ARTICLE

Protecting turf
like feudal barons
no longer works
for senior executives.

"Getting it done"
requires collaborating
on behalf of the company
as a whole.

Getting It Done: *New Roles for Senior Executives*

by Thomas M. Hout and John C. Carter

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- ***The Idea at Work***
- ***Exploring Further. . .***

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THE IDEA IN BRIEF

In today's organization, top-down autocrats are out and bottom-up teams—guided as never before by processes—are in. But processes don't replace management. In fact, process–focused companies need more "hands-on" management, not less.

They also need more hands involved—many more than just the CEO's. No longer can one leader—or even the top two or three people—do what it takes to achieve corporate success. The entire senior executive group must focus on their collective responsibility for the company as a whole, not just on individual functional or divisional responsibilities.

THE IDEA AT WORK

The traditional roles and relationships among senior managers resemble those of feudal barons who protect their turf and allow peers to do likewise. Today, baronial management is a recipe for disaster. It fosters neglect of crucial issues that can be resolved only when top executives work cooperatively.

The senior team's collective responsibility for the company as a whole can never be completely delegated, because the top executive corps is best positioned to

- manage the political conflicts created by process improvements and change
- get at the heart of problems and authorize the most appropriate process changes
- create competitive breakthroughs by linking improved processes to the company's overall strategy

The enormous benefit of mutual support and collaboration among senior executives can be seen in the following examples.

EXAMPLE:
Chrysler Corporation. Each member of the auto maker's senior management group holds two positions that combine functional and product-line responsibilities; for instance, the VP of procurement and supply also heads the large-car platform unit. This pushes competing interests to the top, where authority rests to resolve the conflicts. This has enabled Chrysler to avoid overproducing while rapidly developing popular new cars. Ultimately, this has resulted in Chrysler becoming the most profitable U.S. car maker.

EXAMPLE:
Southland Furniture Company. After identifying many cost-saving opportunities that weren't relevant to the company's traditional customers, senior executives were charged with reviewing and overhauling the corporate strategy. Their team effort focused on creating a significant strategy shift that maximized the benefits from these improved processes. This resulted in competitive breakthroughs targeted to new, more profitable customers, and produced growth that has dramatically outpaced the industry.

The CEO's Role

The chief role of the "activitist" CEO is to encourage interaction within the senior management group by

- creating situations that challenge and broaden senior executives
- using traditional levers, such as evaluation and compensation, to make senior executives less dependent on the CEO and more dependent on one another
- providing feedback to senior executives from a variety of sources (for example, peers, direct reports, customers)
- compensating senior executives for collaborative contributions to the company's overall success
- looking for the intuitive capacity to collaborate and to take action in ambiguous situations (when selecting new members of the top team)
- modeling the frankness and respect essential to successful group interaction

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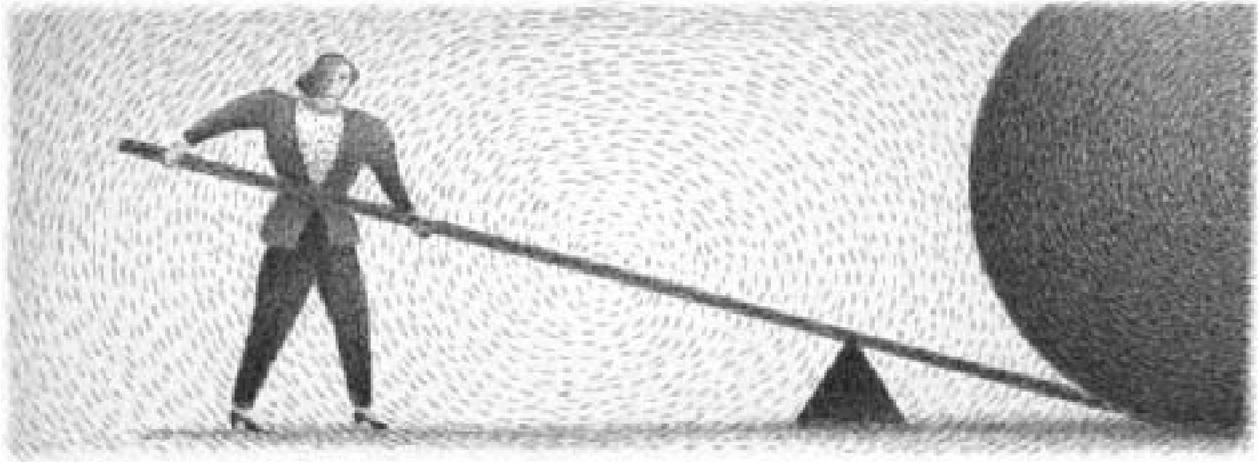
Only senior managers can finish what reengineering begins.

Getting It Done: New Roles for Senior Executives



by Thomas M. Hout and John C. Carter

A decade of process improvement has transformed the way corporations operate. With such change has come an equally broad transformation in the job of the senior executive. Top-down autocrats are out and bottom-up teams are in. The CEO as hero is giving way to Team Xerox and Team Taurus. To hear some executives tell it, the traditional hands-on role of the senior manager is disappearing. The message seems to be: Get the processes right, and the company will manage itself.

But this message belies a simple truth: Managers, not processes, run companies. In fact, process-focused companies need *more* top-down management, not less. That's why at some of the most successful companies, senior executives are becoming more activist and interventionist. They are designing bigger, more powerful roles for themselves, often managing dimensions that go far beyond their formal job descriptions. They are not just enablers or coaches; they are *doers.*

However, today's active CEOs operate very differently from executives in the past. The CEO as hero really *is* dead. Given the complexities of modern business competition, no single individual – or even the top two or three people – can do all that it takes to achieve success for a company. Success depends on the willingness and ability of the entire senior executive group to address not just their individual functional or divisional responsibilities but also their collective responsibility for the company as a whole. Only senior managers can rise above the details of the business, recognize emerging patterns, make unexpected connections, and identify the points of maximum leverage for action.

Senior executives must be activists for three important reasons:

☐ First, only senior executives can finish the work that reengineering starts by managing the political conflicts that process improvement inevitably stimulates and by removing the managerial obstacles that are the biggest barrier to successful reengineering efforts.

☐ Second, senior executives can use their authority to go to the heart of a problem – and therefore pro-

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DRAWINGS BY DAVID RIDLEY

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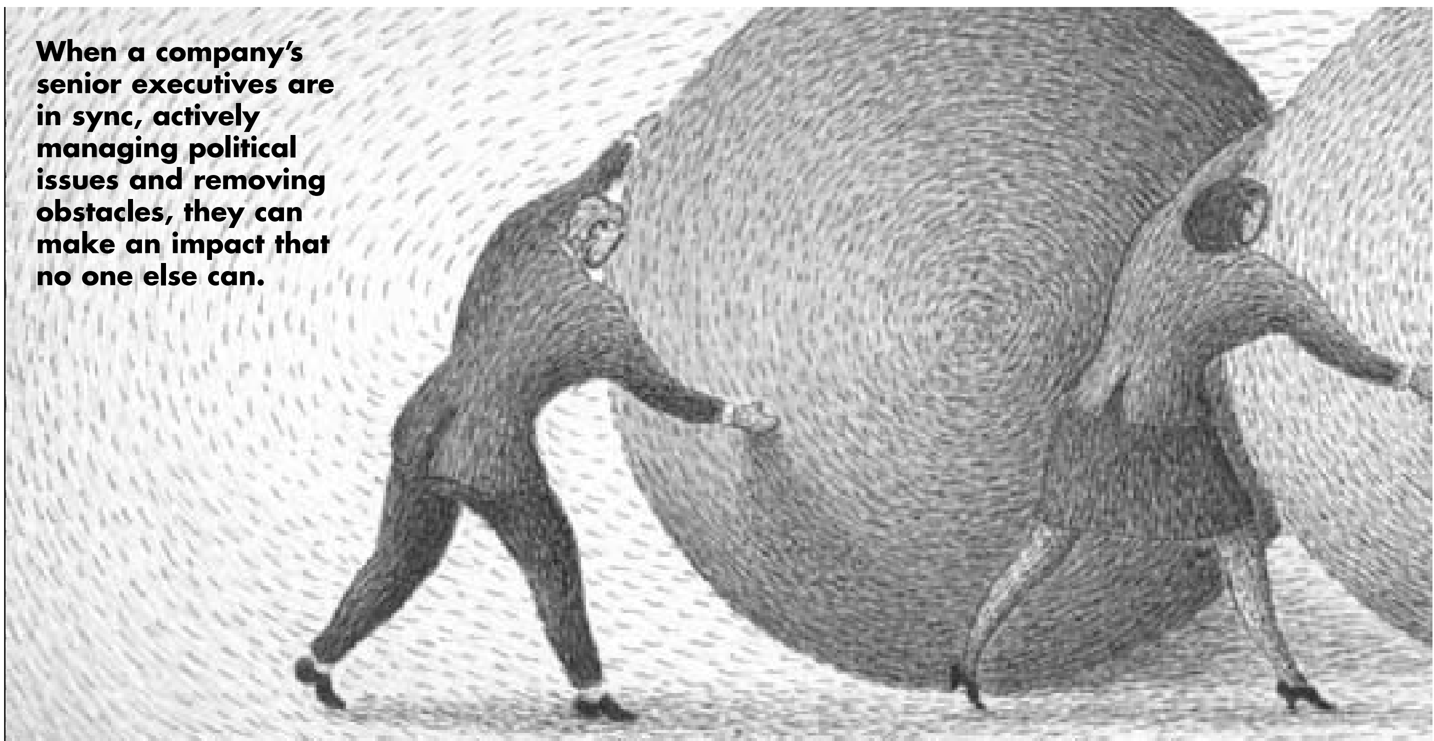


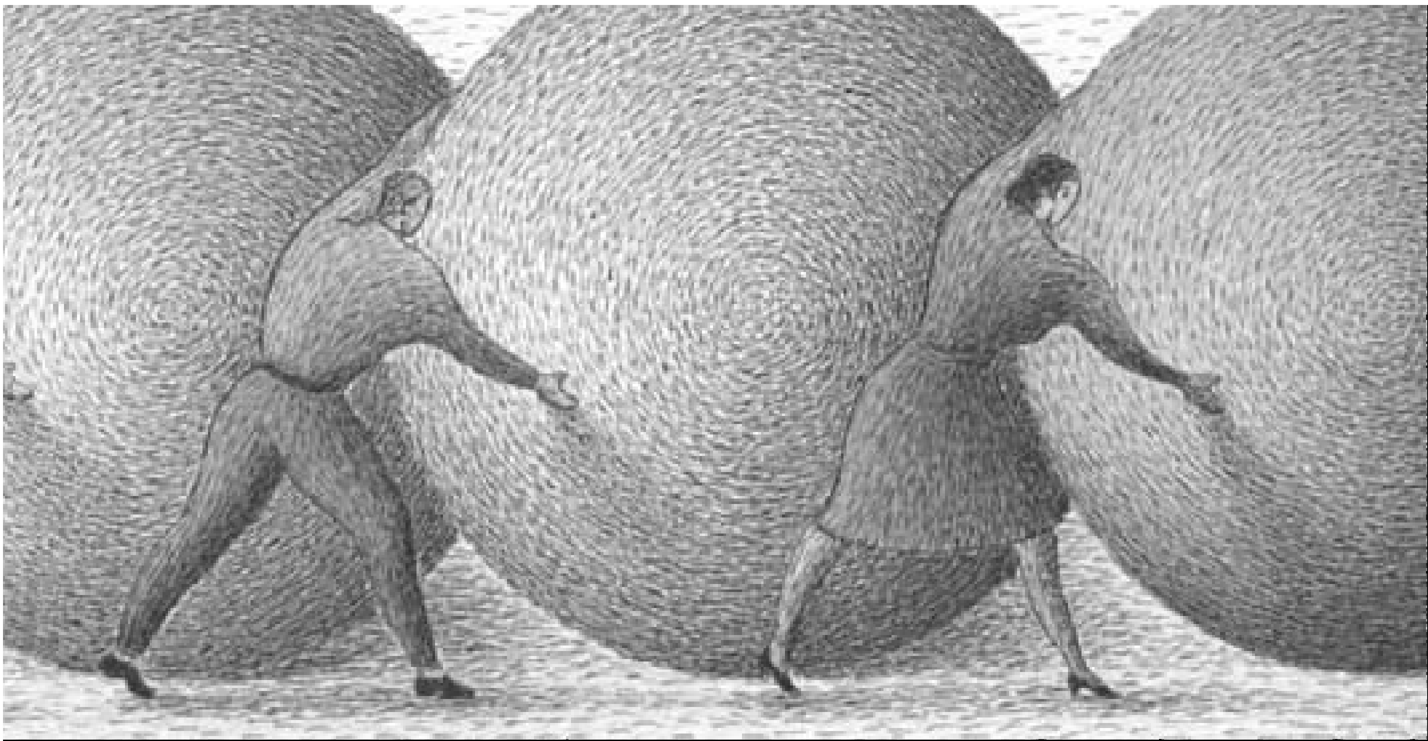
vide superior solutions – in ways that no midlevel team can, no matter how empowered it is. Thus it often pays for senior managers to play a hands-on role in improving operations and redesigning work.
□ Third, only senior executives can create competitive breakthroughs by linking process improvements to strategy. On its own, process excellence rarely leads to sustainable competitive advantage. And yet frequently, a company's strategy (what it intends to do) is disconnected from its capability (what it is able to do). The ultimate responsibility of activist senior executives is to make the connection between strategy and capability.

However much senior executives may need to cooperate, they also *compete* with one another.

When a company's senior executives are in sync, actively managing political issues and removing obstacles, they can make an impact that no one else can. We became interested in senior executive activism after conducting a study on innovation practices at some 550 American, European, and Japanese companies across a wide variety of industries. (See the insert "How Activist Executives Spur Innovation.") Our goal was to identify the management characteristics and organizational capabilities in those companies that innovate faster than their competitors and increase their market share on the strength of that innovation. We discovered that none of the best-known programs – total quality management, reengineering, the formation of self-managing teams, or the institution of cross-functional processes – are enough to produce faster and more effective product development. In fact, the best performers in our study tended, if anything, to have

How Activist Executives Spur Innovation

We studied innovation practices at some 550 American, European, and Japanese companies across a wide variety of industries to identify the management characteristics and organizational capabilities of the most nimble innovators. We found that the executives at the best companies take responsibility for creating a supportive and urgent environment for new product development, even though most of them have no formal accountability for the development process. For example, they guarantee effective staffing by insisting on the release of all members of a new team in time for a project's start-up. They also enforce a total business perspective by working with one another to make sure that teams have a critical mass of marketing and sales people so that engineering and manufacturing don't dominate the process. And they guarantee that people



fewer of these programs than the less innovative companies. We found that what really separates the best performers from the rest is the role that senior executives play.

Managers as Barons

Despite the best intentions, it is difficult for the senior management group at any big company to function effectively as a team. In principle, each executive wants to do what's best for the company. In practice, powerful forces keep managers from doing so. Why? For starters, each player on a senior-level team has a different view of the business. The vice president of purchasing, the head of Asian operations, and the group leader responsible for the company's U.S. cash-cow product line all have different perspectives. It's hard for them to develop a shared understanding of the business that transcends those perspectives. Besides holding divergent views of the business, top-level managers also have real conflicts of interest. However much they may need to cooperate, they also *compete* with one another – for resources, for recognition, and ultimately for the top job.

Senior managers frequently respond to such pressures by engaging in self-interested behavior. In effect, they act like feudal barons seeking favor from the king. Acutely aware of the potential for head-to-head conflict, they protect their own turf and avoid attacking anyone's sacred cows. The result: Major issues are left unaddressed.

In a competitive environment marked by continuous process improvement, baronial management is a recipe for disaster. Consider, for example, what happened at a well-regarded U.S. manufacturing company that had recently reengineered its product-development process. The company did all the right things: It benchmarked itself against industry best practices and empowered cross-functional development teams. Early results were strong, particularly in terms of streamlined work flow and shortened cycle times. After a period of steady progress, however, improvement ground to a halt.

coming off lengthy projects have a soft landing when they return to their functional organizations.

Senior executives at the fastest innovators also insist on seeing early prototypes of prospective new products. Often, the problems that a development team is having with a new product are indications of organizational obstacles in their way – obstacles that the team needs senior-level intervention to overcome.

Finally, activist executives help drive innovation by frequently going into the field and watching and listening to their customers. They are not content just to coach the development process and check milestones. Through the intimate knowledge that comes from direct contact with customers, they can decisively shape the specs for new products early in the process – then step back and let teams do their work.

What went wrong? The problems weren't with the reengineering team that designed the new process or with the cross-functional product-development teams themselves. Improvement stopped because senior managers did not recognize the myriad ways in which *they* were hindering the reengineering effort. Put simply, they were good at championing change but poor at changing themselves. For instance, many of the top function heads did not assign their best people to the reengineering team because they feared that the work of their own departments would suffer. Lacking the best possible staff members, the team had neither the authority nor the political firepower to push for changes opposed by powerful function heads.

Senior executives were good at championing change but poor at changing themselves.

In addition, top-level managers avoided making decisions that might lead to conflict within the senior executive group. For example, the company had a long-standing policy of rotating up-and-coming young managers through new assignments every two years to broaden their experience. But the development teams needed leaders to stay with them for at least three or four years in order to make a strong impact. The design team pointed out the contradiction, but the executives ignored it. They didn't want to interfere with career-track policies that affected the entire company. As a result, the teams lost their effectiveness when leaders rotated off too early. Moreover, these problems in staffing teams sent a powerful message to other employees: Here is another change effort you don't have to take seriously.

Senior executives also failed to address the implications of the reengineered process for their own work. For example, unless the vice presidents of marketing, engineering, purchasing, and sales approved promising new concepts for products early in the development cycle, the best ideas couldn't get the priority they deserved. However, instead of actively reaching back into the pipeline and asking themselves what they needed to learn to make an informed decision, the executives waited for the formal presentation of new ideas. As a result, many promising ideas never made it to market in time. Finally, the executives took a self-interested approach to sharing the political costs of reengineering. On paper, reengineering the product-development process had taken considerable non-value-added work out of the company. In practice, few employees had actually been reassigned. As is often the case, the biggest potential savings could be found in the largest business units and functions. But because the senior-level group had never discussed how they might share reductions in personnel equitably, the powerful managers who ran the largest units were able to protect their own people.

In this particular case, senior managers' preoccupation with their own routines and their respect for one another's turf led them to neglect the crucial issues that they could resolve only as a team. In fact, what passed for respect was really irresponsibility and ultimately undermined the entire reengineering effort.

In a big company, senior executives will always have their own independent authority and power base. Divergences of perspective, differences of opinion, and conflicts of interest won't magically disappear – nor should they. At the same time, senior executives need to recognize and manage the tension between their individual responsibilities for discrete parts of the business and the collective needs of the business as a whole. They must learn new roles and take on challenging new responsibilities, even for parts of the business that they don't directly control.

What passed for respect was really irresponsibility and ultimately undermined the entire reengineering effort.

Finishing What Reengineering Starts

How might a well-functioning executive group have handled the problems faced by the manufacturing company? To begin with, it would have recognized that process improvement tends to expose the political fissures in a company, uncovering organizational and personal conflicts of interest over

who will bear the costs of change and how the benefits will be distributed. And it would have understood that the biggest source of managerial conflict in process-improvement initiatives involves the staffing of teams. Although individual executives do not want to lose their top performers to cross-functional teams, they have a collective interest in contributing them to the effort. Reengineering works only if the company's best people develop the new process designs and then sell them to their respective parts of the organization.

The executive group at an electronics manufacturer developed a simple rule to avoid problems in creating reengineering teams. The rule stipulated that every team member proposed by a function head would have to be accepted by all the other function heads. What's more, team members could not be shifted off without the executive group's unanimous consent. That way, the executive team as a whole controlled the makeup of the reengineering teams; in the process, senior executives forced themselves to learn more about the strengths and weaknesses of middle managers throughout the company.

The senior team at a major telephone operating company faced a different kind of problem. In order to clear the way for new investments in information technology, the company needed a massive retraining of employees and a write-off of existing systems. However, major disincentives kept senior managers from carrying out their own write-offs and investing in new technology: In particular, doing so would have hurt their individual P&Ls, the chief metric against which their performance was evaluated. To avoid potentially destructive political fights, the group collectively agreed to take a $1.1 billion write-off and thus paved the way for the company's reengineering effort.

In some cases, removing obstacles to reengineering requires senior executives to change not just company policies but also their own managerial practices. At Medrad, an $85 million medical diagnostic imaging company in Pittsburgh, Pennsylvania, the product-development process was too slow for a niche leader that must reach market quickly with the right product. The company's executive vice presidents and function heads decided to rethink the process. For several months, nine senior managers devoted one day a week to investigating how the company developed new products. To their surprise, they discovered that the working cycles of the development teams were pretty tight.

Frustrated with their inability to shed light on the problem, the executives found themselves discussing the pressures and frustrations that they often felt as function heads responsible for developing new products. For example, departments did not share decreases in operating budgets equally; as a result, the development teams were not balanced by an equal mix of talent, and some teams were much smaller than others. Moreover, executive vice presidents often impeded progress by delaying the assignment of someone to a cross-functional development team. The more the senior managers talked, the more they realized that delays in product development had little to do with the work of development teams and much to do with their own management practices and behavior.

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Having met the proverbial enemy, the executives moved quickly. They drafted, signed, and published a set of principles that would govern all product-development efforts. One rule specified the makeup of the ideal cross-functional team and declared that every team would be staffed at the scheduled start of a project (a change from the usual practice of starting a project and assuming that the right resources would "turn up" later). As with the electronics manufacturer, senior managers were prohibited from pulling members off teams without the agreement of their peers. Another principle encouraged product-development teams to think of themselves as customers of the senior management group and to offer feedback on its performance. These principles have allowed Medrad to cut the front end of product-development time in half.

Systems such as capital budgeting, career planning and job rotation, and compensation constitute a kind of permanent backstage in any large corporation. But unless those systems are adapted to new ways of working, they become, at best, a built-in drag on the effectiveness of process-improvement initiatives. At worst, they can completely undermine them. Reengineering teams or cross-functional working teams can rethink the mechanics of processes, but long-held inflexible corporate policies concerning such areas as career-track manage-

ment or acceptable test procedures in new product development can get in the way of newly improved processes. Only the senior executives at a company can address such obstacles. If they don't take on these tough issues, empowerment can start to look a lot like abandonment.

Redesigning Executive Roles to Solve Business Problems

Many champions of reengineering assume that the most radical solutions to business problems are likely to come from deep in the organization because top-level management is too distant from the real action. But as the Medrad example proves, activist senior executives can often devise innovative solutions that would elude a midlevel team. By redesigning their own roles, senior managers can bring their power and expertise to bear on a company's key business problems.

For example, because of deregulation, another telephone operating company faced new competitive pressures; in particular, it needed to step up the pace of day-to-day decision making and respond to customers better. Other companies in similar circumstances have immediately turned to reengineering, but the CEO and three executive vice presidents at this $4 billion company resisted that course of action. They had seen earlier process-improvement efforts produce disappointing results. It wasn't that the executives didn't recognize that the company's processes needed fixing; rather, they understood that slow, inefficient processes were only symptoms of a more fundamental problem: poorly designed roles at the very top of the company.

For instance, operating responsibility was fragmented across too many narrowly defined senior positions. The second tier of managers in the company – 20 vice presidents and directors – had too many opportunities to veto decisions and obstruct action. One vice president determined prices, another ensured that the company was in compliance with regulations, and a third estimated the financial implications of different pricing strategies. Until the company could untangle its problems at the top, it would never be able to resolve its problems with slow processes.

The top four senior managers began to redesign the executive structure for the level immediately below them. They ended up with a list of 14 new positions, each with broad responsibilities and all of them closely integrated with one another. The redesigned roster included a diagram of the informal communication and interaction patterns expected to evolve across the 14 positions. After announcing the jobs, the senior managers invited the 20 vice presidents and directors to apply for them.

During interviews for the positions, the CEO and the executive vice presidents asked the applicants how they would approach problems in the new system. What kind of collaboration would be needed to accomplish the company's goals? Who would they have to influence across the network of senior executives in order to fulfill their own responsibilities, and how would they gain that influence? The interviews turned into an important learning process. Not only did they allow the top-level managers to identify which vice presidents could thrive in the new organization, they also helped the entire senior executive group develop a shared understanding of the business.

The payoff was immediate. The company greatly improved the operation of key management processes such as the preparation of the capital budget. In the past, the engineering and financial executives who ran this process were isolated from the company's actual business; thus they had no way to factor new patterns of customers' needs into their capital budgets. Now that the senior financial people have much broader operating responsibilities, they can make sure that capital spending relates to the changing needs of the market.

The new roles have also allowed the company's senior managers to respond quickly to new competitive threats. In particular, the company has rapidly unbundled the old regulated pricing structure, a change that provides more freedom to create customized packages of telephone service. Because activist executives *led* these moves – rather than simply reviewing recommendations for change from middle management – senior managers came to a consensus on the new approaches much faster than they would have in the past.

A Double-Barreled Response

Trade-offs are necessary in any business. Whether the need is to balance long-term performance against short-term results or to settle feuds between marketing and manufacturing, choices must be made every day in one part of an organization that may lead to unforeseen and unintended consequences in other parts. In the past, people in the middle ranks settled many of these trade-offs. Today activist senior executives are embedding this complexity into their own roles.

Consider the premier process-improvement story of the 1990s: Chrysler Corporation. The company has received well-deserved credit for its cross-functional product-development teams and for its fast

time-to-market with new cars. What observers have missed, however, is how Chrysler's success also depends on a major change in the way the company's senior executives define their own roles.

Most members of the senior management group at Chrysler occupy two formal positions that combine functional and product-line responsibilities. For instance, the company's vice president of procurement and supply is also in charge of the large-car platform; the vice president for strategy and regulatory affairs is also responsible for the small-car platform. These dual responsibilities not only embody the tension between product lines and functions, they are also the chief mechanism for managing such tension. All the senior executives know that they have to accomplish two conflicting tasks. One is to develop and build new cars, which requires their colleagues' cooperation; the other is to deliver functional services needed by their colleagues. As a result, function heads and product-line heads are no longer pitted against each other – they *are* each other.

This division of responsibility dramatically changes behavior at the top. For one thing, it keeps political problems manageable so they can't slow down the work of the company. Even more important, the structure of dual responsibilities forces senior executives to balance trade-offs, make tough choices, and think ahead continuously as they identify competing imperatives.

Chrysler's approach is not a return to the matrix organization. The problem with most matrix structures is that they push complexity down into the organization, thus forcing middle managers to make difficult trade-offs between the competing goals of two bosses. At Chrysler, by contrast, the complexity of dealing with competing interests is pushed upward to senior executives. That allows them to work through and contain the complexity, thus simplifying and clarifying subordinates' roles.

Put another way, the matrix is in the minds of the executives. The senior people work face-to-face to settle the difficult political questions (Who is going to give up staff for this project?) and the risky priority issues (Which investment program are we going to do first?). Such clarity makes life easier for middle managers and the employees working under them and has helped Chrysler significantly outperform its competitors in new product development. For example, Chrysler's new large-car platform, the LH, was introduced in 1992 after just 39 months of development – a full 25% faster (and at 20% lower cost) than any of Chrysler's previous development programs. In 1994, the company introduced its Neon economy car in even less time, 31 months.

Dual roles for senior managers have helped Chrysler resolve another internal conflict that has traditionally bedeviled carmakers. In the automobile industry, there has been a systemic tendency to overproduce popular new cars as powerful function heads in manufacturing strive to maximize utilization of their plants and finance managers push for short-term returns. Excess inventory, however, often leads to steep discounts and rebates in the showroom. The result: Many cars are sold but at a poor price realization per car. Because Chrysler's dual roles combine profit-center responsibility for a particular car platform with functional responsibility, it has been easier for the senior executive group to address the inevitable conflict between short-term and long-term goals. The combination of rapid development of popular new products and restraint on overproduction has allowed the company to command premium prices, a key factor in making Chrysler the most profitable U.S. automaker in recent years.

> Put another way, the matrix is in the minds of the company's senior executives.

Another big company that has embraced dual executive roles is Whirlpool. For example, the company's chief technology officer is also responsible for worldwide purchasing. Why? As globalization pushes Whirlpool to coordinate multiple product lines across geographic regions, and as component makers increasingly drive technological innovation, Whirlpool's relationship with its suppliers becomes more and more important. In such an environment, putting technology and supply management together makes a lot of sense.

In this instance, Whirlpool is trying to avoid the usual situation in which the two tasks are organized as separate functions. Although executives in charge of separate functions may coordinate their activities, their different perspectives on the business slow the process down. The purchaser's mindset is "steady as she goes." People in purchasing tend to favor current suppliers who have demonstrated that they can deliver on both cost and quality. Technologists are more experimental. They focus on capabilities that go beyond delivery and may want to put new suppliers in business. An execu-

tive wearing two hats can develop and test new ideas quickly, make trade-offs between the two perspectives, and intervene when necessary without invading someone else's turf.

Creating Competitive Breakthroughs by Linking Process and Strategy

Recently, a great deal of attention has been devoted to the relatively high percentage of reengineering projects that fail. What rarely gets discussed, however, is that even in those initiatives that succeed in cutting cycle times and reducing costs, the ultimate result is frequently disappointing. Typically, a company finds that reengineering improves processes, saves the company money, and perhaps even provides better service to customers. But those changes, however welcome in their own right, never quite add up to a significant difference in the company's competitive position.

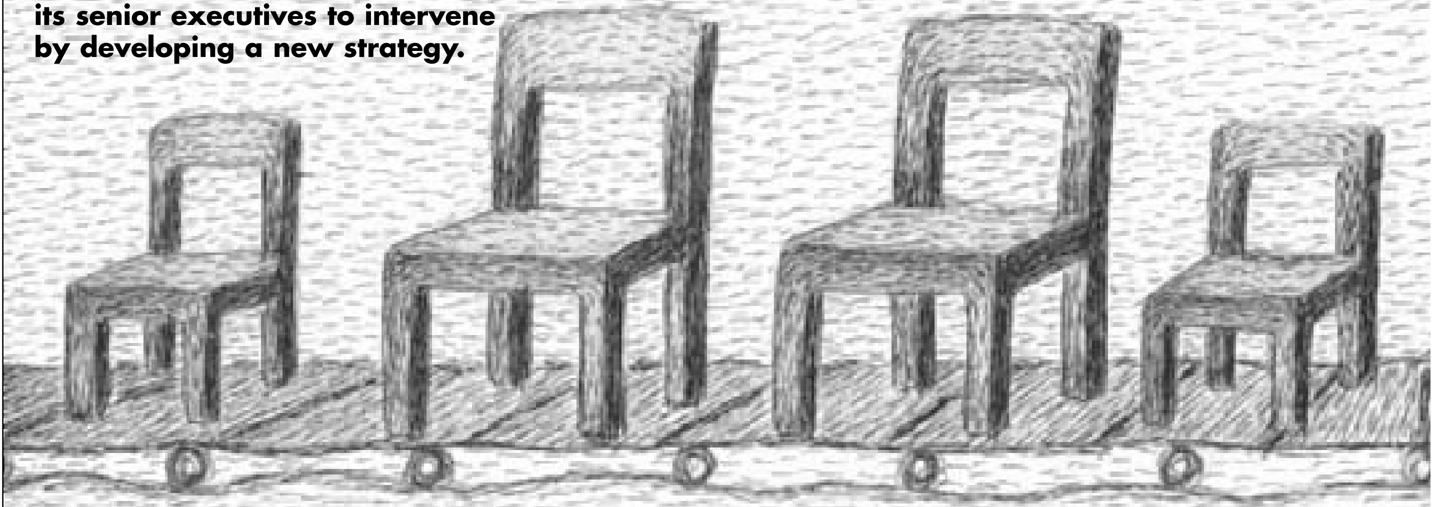
Why not? Too often, process improvement is disconnected from a company's strategy. As a result, strategy and capability are out of sync. In some cases, strategy leads capability: A company develops a coherent plan to create new value and build competitive advantage but doesn't have the operations in place to make the plan a reality. In other cases, strategy lags behind capability: Process improvements make new ways of competing possible, but the company's strategy has yet to take these new possibilities into account.

Managers can't assume that strategy and capability will come together automatically. Rather, they have to pull them together and then continuously calibrate them over time. By far the most important role of activist senior executives is to identify the mismatches between a company's processes and its strategy and then to integrate them in ways that lead to major competitive breakthroughs.

In the early 1990s, a company that we'll call the Southland Furniture Company, one of the largest in the United States, found itself in a situation that many successfully reengineered companies face. For more than a year, a midlevel team had been studying the company's main sequence of processes: order taking, production scheduling, inventory management, and the like. The team had found many opportunities to reduce cost, inventory, and cycle times. It had designed new processes to get customers' orders scheduled and produced faster. It had also developed a way for the manufacturing unit to produce a greater variety of furniture shapes and styles in smaller lot sizes and without as much work-in-process inventory. Both the reengineering team and the company's senior executives assumed that these changes would make a significant difference in the company's profitability and in its competitive position.

To their surprise, however, they discovered that the new capabilities weren't relevant to the company's traditional customers – large, owner-operated retail furniture stores that had grown over the years through aggressive merchandising. The stores were mass-market, promotion-driven businesses in which sales were volatile and hard to predict. As a result, they tended to order a few standard styles of furniture in large quantities (either to replenish their inventories or to stock up for big promotions) but at highly irregular intervals. Often there were last-minute changes as the stores tried to respond to abrupt shifts in sales.

To serve these customers, Southland had to keep large stocks of raw materials on hand. The fact that the new processes reduced work-in-process inven-



Southland Furniture Company designed new processes to get customers' orders scheduled and produced faster. But the company still needed its senior executives to intervene by developing a new strategy.

tory didn't really address the high costs of the inventory of raw materials. What's more, the company had to be prepared to dedicate its capacity to unanticipated large production orders, which meant that its newfound capability to make a greater variety of shapes and styles in smaller lot sizes couldn't really be exploited.

Put simply, the new processes were useless without a new strategy, and only Southland's senior executives could provide that. As they met to discuss the situation, there was little agreement on what to do. The head of manufacturing argued for faster, more up-to-date equipment that would get large orders through the plant with less labor and machine time, thus freeing up capacity for smaller orders. The chief financial officer disagreed, arguing that the investment would be so large that it would not be recouped for years. Instead, he wanted cuts in the marketing and engineering budgets. New designs were only a small portion of sales, he pointed out, and yet they represented a large chunk of discretionary costs. But the new designs were critical for growth, countered the vice president for marketing and sales, especially for a small but important new class of customers – small, regional furniture chains that were trying to appeal to more sophisticated consumers. How can we abandon our core customers? wondered the head of purchasing. After all, they are Southland's bread and butter.

To break this impasse, Southland's CEO ordered a detailed review of the company's business strategy and set a few simple ground rules for the effort. First, the executives couldn't charter a group of subordinates to develop a new strategy. They had to do it themselves. Second, they had to carry out the project not as individuals or as representatives of particular functions but as a group. That prohibited them from tacking on the strategy review as one more agenda item in their regular round of meetings; they had to set aside time exclusively for the review. Third, the CEO announced that he would participate in the group but he wouldn't chair it. Whatever strategy they developed would reflect all of their input, not just his alone.

To begin, the executive group organized field trips to some current customers and to some noncompeting furniture producers overseas. They traveled in pairs to ensure that one partner would pick up information that the other missed and to encourage a dialogue between executives that might not happen otherwise.

For the most part, the visits didn't bring new information to the surface. But the pair that visited one of the new regional chains did report on an interesting discussion with the chain's top-level managers, who praised Southland's new styles but complained that its prices were too high. The Southland executives had explained that high prices were a function of the large inventories of raw materials and the extra capacity they needed to fill the large, hard-to-schedule orders of their core customers.

The retailers were puzzled. *Their* orders weren't large or irregular. Although they selected a large variety of styles, they ordered by the week and with only modest variations in volume. In fact, their pattern of orders was part of their entire merchandising philosophy, which applied just-in-time inventory techniques to retail sales. They minimized promotions and used sophisticated information systems to track sales and ordering.

The conversation with the regional chain's managers made the furniture company executives think twice. They had known that the regional chains sold a broader variety of products than the indepen-

Executive Activism at Krupp

At many companies, the shift to executive activism is a pragmatic response to the harsh realities of a tougher competitive environment. Consider Krupp, one of the largest companies in Germany with DM 24 billion in sales, some 70,000 employees, and six operating divisions including units in steel, engineering, and automotive components.

In December 1992, Krupp, then Germany's second-largest steel manufacturer, acquired its smaller rival Hoesch in what was the first (and to this date, still the only) hostile takeover in the history of German industry. Before the merger, Krupp was a venerable but stagnating company. Hard hit by the global turndown in steel of the early 1990s, it also had an insular managerial culture in which powerful unit heads often kept the company's management board from getting too close to the business. The combination of economic decline in its core business and bureaucratic management resulted in heavy losses. In 1992, Krupp lost DM 250 million on roughly DM 23 billion in sales.

As part of the merger, the combined company appointed a new executive committee, which currently consists of five members, four from Krupp's original management team and one from Hoesch. The group has embarked on a massive turnaround effort. Currently, there are 240 different projects in reengineering, process improvement, customer service, customer discovery, joint ventures, and globalization. The company has set out to reposition the core activities of its six lead companies, reduce the labor force by roughly 20%, and reduce costs by about DM 500 million per year.

At the center of this effort is Krupp's executive committee. For this group, executive activism is a competitive necessity. Managing director (the equivalent of CEO) Gerhard Cromme is the group's liaison to the world of German and international business and politics. Chief controller (the equivalent of COO) Ulrich Middelmann is responsible for the internal execution of the group's decisions. CFO Gerhard Jooss, a former politician from Bavaria, is the company's link to Germany's big banks. Head of personnel Jürgen Rossberg has long-standing ties with the unions that are crucial in German industrial relations. And Friedrich Clever, the sole remaining board member from Hoesch, is responsible for organizational development at the six operating divisions. These individual roles with their ties to key constituencies are critical in the turnaround battle.

But the Krupp executive committee is something more than a collection of strong individual managers. The group has also worked hard to balance individual strengths with a highly integrated perspective on the long-term needs of the business. To leverage their own learning and extend their reach down into the company, for example, key executive committee members occupy multiple roles. Cromme, Middelmann, and Jooss, for instance, each take charge of one of Krupp's three regions – Europe, North America, and Asia. In addition, Jooss also has responsibility for sales and marketing, and Middelmann takes the lead in technology and innovation. Rossberg and Clever have a similar level of regional and functional responsibility.

In the old Krupp, senior managers played classic functional or regional roles, and different points of view were never fully reconciled. The company's various parts did not reinforce one another. The current group of five executives brings all the pieces of the business together among themselves, arguing out the points and pressing one another to see if they have enough knowledge to act. They are continuously rethinking the company's course based on the flow of input from their external constituencies and their internal areas of responsibility.

The group's small size allows them to spend a major part of their time in face-to-face interactions; their offices are all on the same floor of Krupp's headquarters in the city of Essen. It has become a common practice of the group to attend all meetings and events, both inside and outside the company, in rotating pairs. Since the merger, for example, pairs of executive committee members have visited each of Krupp's 240 project teams at least twice. The visits not only maximize the sharing of knowledge among the senior group, they also convey a powerful message that the senior management group has a shared understanding of the business and a common purpose.

This interaction helps the committee make decisions without slowing down the change process. Such decisions are already reshaping the company's culture and business mix.

Krupp's executive activism – pragmatic, highly interactive, and with special attention paid to senior executive roles – appears to be effective. The integration of Krupp and Hoesch has come about more quickly and smoothly than most observers expected, and so have positive business results. In 1993, one year after the merger, the new company had losses of DM 397 million. In 1994, through a combination of growing demand and massive cost reduction, it returned to profitability with DM 77 million in profits. This year, Krupp's profits are estimated to range between DM 500 million and DM 1 billion. Even more impressive is the increase in the companies' market value. In the two years since its introduction on the German stock market in January 1993, Krupp's stock has risen 56%.

dent retail stores, but they had never realized that there was such a stark difference in the way the chains actually did business. The executives analyzed incoming orders and discovered that many of the new regional chains followed a similar pattern: weekly or biweekly orders of a large variety of styles in stable volume and with few last-minute changes. They began to understand that these characteristics weren't coincidental: They represented a whole new business model in the industry.

Armed with this insight, Southland's managers looked at their traditional customers differently. The chief financial officer, who had always thought that large orders of traditional shapes and styles were the most profitable, grasped that such orders were also responsible for hidden costs in inventory and processing. Perhaps the company's core customers weren't low-cost to serve after all. And despite their low-volume, high-variety orders, perhaps the regional chains weren't really such high-cost customers.

As the executive group's learning continued, the managers began to question their commitment to the company's core business. They realized that they had become so close to their traditional customers that they were blind to the costs of serving them. In effect, the large retail stores, hard-pressed by giant furniture discounters and still committed to old-fashioned "push" merchandising, were shifting more and more of the costs of inventory and sales-cycle variations back onto Southland. Meanwhile, a more sophisticated set of fast-growing new customers–the regional chains–wanted something different, something that the reengineering team's process changes were well suited to provide. But the company couldn't just shift its target group of customers: The great majority of its sales were with the traditional retail stores. The executive group needed to define a step-by-step trajectory for changing from the old way of doing business to the new.

The group decided to break down the ordering patterns of the traditional furniture-store customers, and it discovered that some core accounts behaved differently from others. In effect, there was a modernizing segment of traditional customers that, much like the new regional chains, was ordering more regularly because it used up-to-date methods of tracking sales, placing orders, and merchandising. The modernizers were winning local battles for market share, whereas Southland's tradition-bound customers were losing. Clearly, Southland had to increase its sales to the modernizing group.

The company's senior managers were the only ones who could decide to dump the group of traditional customers.

Based on a better understanding of how its customers operated, Southland pursued a new strategy. Members of the executive group began visiting their core customers to announce that they wanted to change the way they did business with them. They asked for more regular orders and for more advance notice of promotions to allow for planning of raw materials inventory. In return, Southland offered to share its new process expertise to help the retailers reengineer their own processes. And it promised lower prices to retailers willing to change the way they ordered. Meanwhile, the company actively pursued the new regional chains, using its reengineered processes to supply them with the variety they wanted.

As a result of this shift in strategy, Southland was able to expand the business of the modernizing segment, gain new business from the regional chains, and influence some of its less advanced customers to change their ordering patterns. By the second year of the new strategy, the company felt confident enough to change its request into a demand, saying, This is the way we do business. If you cannot work this way, we can no longer serve you. Southland ended up losing about 15% of its old customer list, but the loss was more than made up for by new business. As the number of undesirable orders declined, the company's new processes were working on the business for which they had been designed.

Today the turnover of raw materials inventory at Southland is up by 40%. Profit margins have improved, and the company is growing at a rate 3% faster than the industry as a whole. Implementation of the new strategy has also had a major impact on the way Southland's executive group operates. Senior managers interact more and participate actively in decision making. Roles are broader; issues get on the table faster. Put simply, Southland is a much better managed company.

Could an empowered midlevel team have done the analysis and developed the same breakthrough strategy that Southland's executive team did? Probably. Could it have moved quickly to make the trade-offs and take the action that would transform

those insights into reality? Almost certainly not. As Southland's CEO put it, "We were the only people who could say, 'We're going to dump this group of customers.'" Such strategic choices are the essence of executive activism.

Unleashing Executive Activism: The Role of the CEO

Southland Furniture's CEO did not put himself at the center of the company's strategic redirection. He did not set "the vision" around which the senior executives rallied to work out the details. Nor did he dictate every step in the strategic review process. Rather, he encouraged the executive group to walk down a path of mutual discovery, participating in but not controlling the decision-making process.

Does this example mean that when a company has activist executives, it doesn't need an activist CEO? It depends on what one means by activism. Traditional hands-on CEOs are unlikely to create the kind of integrated senior executive group that we have been describing, precisely because they take the lead far too often. As a result, they prevent the collective leadership of the entire senior executive group from emerging. At the same time, activist executives cannot exist without a CEO who can create the conditions that allow a senior-level group to cohere as an effective unit. In those terms, Southland's CEO played an extremely active role as he unleashed and then channeled the energies of his senior managers.

Put simply, the chief responsibility of activist CEOs is to encourage interaction among the senior executive group. How do they accomplish this task? They take away the traditional excuses that have kept senior managers from working well together by aggressively reducing the number of senior line and staff assistants who prepare the briefing books that make it easy for senior managers not to engage with one another.

Better communication and teamwork is the real advantage, far beyond that of cost reduction, of all the downsizing of the past decade. There are no layers left to filter; no one remains to cook the plans and fudge the numbers; and there is no place to hide. Senior executives are forced to deal with one another, face-to-face, with their strengths and weaknesses equally on display. This increased interaction has its benign side: The opportunities for executives to talk and learn from one another are greater. And by definition, fewer senior executives in broader roles means more opportunities to exercise influence on the business. But for the individual manager, it also has its severe side – it's a lot easier to see who is competent and who is not, whose views hold sway and whose do not. While they are learning, senior managers are also being evaluated, not only by the CEO but also by their peers.

Some people aren't cut out for the new environment. Others want to change but don't know how. The second task for activist CEOs is to create situations that will test and broaden their senior executives. Sometimes the CEO will design a learning situation for an individual executive – for example, giving a traditional baron a special assignment that requires the reconciliation of competing goals. Those who do not want to or cannot perform will eventually be moved aside by the CEO, and those who are able to learn will become more valuable. In such cases, the CEO is helping executives find ways to try out new behavior, to put themselves in situations in which they must draw on unfamiliar networks of people and sources of support.

The most powerful experiences are those the CEO designs for the entire executive group. We are not talking about popular off-site team-building exercises like Outward Bound. The best learning comes from real situations with a direct impact on the business, such as the senior reengineering project at Medrad or the strategic review at Southland. Often, activist CEOs will hold key meetings not at corporate headquarters or at some plush off-site resort but out in the field – at a business unit dealing with a thorny problem or on the shop floor of a new customer half a world away. The goal is to get executives out of their comfort zone. They won't all understand the experience in the same way, but it will likely create enough of a shared framework to make for constructive dialogue, healthy disagreement and debate, and eventually a collective sense of direction.

> Some aren't cut out for the new environment; others want to change but don't know how.

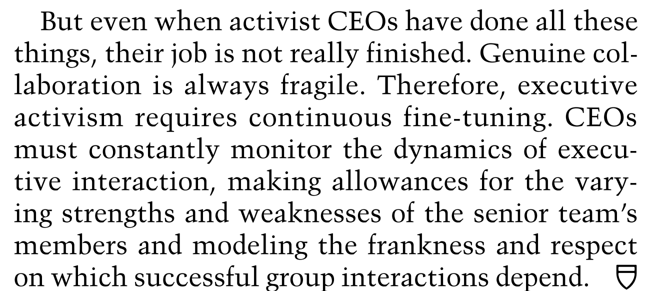
Activist CEOs use all the traditional levers available to them – organizational design, evaluation and feedback, compensation, and new appointments – but to a new end. They strive to make their subordinates dependent on one another rather than exclusively on the CEO. For instance, they design dual roles, like those at Chrysler, that force executives

to look toward one another to resolve problems or to make connections that trigger insights.

They also make sure that executives get performance feedback from as many sources as possible. Increasingly, that means evaluations by peers, upward feedback from one's own subordinates, and periodic systematic responses from customers. People simply work better with one another when they are sure of their strengths and aware of their weaknesses. Some CEOs even take the time to sit down with each of their executives to develop a personal development plan to identify new opportunities for activism.

Sooner or later, leaders have to align compensation systems with their aspirations for their executives' behavior. Activist CEOs go beyond formal incentive systems that pay people for reaching targets contained in plans and budgets. They compensate managers for doing the unexpected, like stepping up to an especially difficult new role or creating value in unusual ways. They know that often the most valuable contributions are those that are off the map of the company's annual plan – and that when managers are rewarded for making such contributions, it encourages others to step forward.

Finally, and perhaps most important, activist CEOs expand the criteria that they use to bring people into the senior management ranks. Specifically, they supplement the traditional skill requirements for particular jobs with broader cognitive and behavioral requirements. Activist CEOs want people who have technical skills and get results but who also have the intuitive capacity to make connections, strong communication skills, an ability to collaborate with peers, and an orientation to action – especially in situations where the right thing to do isn't always clear. Such leaders will often pass over someone who, from a purely technical point of view, is the logical candidate for a job; instead, they will appoint someone with a broader range of behavioral skills.



But even when activist CEOs have done all these things, their job is not really finished. Genuine collaboration is always fragile. Therefore, executive activism requires continuous fine-tuning. CEOs must constantly monitor the dynamics of executive interaction, making allowances for the varying strengths and weaknesses of the senior team's members and modeling the frankness and respect on which successful group interactions depend. ⛉

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ARTICLES

"Demand Better Results—And Get Them" by Robert H. Schaffer (*Harvard Business Review*, March–April 1991, Product no. 4495)
Just as Hout and Carter advocate greater involvement by senior executives to get things done, Schaffer contends that managers must invest their own time and energy to spur dramatic change. "Reliance on procedures" is a leading reason for managers' failure to demand more from workers. The author suggests a five-step strategy for overcoming the "avoidance mechanisms" that commonly block significant performance improvement.

"Whatever Happened to the Take-Charge Manager?" by Nitin Nohria and James D. Berkley (*Harvard Business Review*, January–February 1994, Product no. 94109)
During the 1980s, American managers allowed new managerial processes to replace their own initiative. They believed that these devices could take their companies to new heights. But what is called for, instead of processes, is pragmatism. Confronting the world as it is. Digging to uncover workable (not perfect) solutions. Keeping targeted outcomes in view, and coping with the inevitability of uncertainty and surprise.

"The Work of Leadership" by Ronald A. Heifetz and Donald L. Laurie (*Harvard Business Review*, January–February 1997, Product no. 4150)
There are specific, concrete things top executives must buckle down and do for their companies to achieve and sustain success. Today's leaders must recognize *adaptive challenges*—systemic problems that require fundamental change and have no ready answers. The challenge for leaders in these situations is to mobilize the organization to live into a solution that resides in the collective intelligence of all employees at all levels. Leaders must regulate the amount of distress while also resisting the temptation simply to give employees solutions. Heifetz and Laurie articulate six principles for leading change efforts and responding to adaptive challenges.

BOOK

***John P. Kotter on What Leaders Really Do* by John P. Kotter (Harvard Business School Press, 1999, Product no. 8974)**
This collection of the author's *Harvard Business Review* articles on leadership exposes and examines the elements of activist leadership required for ongoing corporate success. Its grounding in reality and fact—as opposed to theory and supposition—is substantiated by Kotter's 30 years of experience "studying the actions of those who run organizations." He finds that too many managers "obsess over changes in the formal trappings of the workplace." What's needed instead is greater attention to "the more subtle, softer, and difficult behavioral issues."

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