Harvard Business Review

CASE STUDIES

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The Best-Laid Incentive Plans
Steve Kerr

Welcome Aboard (But Don't Change a Thing)
Eric McNulty

Too Old to Learn?
Diane L. Coutu

The Cost Center That Paid Its Way
Julia Kirby

Can This Merger Be Saved?
Sarah Cliffe

What's He Waiting For?
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Harvard Business Press
Boston, Massachusetts

Printed in the United States of America
12 11 10 09 08 5 4 3 2 1

ISBN: 978-1-4221-1470-4

Cataloging-in-Publication Data is available for this title.

The paper used in this publication meets the requirements of the American National Standard for Permanence of Paper for Publications and Documents in Libraries and Archives Z39.48-1992.

CONTENTS

JULIA KIRBY

Introduction

"If you want to make enemies," Woodrow Wilson once observed, "try to change something." He was thinking in terms of political and societal change, but the words ring true for organizational change as well. For as much as commercial enterprises drive change in the world, they are at the end of the day made up of individuals—people with vested interests or at least comfort levels in the status quo.

Almost all veteran executives can tell you a story of a time, early in their careers, when this reality struck them with palpable force. Often it's about the first major project they led, sometimes fresh out of business school. Doing an accurate analysis of the problem was difficult, they will tell you, but enlightening. Designing an elegant solution—whether a new organizational structure, or information system, or way of going to market—was daunting but intellectually stimulating. Getting people to throw their best efforts behind that perfect strategy was—well, an assumption. At best, an afterthought. And, too often, the project's undoing.

It only takes one such experience to teach the first essential lesson about change: It must be carefully managed. Before a plan can come to fruition, the people entrusted with executing it have to believe in it, and they have to understand how it translates to different behaviors and accomplishments at the level of the individual.

But if that first truth can be learned in one lesson, most executives require many more experiences to learn the rest of the truth about transforming an organization. Getting good at change management is much more difficult than recognizing its importance. That's why, at *Harvard Business Review*, we devote so many of our case studies to the subject.

Just-in-Case Advice

Harvard Business Review case studies are uniquely suited to exploring the challenges of change in organizations. The format presents a common managerial dilemma and the advice of several expert commentators on how to resolve it. The dilemma is illustrated by a fictional short story—and therefore overlays questions of business strategy with the often trickier challenges of human emotion and interpersonal dynamics. Nearly always, the commentators are at odds with each other in terms of the solutions they recommend—and that is the point, really. A dilemma wouldn't be a dilemma if all reasonable parties could agree on the path forward.

For the magazine's quarter of a million readers—most of them executives in large organizations—the case goes beyond being a good read. It's a chance for readers to exercise their managerial faculties and to match wits with the experts. Typically, readers study the story line, and then pause to consider what advice they would offer the protagonist. Only then do they go on to read the commentaries, looking for the words of wisdom that align with their own views and expand their perspectives in previously unconsidered ways.

As editors, we try to select topics for cases that are not only intellectually interesting but also broadly relevant. Thus, in this collection, there are cases about change brought about by new leaders, by structural upheavals, by new "rules of the game"—in other words, about the change management issues that confront organizations year in and year out.

Turn and Face the (Strange) Changes

In this collection, we hope you'll find insightful advice to help you manage through your own times of change. So where should you start? You could, of course, begin with the first and read them in order. But a quick overview might help you to select those of greatest interest or relevance to your own organization. Here, title by title, are the key issues raised by the cases and some hints of how the commentators respond:

The Best-Laid Incentive Plans

Steve Kerr, chief learning officer at Goldman Sachs and former head of leadership development at General Electric (responsible for the renowned Crotonville facility), drew the incidents in this case from actual practice in companies he'd studied earlier as a management professor. He had often noted that many companies' compensation schemes, while creating strong incentives to achieve certain outcomes, also brought about unintended consequences. To write this case, we asked Kerr to imagine a company where employees were all too willing to "game the system" to make the numbers required by a new performance management structure. The man behind the metrics is Hiram Phillips, a CFO dreaming of a turnaround in performance. According to his spreadsheets, it's happening. But the reality from managers'—and customers'—points of view looks very different.

Stephen Kaufman, the retired chairman of Arrow Electronics, provides the first commentary on the case, and makes the point that, in performance management, you get what you pay for. The problems in the case might have been avoided, he notes, if Phillips had simply talked to the people who would be affected by his changes, and asked how their behavior would change. Steven Gross of Mercer Human Resources Consulting faults Phillips for focusing on intermediary measures without a big-picture sense of the ultimate goal being served. Gross's own starting point is to ask "What do we want employees to do differently to suppport the business?" and then "Why aren't they already doing it?" Sometimes it's a lack of incentives—but not always. Retired U.S. Navy Admiral Diego Hernández urges management to look beyond pay-for-performance and make more effective use of intangible rewards. Finally, Barry Leskin, former chief learning officer at ChevronTexaco, discusses what it takes to create a strong performance culture: A big part of the challenge is the selection and development of performance-driven leaders.

Welcome Aboard (But Don't Change a Thing)

In this case by Eric McNulty, we see the frustration of Cheryl Hailstrom, the new CEO of Lakeland Wonders. She was recruited to lead the toy company into new growth territory, but doesn't seem to be able to get her head of manufacturing—or design director, or even sales VP—to put their energy and creativity behind her bold new plans. The problem, she believes, is that everyone in the company is too set in their old-fashioned ways. Indeed, the chairman of the company, and head of the family that still owns much of the stock, cautions her that she may need to "pull people along more slowly, to make sure you don't end up tearing the place apart." If only she had that luxury of time. But, as he retired, the scion sold 30% of his holdings to a venture firm, and its leaders are impatient for growth.

Kathleen Calcidise, an executive at Apple Retail Stores, recalls a similar experience of her own in her commentary. "To bring about cultural and performance transformation, I made it the explicit work of several teams. I charged them with identifying any obstacles to change and with recommending new structures, initiatives, and reward systems." A second commentator, executive coach Debra Benton, advises the new CEO to establish "the rules of engagement" with subordinates and to keep them from undermining her decisions. Management consultant Dan Cohen, on the other hand, thinks the CEO in this case has been too assertive. Her driving style, he notes, isn't aligned with the company's culture—and she needs to adjust it. Finally, Nina Aversano, an executive who has worked in a variety of fast-changing organizations, notes a lesson she learned early on: that people support what they create. "You need to engage others in the creation process," she notes, "or you are doomed to failure."

Too Old to Learn?

In "Too Old to Learn?" by HBR Senior Editor Diane Coutu, we see a property and casualty insurance company whose most valuable and senior employees are unequipped to deal with the online revolution in its business. The CEO has hired a new, younger generation of managers to move aggressively onto the Web, but doesn't want to leave his veterans behind; indeed, he believes their knowledge of customer needs must inform the effort. To accomplish that melding of the minds, he pairs up his seniormost eCommerce executive with his most seasoned salesman in a "reverse mentoring" relationship. But the two are at odds from the start, and by the end of the case, the CEO realizes his matchmaking might have lost him a valuable employee.

Monica Higgins, an assistant professor of organizational behavior at Harvard Business School, points out that no change program can succeed simply by imposing a mechanistic mentoring program from above. Mentoring relationships work when they evolve over time, in an informal fashion, through a shared interest in professional development—not when one person is assigned to help another. Lloyd Trotter, EO and president of GE Industrial Systems, reflects on the reverse mentoring program his company has in place—and from which he has personally benefited. He believes Armor Coat can have similarly successful pairings of older and younger employees if the program is repositioned as a tool for collaboration, and if the young people hired are in sync with the company's core values. Psychiatrist and professor Steven Luria Ablon is even more emphatic about the value of learning from mentors, regardless of age. But he notes that the CEO in the case will have to step in and lead by example if this particular relationship is to work. Two managers involved in a reverse mentoring program at Procter & Gamble, Stuart Pearson and Mohan Mohan, identify the problem here as a "huge amount of fear and insecurity in both players," and stress the criticality of mutual deference in a mentoring relationship. Finally, Jerry Wind, a marketing professor at Wharton, says the problems at Armor Coat run even deeper, because the CEO expected to bring about a major change "through the functional silo of technology" without altering anything else about the culture or compensation system. He also notes the folly of placing people who view each other as competitors in a relationship that must have trust at its heart.

The Cost Center That Paid Its Way

In the case study I contributed to this collection, it's a change to organizational structure that's got everyone ruffled. The marketing communications (Mar-Com) group that was once a department—part of the company's overhead expense in the corporate center—has just been converted into a profit center. The logic behind the change is clear, and looks like a win-win situation. The divisions traditionally served by the Mar-Com function will now be treated as valued customers, and charged closer to market rates. The department itself will be able to attract more talented people and get beyond feeling like second-class citizens. Best of all, the new department can take on outside business—and continue to grow, even if the organization around it is downsizing. Why is it that something so wonderful in theory turns out to be generating so many complaints?

The first commentator, Dan Logan, lays the blame at the door of Eric Palmer, the former department head who now has the P&L to run. He's still focusing on boss satisfaction instead of client satisfaction, and needs to transform his mind-set from corporate to entrepreneurial. Logan should know. As head of Trinity Communications, he was in the same position a decade earlier—when New England Financial spun out its marketing department to create his company. Michael McKenney also works in a business that was once a cost center to a larger corporation. To him, Tom O'Reilly, the CEO, is equally to blame in this case for not adequately supporting the business he put in place. But McKenney urges the company to keep the profit center arrangement intact, noting that for his business, doing so has "kept us fresh and competitive." Mark Rice, dean of Babson College and an expert in entrepreneurship, agrees that the positives outweigh the negatives. The way forward is for both executives to acknowledge the problems publicly, understand that they emanate from some flawed assumptions, and come to terms with the trade-offs that will have to be made. Only one commentator, Jeffrey Bennett of Booz Allen

Hamilton questions the wisdom of the profit center model. Many problems would have been avoided, he believes, if the group had been set up as a "shared service" for the company's various businesses—and not for hire by outsiders.

Can This Merger Be Saved?

HBR Executive Editor Sarah Cliffe wrote this case to explore the challenge of cultural assimilation when two large companies come together in a merger or acquisition. Here, the merger is between Synergon Capital, a U.S. financial-services behemoth, and Beauchamp, Becker & Company, a venerable British financial-services company. Before acquiring Beauchamp, Synergon's macho men offered loud assurances that they would leave the tradition-bound company alone—but that was before Beauchamp missed its ambitious target numbers and showed insufficient enthusiasm for cross-selling Synergon's products to its wealthy clients. In charge of making the acquisition work is Nick Cunningham, one of Synergon's more thoughtful executives. Can he bring peace and prosperity to the union?

Acquisition consultant Bill Paul, the first of six commentators on this case, draws an interesting distinction between assimilation and integration. The first is what Synergon has been good at in the past—but it means annihilating the smaller company's culture, which would be catastrophic here. J. Brad McGee, an executive at Tyco, offers a five-point action plan based on the dozens of acquisitions he's been involved in. Jill Greenthal, who was the lead investment banker for TCI in its merger with AT&T, notes the common problem of getting leaders from the acquired firm to stay—and stay productive—after they've been made financially comfortable by the sale. The right deal structure, she says, can help keep them engaged. Dale Matschullat, general counsel at Newell Company, urges Nick Cunningham to focus on getting Beauchamp's managing director to agree on budgetary and strategic goals, and then to leave him in charge of reaching them. But Daniel Vasella, president of Novartis, doubts that Beauchamp's managing director is well suited to growing the business in the way its new parent expects. He would relocate one or two Synergon people, reporting to Synergon's CEO, to accomplish that goal. Finally, Albert Viscio of Booz Allen Hamilton outlines the three elements that have been lacking in this merger: vision, architecture, and leadership. The first step, he says, is for the leaders of both companies to reach a common understanding of how this merger will add strategic value.

What's He Waiting For?

Robert Galford's case presents an interesting counterpoint to the other cases in this volume. Here, the problem isn't one of too much change, but too little. It's been nearly a year since Doug Yacubian joined Captiva Corporation as its first-ever COO, with much fanfare about the entrepreneurial spirit and operational discipline he would bring to the century-old company. But in that time, he's managed to make very little impact. The rest of Captiva's leadership team is left to wonder whether the cause of the problem is a non-starter of a hire—or a CEO who can't bring himself to delegate. Can one of them—namely division president Cynthia Speedwell—figure out how to get the company moving forward?

Miki Tsusaka of the Boston Consulting Group, thinks Speedwell can make a difference; in fact, she outlines a five-point plan the executive can use to get her bosses back on track. One important component is to have the CEO and COO draw up a list of tangible goals they are jointly committed to, and communicate them to the company. Mark Smith, however, says the burden must fall on the COO to find a way to add more value. As a managing director at executive search firm Korn/Ferry, his perspective is that the COO might have made a serious career blunder by getting into a position where he was in over his head. Fred Foulkes, a management professor at Boston University, suggests that an executive coach might be valuable in this situation. At the very least, the COO needs to have a heart-to-heart with his boss. George Hornig, formerly an executive at Deutsche Bank, concurs. He notes how critical it is, when a new number two comes in from