and transfer it in a short time. If the company can provide these tools to its employees, the messages and information will be more relevant. More often, most company policies give high-tech tools to people based on their title or position within the company, and not because of the needs of their job.

Outsourcing The Information Research and Communication

Finding the right idea or solution to a specific problem is always difficult in global companies as their size can slow down the research of information. Just as companies outsource production when domestic costs become too high, they should also consider outsourcing the research of information, especially in very large organizations. The best kinds of information researchers are journalists and members of the media. Why not ask them to research information, i.e., checking, treating, and transferring information at the right time and place? Global companies often do a poor job in this area, and inertia and bureaucracy can kill initiative.

3.3.3 Adapting the Company to the Employees' Personal Needs

One goal of any company is to attract the most dynamic, intelligent, and educated personnel. Organizations that have superior human capital and a powerful information channel will be appealing, but adding elements that facilitate employees' lives also makes a difference. When employees are happy, their work reflects that contentment. There are several steps that can be undertaken.

Providing Childcare and other Lifestyle Assistance

In today's modern society, time is short, especially when both spouses work, and little time is left to enjoy life. Thus companies that want to be attractive recognize that they should adapt to this situation by helping their employees improve their lifestyle. Today, many employees believe that time spent with family is very important.

Therefore, some workplaces have decided to offer childcare facilities either in the building or close by, which enables many employees (especially women) to stay longer at the office without worrying about childcare or nanny schedules. In addition, no time is wasted

transporting children from home to childcare. All of these considerations improve the lifestyle of a company's employees.

Along the same lines, providing on-the-job access to supermarkets, dry cleaners, and haircare facilities also simplifies their lives, often making that company a “plus” in the decision to accept a job at the company.

Working from Home

Another way to attract potential employees is to allow flexible work arrangements, such as working from home⁵² and providing the necessary technology. In many cases, corporate headquarters and working sites were established in a time when transportation was much less of a problem than it is today. Excessive transportation times and the financial costs of commuting must now be taken in account.

Working from home can reduce some of these problems. In addition, it helps employees design a lifestyle that works for them. For instance, if a child is sick and must remain at home, parents are faced with last-minute challenges to care for the child and still do their job. Even if they go to work, it is often the case that they are preoccupied with the child at home, and their work is less efficient. Allowing them to work from home is a win-win solution.

Training and Mentoring

In addition to helping people reach a balance between their personal needs and the need to work, the company should maintain and update its employees' skills and knowledge. Here again, it will be a win-win agreement. Employees will be better educated and the company will benefit from their increased knowledge. This goal can be reached in two ways:

⁵² Edwards, Paul, & Sara Edwards. *Working from Home*. 5th edition. New York: Putnam, 1999.

allowing people to participate in university programs or establishing training centers within the company or in some affiliated relationship.

Allowing people to take part in university programs allows employees to develop academic skills and build a network with classmates and alumni. On the other hand, some programs last more than a year, requiring the employee/student to be out of the company for a long period, usually at some cost to the company.

Another solution is to establish in-house training centers. Most global companies have their own education centers which are perhaps the most efficient way to train employees. It is easy to monitor the training and exchange of ideas. On the downside, employees are trained in a closed system, which gives them few opportunities to interact with people from other companies or to engage in useful information exchanges.

CHAPTER**4****CONCLUSION**

Human nature does not like change because it requires going through a period of imbalance—a state that most people find uncomfortable. I noticed at several meetings with CEOs and Sloan Fellows, there is very little research or information available on this topic. Implementing change is always difficult, no matter what size of change is needed or the context in which change must take place.

The change process can be seen in three phases, as illustrated in Figure 4.1.

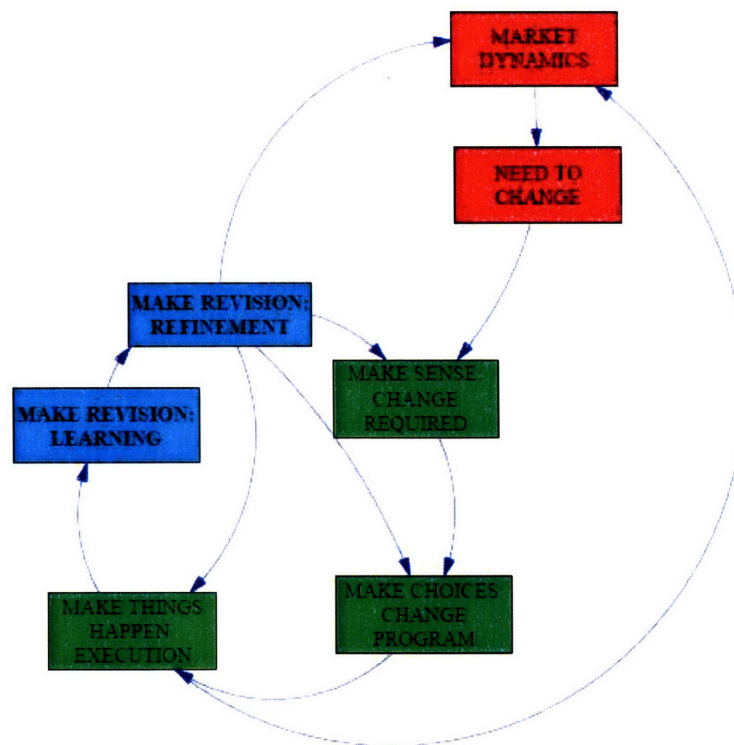


Fig. 4.1 The three phases of change

Source: Sull, Donald N, Henri Birdseye Weil

- Phase One: Market Dynamics, Need to Change: a new CEO is required
- Phase Two: Make Sense, Make Choices, Make Things Happen: the First Ninety Days of a new CEO
- Phase Three: Learning, Refinement once the strategy is implemented

In the first portion of this study, I examined market dynamics that call for change and thus require the replacement of the head of an organization. Once he/she is selected, the new CEO will be viewed by everyone with great expectation, but depending on the context, his/her leeway to accomplish the task he/she was hired for can vary considerably.

In chapter one, I discussed the best scenario to implement change requires several conditions to be in place:

- The company is usually in poor economic health
- The new leader should come from outside the company
- Competition and market conditions will force the company toward transformational acquisitions
- Change policies have to be implemented by charismatic leaders and should have the strong support of the board of directors.

Example: Lou Gerstner (IBM), Thierry Breton (France Telecom).

A new CEO begins his/her job in what I call “the first ninety days,” which can be divided into three periods: Make Sense, Make Choices, and Make Things Happen. The goals are: (1) Make Sense—understand the organization in order to define where changes are needed; (2) Make Choices—develop a strategy to implement the defined changes; and (3) Make Things Happen—the moment when the new CEO launches the execution of the plan, arguably the most exciting time.

I described some actions and ideas that a new CEO can execute to improve an organization. According to many CEOs and Sloan Fellows I interviewed, the three stages of the first 90 days require a strong and wide-ranging communication. Without information exchange and communication, little will be accomplished. Communication enables the organization to stay alive and in good health. It is through the channel of exchanges, that ideas and information arise. This process will help the CEO to refine her/his strategy; it is a learning and refinement process. Communication is a matter of human interaction. Thus the new CEO must maintain the links established during the first 90 days with company members, and consolidate relationships based on trust that last for the long run.

Stagnation can lead the company to an early death. The task of the CEO is to make the company move, at least in pace with world changes—or perhaps even faster than the world.

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