

# CHIEF EXECUTIVE

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## Are the Big Four Gouging?

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Baja or  
Bust





O. C. Tanner's  
Kent Murdock

## How To Revolutionize Your Business

Sometimes the only way to avoid stagnation is to force your company in a direction it doesn't want to go. **BY JENNIFER PELLET**

**E**verybody has a war story to tell. In fact, any CEO who's been in business for any length of time has likely led a radical strategic re-direction at least once. Unfortunately, that doesn't make it any easier the next time around, according to CEOs gathered for a roundtable sponsored by Mark Stevens and Company (MSCO). "I've been involved in seven or eight restructurings, and it's heavy lifting," said Richard Huber, CEO of American Commercial Lines. "To be blunt, it almost inevitably

involves getting rid of a lot of people. You really don't want to spend time drinking beer with anyone who enjoys that."

But while leading revolutionary change is a challenging, painful and ultimately lonely endeavor, it's also a competitive necessity. Faced with a shift in the competitive landscape or the advent of a disruptive new technology, business leaders must force their companies to move in a different direction—or perhaps go out of business, which would inflict far greater damage on

employees and customers.

For Ann Drake, CEO of DSC Logistics, the need to rethink business strategy was spurred by increasing difficulty competing on price in the cutthroat trucking business. "We found that we really couldn't compete with so many of the smaller, back-of-the-envelope carriers who were really price-competitive," she says of her firm's transition from a transportation business to a knowledge-based supply-chain management and logistics company. "So we decided to go into the actual management of transportation."

DSC moved to centralized transportation management, using IT systems and contracting with outside carriers to manage its customers' transportation business. "It's been a big change for us—from having hourly truckers to knowledge-based workers who sit at computers and manage transportation," said Drake.

Today, DSC provides supply chain analysis and design, strategic solutions-based consulting, business process integration and management of logistics operations, such as warehousing, transportation, packaging and fulfillment services, to a wide range of companies, including Georgia-Pacific, Unilever, Yamaha and Kellogg. But the transformation was far from painless, Drake says. "We had hourly people who had to change to systems-oriented people, but the leadership had to change as well. We had people who just weren't able to go to the next step. So we changed out a lot of people along the way."

There are ways, however, to minimize the repercussions of transformation-inspired turnover and win employee "buy-in." At O.C. Tanner, when a new strategic direction necessitated an IT infrastructure overhaul,

CEO Kent Murdock realized his chief information officer was not up to the task. But rather than abruptly pull an outsider in to take charge, he chose to let the CIO go and consult his four IT managers on how to handle the situation. "I told them I'd let them run the shop and they could tell me whether I needed a new CIO," he said. "I knew I needed one, but I needed them to tell me—and they did."

The IT managers, along with O.C. Tanner's management team and technical people, all took part in the recruiting effort. The result? "The three groups came up with an enthusiastic consensus and we hired that person," said Murdock. "So I immediately had an entire support system throughout the whole company for this new leader, and that really made the difference in terms of that person succeeding."

Tom Wamberg, CEO of Clark Consulting, embarked on a similar consensus-building strategy to bring employees of acquired firms on board with his strategic direction. "Traditionally, compensation consulting was delivered by compensation firms and benefits were delivered by benefit firms," he explained. "We wanted to bring a seamless approach to the market, so we went out and bought compensation firms and blended them with our benefit firms."

But bringing 25 acquired companies into line with existing operations was no easy feat. Wamberg struggled with business owners who wanted to sell their companies but retain their businesses' names, keep their employees and maintain their current location—all while commanding top dollar. Then, after agreements were hashed out with business owners, Wamberg faced the challenge of gaining the confidence of the acquired

## WHO'S WHO

► **Gloria Bohan** is CEO and president of Omega World Travel, a \$750 million global travel agency in Fairfax, Va.

► **Rick Connors** is managing director of MSCO, a global marketing firm specializing in strategy and integrated marketing solutions in Purchase, N.Y.

► **Ann M. Drake** is CEO of DSC Logistics, a \$285 million supply chain management company in Des Plaines, Ill.

► **Alfred Fasola** is director of RCN, a \$500 million cable provider in Princeton, N.J.

► **Ernest L. Godshalk** is president and COO of Varian Semiconductor Equipment Associates, a \$500 million manufacturer of ion implementation systems in Gloucester, Mass.

► **William J. Holstein** is editor-in-chief of *Chief Executive*.

► **Richard L. Huber** is chairman and CEO of American Commercial Lines, a \$700 million integrated network of marine transportation companies, based in Jeffersonville, Ind.

► **J.R. (Rick) Hundley** is president and COO of Snecma USA, a wholly owned subsidiary of Snecma SA, an \$8 billion aerospace company in Paris.

► **Edward M. Kopko** is CEO of Butler International, a \$263 million strategic outsourcing firm in Montvale, N.J., and chairman and CEO of Chief Executive Group.

► **Sunil Kumar** is president and CEO of International Specialty Products, a \$900 million specialty chemicals company in Wayne, N.J.

► **Mitchell B. Modell** is CEO of Modell Sporting Goods, a \$500 million sporting goods retailer in New York City.

► **Kent H. Murdock** is president and CEO of O.C. Tanner Company, a \$300 million provider of employee recognition solutions in Salt Lake City, Utah.

► **Mark Stevens** is chief executive of Purchase, N.Y.-based MSCO.

► **Tom Wamberg** is chairman and CEO of Clark Consulting, a \$300 million consulting firm in North Barrington, Ill.

employees around the new strategic plan.

"My initial reaction was to just go do it," he said. "But thankfully I pulled myself back from that and we brought leaders from IT, HR and various functions together into a team and went through a continuous quality improvement process to say, 'Where do we go from here? Where is the next level for the company?' We learned a lot from that process, and we've now got a new strategic plan that is sustainable. Whereas if it had been a mandate from headquarters, I don't think it would have flown."

For many CEOs, the trickiest aspect of transformation is galvanizing the company in a new direction long before the need to do so becomes obvious. "You must move at the top of your game," Murdock argued. "If you wait until there's a crisis, then you end up in restructuring that's very crude. I always try to avoid that by moving well in advance of any need to move."

That's the kind of foresight that led Rick Hundley, CEO of Snecma USA, to force out a top-performing division CEO. "We

had to replace the CEO of our company's helicopter manufacturing and service business, and it was after the best year that business had ever had at that point," he recounted. Worse still, the CEO in question was a personal friend—exactly the sort of fallout that makes transformation such a wrenching experience for leaders. "While he was very good at building the business to a point, he didn't have the personality and bigger picture thinking to take it to the next level," explained Hundley, who noted that having the right people in the right jobs at all times requires tough decisions. "He was a friend of mine, and it was very hard. But he was just not the right person for the business at the time."

#### The People Factor

**A**t some companies, policies for weeding out underperformers help to depersonalize difficult decisions involving personnel changes. "We measure everything and everyone from best to worst—district managers, store managers, P&L, customer service scores, inventory—and put a line in the middle of the page," explained Mitch Modell, CEO of Modell's Sporting Goods. "Anyone who falls below

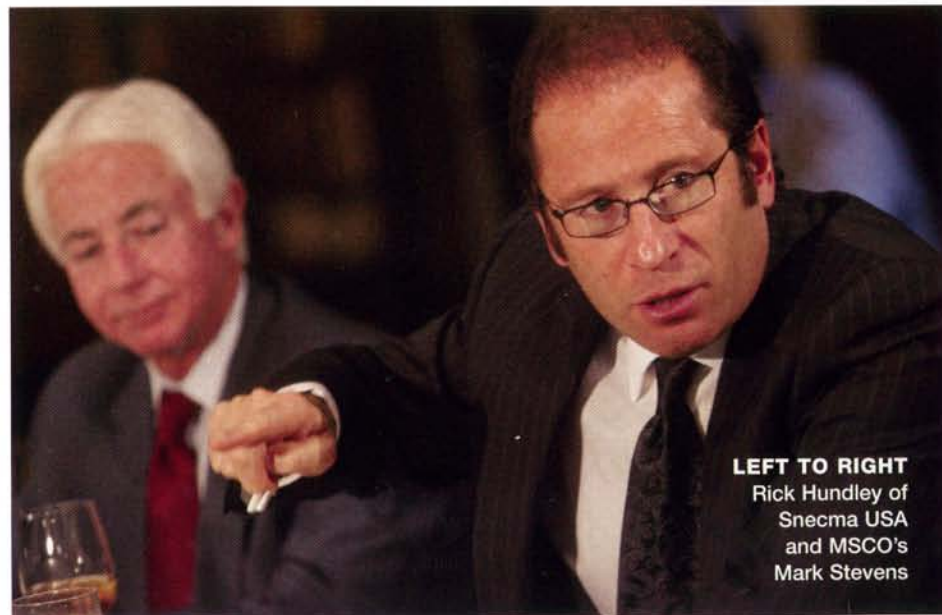
the criteria has to explain what the problem is to us. And when we replace an assistant manager or manager, he or she has got to be better than the best manager we have. If you can replace the person at the bottom with someone who's in the upper echelons of that category, you improve the organization."

Employee buy-in of new strategies is non-negotiable, he added. In 2005, for example, Modell is galvanizing his employees around a grass-roots branding initiative to position the company as the hometown sporting goods store in every community where it operates. "Some people are challenging that by asking, 'Why are we changing our brand?'" explained Modell. "You always have people who are holding onto yesterday's news, yesterday's sales, but they've got to embrace change. If they don't, it will lead to dismissal no matter how long they've been with us. No one is bigger than the company."

Modell's, in turn, does its part to foster that acceptance. Each year, the retail chain brings approximately 900 staffers to New York City's Fashion Institute of Technology for a strategic planning meeting. Senior managers make presentations on the previous year's performance and discuss goals and strategies for the year to come. "We

**TOP** Sunil Kumar of International Specialty Products

**BOTTOM** Mitch Modell of Modell's Sporting Goods



**LEFT TO RIGHT**  
Rick Hundley of  
Snecma USA  
and MSCO's  
Mark Stevens

want to make sure we're continually moving forward," said Modell. "And the earlier you get people involved in the process, the easier it is for them to accept change."

Gloria Bohan, CEO of Omega World Travel, also found that clearly communicating performance goals helps ensure employee commitment to strategic initiatives. "Having a good way to evaluate performance is extremely important, particularly in a business like ours where offices are scattered all over," she explained. "People need to know what their own numbers are and see information on how the staff is doing and on productivity each month. Evaluation of agents is important, but every person needs to also understand our standards and evaluate themselves."

Surrounding yourself with a strong management team is also critical, noted Alfred Fasola, lead director of cable provider RCN. "Five years ago, when I asked Warren Buffett how he hires, he said, 'I look for character, intelligence and work ethic. And if I screw up on the first one, I pray

they're dumb and lazy,'" recalled Fasola. "I believe that the CEO and the people that the CEO surrounds himself or herself with has never been more important. So I look for character and for integrity, because at the end of the day if you've got that, you're going to manage the change."

### Driven by Self-Doubt

**W**hile overcoming resistance is a standard obstacle to change, it's often the resistance from within that can be the biggest hurdle to leading transformation, noted several CEOs. Faced with leading a restructuring of the Firestone Tire retail organization, Sunil Kumar, CEO of International Specialty Products, grappled with the customary obstacle of rallying skeptical employees around a new strategic directive. But it was his own uncertainty that proved most difficult to overcome.

"I was filled with mountains of doubt," says Kumar. "And you cannot release those doubts to your organization. You can share them with your wife, but nobody else. In

the morning you just put on your game face and go on."

Ironically, the sleepless nights that are the hallmark of self-doubt are often the mark of responsible leadership. "If there's no self-doubt, there's no introspection—and no real thought at all," pointed out Mark Stevens, CEO of MSCO and author of *Your Marketing Sucks*. "The discussions you have with yourself while you're driving home from work or lying in bed are a critical part of the process. And that self-doubt is what drives you to a conclusion. Is it the right conclusion? You don't know until you begin to execute, but you've got to start somewhere."

But some CEOs argue that doubt can also be destructive, leading to inertia or delays in execution. "The first time I went through a big restructuring, I knew what had to be done within the first two weeks, but I didn't have the courage to do it," recounted Huber. "So I brought in the

**TOP** Alfred Fasola of RCN  
**BOTTOM** Gloria Bohan of Omega World Travel



Anne Drake of DSC Logistics



inevitable consultants and we spent six months developing a plan, which ultimately said we should do what I'd thought in those first two weeks." (See sidebar, page 60.)

One of the most fascinating acknowledgments that several CEOs made was that the numbers alone cannot guide a radical transformation. Pure instinct often comes into play. "Numbers can give you seven ways to go, or tell you to do nothing," asserted Murdock. "They show you the past. What creates value in an organization is uniquely human—judgment, risk-taking, intuition."

The ability to put a company through a dramatic remake hinges on making that judgment call, despite the prospect of the period of chaos and turmoil that it may entail. "The biggest factor in a CEO's ability to carry out revolutionary change is what we call 'fear of a bad day,'" said Stevens. "The knowledge that it is going to be sloppy at the beginning, that people—some of them very important to the organization—are going to be unhappy, can hold you hostage to the status quo."

But, ultimately, CEOs who make these tough calls and find ways to minimize the turbulence win the respect of employees. "People who want to follow you wait for you to make the decision they know is hard for you to make," Stevens said. "They know the vein of the company is going to be upset if you go in that direction. They're watching to see whether the CEO has the ability and nerve to make that decision. The real leader has to say, 'I'm going to accept that bad day and manage against it as well as I can to get to the next level.' And people follow."

In the final analysis, the willingness and ability of CEOs to launch abrupt shifts in strategy may help explain the underlying resiliency of the entire American economy. Small and medium-sized businesses are often able to refocus their energies on new market opportunities faster than large multinationals. So however painful the decisions may be, they almost certainly add up to a larger good. ▲