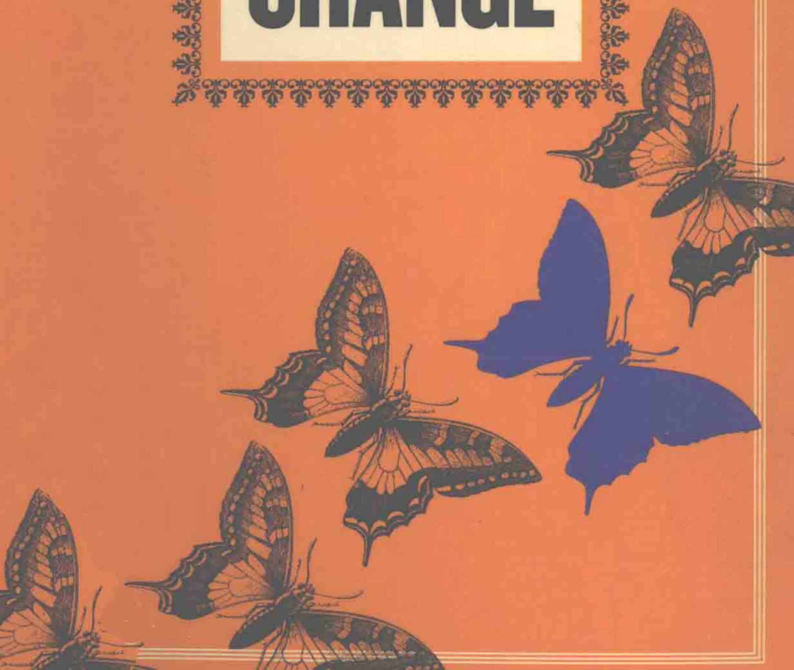
HARVARD BUSINESS SCHOOL PRESS

LESSONS LEARNED

STRAIGHT TALK FROM THE WORLD'S TOP BUSINESS LEADERS

MANAGING CHANGE



LESSONS LEARNED

Managing Change

Harvard Business School Press
Boston, Massachusetts

A NOTE FROM THE PUBLISHER

In partnership with Fifty Lessons, a leading provider of digital media content, Harvard Business School Press is pleased to announce the launch of Lessons Learned, a new book series that showcases the trusted voices of the world's most experienced leaders. Through the power of personal storytelling, each book in this series presents the accumulated wisdom of some of the world's best-known experts and offers insights into how these individuals think, approach new challenges, and use hard-won lessons from experience to shape their leadership philosophies. Organized thematically according to the topics at the top of managers' agendas—leadership, change management, entrepreneurship, innovation, and strategy, to name a few—each book draws from Fifty Lessons' extensive video library of interviews with CEOs and other thought leaders.

A Note from the Publisher

Here, the world's leading senior executives, academics, and business thinkers speak directly and candidly about their triumphs and defeats. Taken together, these powerful stories offer the advice you'll need to take on tomorrow's challenges.

We invite you to join the conversation now. You'll find both new ways of looking at the world, and the tried-and-true advice you need to illuminate the path forward.

CONTENTS

LESSON ONE

Don't Delay Change

Peter Birch

Former Chairman, Land Securities Group

I WAS APPOINTED a nonexecutive director of Argos, the catalog retailer. It was the first nonexecutive position I had, and I welcomed it because Argos has a number of retail networks—several hundred in fact—and had been highly successful. I was the only nonexecutive director to begin with; we recruited another one.

Managing Change

The executives had been there all their working lives; there'd been no changes whatsoever; and the chief executive, Dr. Mike Smith, had been hugely successful. He was revered in the City and couldn't put a foot wrong. All seemed to go well at Argos until he began to slow down; he was a heavy smoker, and nobody realized at the time that he was ill. He tried to keep going. Unfortunately, he had cancer. The cancer took hold of him, and he was unable to make decisions; this went on for a couple of years. No decisions were made, we weren't progressing as we had done, and he was very much the boss in control. It transpired that his management team, who had all worked for him since the day he'd started, were yes-men, and therefore there was no real debate in the board and no desire to change.

As a nonexecutive director, I tried to force change dramatically. I was rude at board meetings; I made a scene. I tried the other approach of being level-headed to try to get change through, but he was not up to it. He began to miss board meetings—he didn't want to admit that he had cancer although we knew secretly that he did—and eventually he had to take time off work. At about the same time, the financial director became ill, but he and the chief executive were still pulling the strings behind the scenes. The City was still supportive of them, and the chairman was too, but one could see that the business was not going that well.

At our weakest moment, Great Universal Stores (GUS) made an offer for the business. At about the same time the chief executive died, the financial director went on ill-health retirement. I was appointed interim chairman. I recruited Stuart Rose—who eventually emerged at Arcadia, the big food group, as a chief executive—to fight the bid from GUS. We appointed Schroders as our advisers, and we worked very, very hard for the three months that it takes for these things to unfold. On the last day we had 45 percent of the votes, GUS had 45 percent, and Schroders had 10 percent. We thought that with Schroders acting for us they would give us the votes, but their asset management side, which owned the 10 percent, decided they needed the cash, and they sided with GUS. So we lost the battle.

So what does one learn from that? One learns that when one sees signs of change in a team and the leader's eye going off the ball for whatever reason—illness or whatever—one needs to effect change and be ready to make change. That was certainly the case at Argos. It's a very sad case because what Dr. Mike Smith had done as chief executive—his ideas and the planning that he put in place—were all brilliant. All of those ideas, which were all in their embryo stage, were picked up by GUS and implemented. When they made the acquisition some four or five years ago, it was said that they paid a high price for Argos; in fact we got them to pay more than they originally expected to pay, but since then they've just gone from strength to strength.

They've done outstandingly well, implementing what we, as a board, knew needed to be done when we were an independent organization. If it needs to be done and it's in the interests of the business, then one needs to effect change no matter how nasty it is and how much it impacts people. Very often it's kind to be hard—much kinder to be harder with people so that they understand it and know where they stand, rather than to be soft and let a bad situation get worse.

TAKEAWAYS

- If change needs to happen in the interests of the business, you must act—no matter how nasty it may seem or how much it impacts on staff or colleagues.

- It's often much kinder to be hard with people so they know where they stand, rather than be soft and let a bad situation get worse. You should encourage open communication between departments and be aware of problems and risks as soon as possible.

- You should always have contingency plans in place so you can quickly and effectively respond to problems by changing direction.

LESSON TWO

Change Today, Not Tomorrow

John Whybrow

Chairman, Wolseley

MANAGERS LOVE TO TALK about managing change. They love to implement change on others, but not so much on themselves, of course. They're always immune to it and think, "It's other people who should change—I'm OK!"

What drives this issue of change? Well, it's a changing world. Things change outside, not inside; the environment starts to change. As that environment changes, we, as managers and directors, need to change our business to meet our objectives.

It may be that a nation becomes very powerful in an industry sector, like the Japanese did with electronics. Companies like Sony, Panasonic, Matsushita, and Pioneer are very fine electronics companies that became very successful. They basically put most of the American electronics consumer enterprises out of business; they either went bankrupt or were sold and bought by Japanese or European companies.

When I was at Philips, it was one of those companies under attack—our results became progressively more difficult (that's a management phrase that means "getting bad"). By the late 1980s, they were pretty bad; by the early 1990s they were awful; then there was an incident where a profit warning was not given when it should have been, and the president lost his job.

Suddenly Philips realized it had to do something; it couldn't ignore what was going on in the world. It had always thought, "The exchange rates will change," or it had thought, "We're Philips, we're big. We're the biggest in Europe and one of the top three in the world. We're safe, we can handle this sort of thing." We couldn't. If only we'd looked at those issues five or ten years earlier, we wouldn't have had a dramatic issue on our plate.

Two hundred managers from across the world all got together in a conference room in Holland and decided that we had to be very dramatic. We took out 30 percent of our population across the world. Just to put that into numbers, that's about eighty thousand to ninety thousand people. When you apply that draconian approach locally, managers say, "You can't do that; you can't take out that many. The business will die. We can't survive."

The funny thing was, no businesses died. Every business survived, and even became better and stronger for it. We improved productivity hugely in circumstances where people said, "If we take out this number of people, we won't be able to do our job properly." The top-level managers resisted that change because they were too late in taking the action. In the middle, people resisted it because they felt it was too dramatic and severe on the business. Then, when we actually forced it to happen, people were amazed at how well the business worked, having made those major changes.

Philips was one of two large electronics companies in Europe that survived, the other one being Siemens. And it's still a tough business. But they're both still there, to their credit. But if only we'd made those changes earlier, there wouldn't have had to be so much blood spilled to get to a good business situation.

As managers and directors, we are slow to respond. There is a cognitive dissonance in us whereby we convince ourselves that it's not really that bad, or it will recover—we don't have to do anything now, we can wait for tomorrow. We shouldn't wait for tomorrow. We should act now.

My message in the management of change is: if you see something happening out there, don't assume it will come back to where you want it to be. The world is not going to be in our model, the world will do what it wants to do. We must respond today, not tomorrow.

TAKEAWAYS

- You should always keep abreast of what's going on in the wider world. If you can the warning signs of imminent change, you can be nimble about responding to them.

- Complacency and lack of action is often bad for business. However, change is painful, and many people