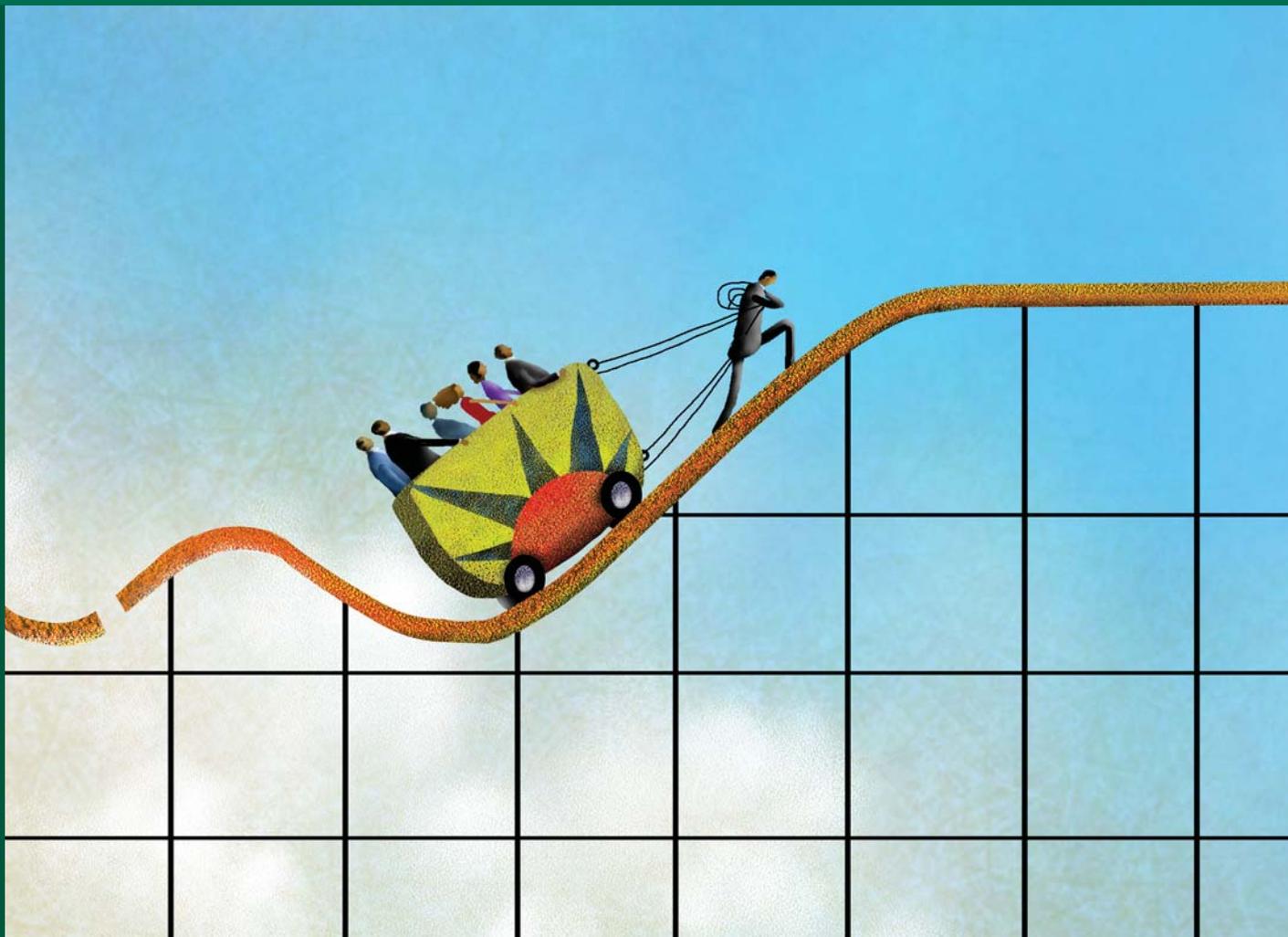


# BCG

THE BOSTON CONSULTING GROUP

October 2011



## Leading Transformation

*Conversations with Leaders on Driving Change*

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# Leading Transformation

Conversations with Leaders on Driving Change

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October 2011

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# Introduction

**M**ost chief executives, especially new ones, must fundamentally transform their enterprise at some time during their tenure. Boards are increasingly appointing CEOs with that explicit charter, and almost all CEOs recognize the need to take even successful enterprises to new levels of performance.

We recently talked with 11 chief executives who have successfully driven and sustained fundamental change. They run organizations headquartered in North America, Europe, Asia, and Australia and in fields ranging from manufacturing and finance to the Internet, consumer, retail, and nonprofit sectors.

“The first thing to realize is that there is not a magic formula. If there were,” says Archie Norman, the nonexecutive chairman of ITV and the leader of many successful corporate turnarounds, “we probably would not be having this conversation.”

Even though they lack a magic formula, the CEOs we spoke with have relied on many of the same leadership tools. In fact, the similarities across their approaches far outweighed the differences. In particular, almost all the leaders discussed the three core elements of transformation:

- ◇ *Winning in the Medium Term.* Nearly all the interviewees fundamentally changed the business model in order to move their company to a substantially better place. In most instances, these leaders set and achieved enormously ambitious goals in as little as one to three years.
- ◇ *Funding the Journey.* Even with ambitious goals and tight time frames, changing a business model takes

time. The leaders we interviewed typically had to achieve quick wins and build credibility in order to address near-term pressures or invest in longer-term ambitions—or both. All leaders—even those who were unencumbered by an immediate crisis—needed to find and expend the political capital necessary to make the changes that are essential to the long-term success of an organization.

- ◇ *Building the Right Team, Organization, and Culture.* This linked set of topics was the center of gravity among all the perspectives shared by the leaders. Even a grand vision and agenda will fall flat if an organization’s people lack a shared mindset and commitment. And it takes the right culture and talent to drive and sustain change.

## Winning in the Medium Term

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The ultimate goal of any organizational transformation should be to create a vibrant and exciting future—and greater value. Transformations therefore generally require a fundamental rethinking of the organization and strategy as well as a shift in direction. They cannot succeed in business-as-usual environments; rather, they need to be built on a bedrock of bold moves.

Transformation does not take one masterstroke but many. Most of the leaders we interviewed for the series have undertaken several stark and ambitious steps to position their organization on stronger footing; such moves have ranged from geographic expansion and product development to an emphasis on growth. No leader has made a single bet-your-company gamble; instead, all the leaders have taken a series of well-calculated and calibrated risks.

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At Hilton Worldwide, for example, company president and CEO Christopher J. Nassetta has embarked on a massive expansion of Hilton's global footprint, focusing on the fast-growing developing markets. Similarly, after Irene Rosenfeld returned to Kraft Foods in 2006, the CEO recognized that her company needed greater exposure in developing markets. She spent \$27 billion buying LU and Cadbury, which greatly increased Kraft's presence in India and China.

Louis Vachon, president and CEO of National Bank Financial Group, shifted his organization's focus from cost control to growth—during the turbulence of the financial crisis. “It was a fair amount of work moving from optimization, efficiency, and cost management to growth, new products, new markets, and new customers,” he says. “When you have an optimization strategy, you focus on minimizing cost in the branch structure. When you move to growth, you make sure you have more people in your branches. We hired 300 people in our branches.”

David Brennan, executive director and CEO of AstraZeneca, started preparing his organization several years in advance for a dramatic drop in revenues triggered by the loss of patent protection for several blockbuster drugs. “You cannot get to the day of the expiration, and say, ‘Now we have to make changes,’” Brennan explains.

But transformations are not just about bold moves and new directions. Many are also about fortifying traditional approaches that are fundamentally important, as Rosenfeld discovered upon her return to Kraft Foods. She says that the company had been “maniacally focused on cost” and had lost sight of growth opportunities. She set out to right the ship not only by leading the acquisitions of Cadbury and LU, but also by focusing on reenergizing Kraft's well-known brands—such as Oreo, Jell-O, Maxwell House, and Philadelphia cream cheese.

“It very quickly became clear that our issue was not our categories. It was our participation within those categories,” Rosenfeld says. “Consumers were eating cheese, they were eating meat, and they were drinking coffee. They just were not eating and drinking our brands in those categories. So the idea was really to take a look at what we needed to do to look for the growth opportunities within those categories.”

People need an image or phrase that provides coherence and clarity to the transformational activity.

All transformations require a vision around which people can rally. With so much change and so many initiatives, people need an image or phrase that provides a coherence and clarity to all the transformational activity. “I started with a slogan, ‘One Client, One Bank,’” says Vachon. “Despite everything else that was going on at that time, people were focused on the transformation, they were looking to the future, and they did not get too bogged down or distracted by all the negative news in the industry at that time.”

At Kraft, Rosenfeld launched her transformation using the banner “Let's Get Growing.” As she put it, “It was both a call to action and, I think, a liberating idea for an organization that had been really battered and had lost its self-confidence.”

When Brian Gallagher took over as president and CEO of United Way of America in 2002, the main focus at about half of the local United Way affiliates was fundraising, while the other half was focused on community impact. One of his first goals was to galvanize the entire organization around, in his words, “mission and purpose.”

“We were completely divided, but my sense was that almost everybody wanted to get back to community and social change,” Gallagher says. “So the first thing we did was drive toward that mission and get agreement. And it came incredibly quickly.”

Communication is another tool to ensure that people are focusing on the things that matter most. At Hilton Worldwide, Nassetta wants his 135,000 employees to concentrate on culture, performance, brands, and global expansion. “When I talk about our four key priorities, I sing it from the mountaintops—all the time, everywhere I go—so that people will know that what we want to do as an organization is channel our energies more to get those things done over other extraneous things that might be good but are not going to be as helpful in the long term,” Nassetta says.

Likewise, Brennan sees as one of the main roles of a CEO the channeling of conversation and communication around the key topics. “If we are discussing things that are off the subject or are not really on that list of priorities, I think it is important as the CEO to raise your hand

and say, “That may be important, but we have said we want to do three or four things here. Let’s make the best use of our time together to be focused on those things.’ So R&D productivity, commercial excellence in the marketplace, operating an ethical business: those are things that you cannot delegate.”

## Funding the Journey

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Transformations may take years, but senior leaders do not have the luxury of many years to demonstrate results. They face pressures from their boards, the Street, and their employees to show tangible progress quickly. Many of them must free up resources to essentially fund the strategic shifts that are needed to transform the organization. While this phase is not the ultimate goal of any transformation, it is imperative—and leaders must get it right.

This critical phase is not just about fighting fires, although it may seem that way to outsiders. In conversations, the leaders talk about the need, in the early days, to operate at two speeds. While they have taken immediate and urgent steps to extinguish the flames of short-term crises, they have simultaneously built a foundation for the future. One of the supreme challenges of transformation is managing these two distinct work streams with very different paces but complementary goals.

“You also have to make short-term changes in order to make sure you get some improvement in returns almost immediately,” says Ian McLeod, the managing director of Coles, an Australian supermarket chain and retailer that is currently in the midst of a five-year transformation. Early success helps build confidence among employees that they can “do even better in the future.”

When the global financial crisis hit, Chanda Kochhar, managing director and CEO of ICICI Bank, shifted the orientation of India’s second-largest bank away from growth and expansion to focus on reducing risk and costs. But she did not want employees to be discouraged by this lull in the bank’s ambitions, so she spent a fair share of her time talking directly to employees about the bank’s short-term needs and medium-term goals.

“Putting the strategy in perspective helped a lot,” Kochhar recalls. “What we said was that while we are going to

go through this period for the next one or two years...we are doing all this so that we become efficient. The goal was that two years later, when we started to grow, our ROEs [returns on equity] and ROAs [returns on assets] would be much higher. I think people saw that medium-term picture, rather than just the one-year picture, and that helped to keep morale stable.”

Early success helps  
build confidence  
among employees  
that they can “do even  
better in the future.”

Among the many potential levers leaders can pull to effect change, delayering—removing unnecessary layers in the organization—has emerged as one of the most popular short-term instruments that the leaders discussed. It has been used as a way to both save money and create greater clarity. Facing a 50 percent drop in market volumes during the recession, Martin Daum, the president and CEO of Daimler Trucks North America, was able to generate nearly \$1 billion in extra cash flow through delayering and other restructuring moves. “Big organizations grow organically,” Daum says. “It is a good exercise, from time to time, to question every single position.”

In 2007, when Nassetta took the helm at Hilton Worldwide, an organization that had been created largely through acquisitions, he removed layers of management and inefficiencies that had built up over the years. “We had layer upon layer of duplication in all sorts of roles—and many more layers of decision making than we needed. It just slowed us down,” Nassetta says. “We had a cost structure that was bloated, and we needed to do something about it. But we had the added benefit of becoming a lot more effective.” He adds, “We took a significant component of those efficiencies and those savings, and we redeployed it to development resources around the world, to technical-services resources, and to the building of our engines and our sales forces so we could perform and deliver.”

Other approaches to funding the journey include reevaluating sourcing, pricing, and asset strategies. But no matter which levers they have pulled, the leaders have needed to track progress rigorously against established goals, especially in complex restructurings that involved many initiatives. “You need a kind of IT tool that helps you track those thousand different measures and then rolls them up comprehensively,” Daum says.

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Some of the early moves have been harder on organizations than others—among the most difficult have been layoffs, plant and office closings, and divestments. Effective communication helps employees overcome the short-term pain of these experiences and embrace the ultimate goal of the transformation.

“I want people to buy in, to see the necessity of what we are doing, and to say, ‘Yes, that’s right. We want the company to succeed, too. And we are going to put our back behind it, even though it is going to be tough,’” Norman says. “I am not asking them to think, ‘Whoopee, this is great.’ I’m asking them to think, ‘Yes, this is right, and I want to make it work.’”

## Building the Right Team, Organization, and Culture

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All discussions about transformations culminate in an exploration of people, organization, and culture. Transformations require focus, commitment, and engagement throughout the organization; even the best-laid plans will fail unless the people are on board.

Norman, who has been involved in several transformations since his days at Asda, posits, “Behind all financial failures is organizational failure.” While that may be a blunt assessment, all the leaders recognize the need to give top priority to people and to organizational and cultural issues.

Among the 11 leaders interviewed, Jasmine Whitbread has faced one of the greatest organizational changes. In 2010, she was appointed the first international CEO of Save the Children, a loose federation of 29 organizations—whose leaders do not report to Whitbread directly. She has sought to create a global organization that takes advantage of scale but also recognizes the importance of collaboration throughout the global enterprise.

“Even if people report to you—which, in my case, the chief executives do not—you have to...go and get the buy-in,” Whitbread says. “Make sure that you do have a core group—and it need not be that large—of key players who are totally up for going on that journey with you. Really nurture and do not underestimate the value of that group.”

Many leaders describe how they needed to make changes at the top of the organization in order to build a united purpose. This was especially true at AstraZeneca, Coles, Hilton Worldwide, Kraft Foods, National Bank Financial Group, and United Way. “It’s pretty clear who gets it and who does not,” Rosenfeld explains. “The key is whether the leaders are on the bus. What I have come to understand is that if they’re not on the bus pretty quickly, they are never coming.”

“Employees always knew they were part of a greater effort—one important part.”

Greater accountability has generally accompanied these changes in senior leadership. “When I took this job, one of the things I tried to do was to begin to push accountability and responsibility down throughout the organization,” Brennan says. “I had people—my direct reports, people I pay a lot of money to—coming and asking me to help them decide on things that I thought they should be deciding on for themselves, and I told them that.”

Most leaders driving a transformation understand that they must change the mindset of the senior leadership team if they want to change the organization. The successful ones also understand that they need to change the mindset of the organization, too. Change cannot stop at the top—it needs to percolate to the far reaches of the empire. In our conversations, the leaders talked about their travels to the frontline and all the efforts to engage with employees and to monitor and improve culture and morale.

Daum created the right mindset and ambition for transforming his company by broadly engaging employees. “Everybody was always informed about where the program stood,” Daum says. “Everybody knew what his part was in that whole thing. Everybody in the company was involved in one of our work streams or initiatives. Employees always knew they were part of a greater effort—one important part. They knew that if they failed, we might not reach our target.”

At Coles, McLeod has been careful to praise employees for what has been accomplished so far rather than simply looking ahead at what needs to be done in the transformation. “Sometimes, in that environment, you are so focused on improvement and doing better that you forget to give people the acknowledgment they deserve for the efforts they have made,” he says.

Rakuten, Japan's largest Internet company, has been in a steady state of transformation since its founding in 1997. It has expanded from e-commerce into finance, travel, content, and ownership of professional sports teams—and from its home country to China, the U.S., and Europe.

Rakuten's chairman and CEO Hiroshi Mikitani says that the development of a corporate philosophy has helped create alignment as the company has expanded into new businesses and markets. "We took the core components of our management—the corporate culture, our brand concepts, and our basic practices—and put them together into a corporate philosophy," Mikitani says.

"We tell managers to follow the basic framework and the foundation of our corporate practice." As long as his executives adhere to the fundamentals, Mikitani gives them free reign to manage their businesses. "We need to be very careful not to lose our core values, and that will lead us where we need to be," he says.

CEOs should also actively monitor employee engagement at all times—but especially during a transformation. "At Asda, I could typically tell how sales would be

going by looking at the morale and attitude surveys. If I see bad attitude, high turnover, and absenteeism, I know I have a problem with sales," Norman says. "People's motivation is the input; sales and financial performance are the output."

Changing a culture is hard, and it takes time; this type of change requires a deliberate plan and a set of actions that support a longer-term strategy. "The culture you forge—and the way you express it—that is phase two, not phase one," Norman says. "If you start talking about new values, missions, and all these things in the middle of making people redundant, and all you are doing is branding your new values as having to do with misery and making people redundant, it will not work."

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**W**hat works, the leaders and their shared experiences illustrate, is an unrelenting focus on the three legs of successful transformation. A CEO who concentrates on winning in the medium term, funding the journey, and building the right team, organization, and culture can and will succeed in transforming the organization and creating an enduring legacy.

# Cure for Slower Growth

**David Brennan**  
Executive director and CEO, AstraZeneca

**D**avid Brennan, who rose to the top of the pharmaceutical industry through sales, has the easy ability of a sales executive to break down complex topics. So when Brennan became CEO of AstraZeneca in 2006, he looked into the future and foresaw a major loss of revenues as blockbuster drugs—such as heartburn medication Nexium and antipsychotic Seroquel—faced increasing competition from generics. Although Brennan had the luxury of time, he quickly undertook a multiyear transformation.

As a result of that transformation, AstraZeneca has announced the eventual elimination of about 20,000 positions globally. It has started to look for promising therapies outside the company—setting a target of securing about 40 percent of its pipeline from external sources. It is also pursuing growth in emerging markets, and, by 2014, 25 percent of the company’s revenues are expected to come from these markets.

While making these visible changes, Brennan also undertook several internal measures, such as simplifying the organization and pushing accountability throughout AstraZeneca. He initiated all these things while serving as board chairman of Pharmaceutical Research and Manufacturers of America, the industry’s trade association, and helping to shape health care reform in the U.S.

A strong believer in delegation, Brennan says that CEOs have two primary responsibilities: selecting the senior leadership team and keeping the organization focused on the handful of issues that matter most. Brennan has replaced almost his entire executive team, in part because he wanted senior executives who were willing to be members of a cross-functional leadership team. Under his predecessor, senior executives were responsible for their own domains within the company. Brennan is making sure the company is focusing on R&D productivity, commercial excellence, and ethical behavior—a shortlist of priorities



**DAVID BRENNAN**

Born in New York  
Year Born: 1953

**Education**

1975, degree in business administration, Gettysburg College

**Career Highlights**

2006–present, executive director (since 2005) and CEO, AstraZeneca

2001–2005, executive vice president of AstraZeneca’s North American subsidiary

1999–2001, senior vice president of commercial operations, AstraZeneca

1992–1999, vice president of marketing, business planning, and development, Astra Merck and then Astra Pharmaceuticals

1975–1992, various positions at Merck, starting as a sales representative and ending as general manager of a French subsidiary

**Outside Activities**

President, International Federation of Pharmaceutical Manufacturers and Associations (IFPMA)

Executive board member, European Federation of Pharmaceutical Industries and Associations (EFPIA)

Member, European Round Table of Industrialists

Member, Institute of Medicine Roundtable on Evidence-Based Medicine

Commissioner, UK Commission for Employment and Skills

Honorary board member, U.S. CEO Roundtable on Cancer

Board member, Philadelphia Orchestra

for a complex industry undergoing challenging times, but one that employees can understand and rally around.

Grant Freeland, a senior partner and managing director of The Boston Consulting Group, recently talked with Brennan about the changes at AstraZeneca.

**AstraZeneca, like most companies in the biopharmaceutical industry, has faced the challenges of products going off patent, fewer products coming down the pipeline, and a lot of market controls being put in place. How have these affected the strategy of AstraZeneca?**

The two largest impacts on our business are loss of exclusivity—patents expiring after a period of time—and productivity in research and development. Are we creating products that will be valued by customers in the marketplace? And then do we have the organization in place that can deliver on the promise of those products to customers around the world?

So almost four-and-a-half years ago, we started a restructuring program—as well as kind of a reset of our strategy—to recognize that we were entering a five- to ten-year period of changes that we had to be prepared for. You cannot get to the day of the expiration, and say, “Now we have to make changes.”

**When you took over in January 2006, you needed to manage those issues. What changes did you start to make in the organization—then and since—in terms of structure, people, and culture?**

I did not walk into a crisis situation. I walked into a company that was performing well financially. But we recognized at that point that we had a pipeline issue. So we started making some changes. I turned over my management team entirely during that period of time. We’ve made structural changes in all the major parts of our organization.

We now have a single global commercial organization. Back in 2005, we had two commercial organizations. We have one R&D organization today. Back in those days, we had a discovery organization and a development organization.

When you come into a job like this, you do not get it from a standing start. There is momentum.

We have changed culture. When you come into a job like this, you do not get it from a standing start. There is momentum. Things are going on, and you have to know what is happening and get a picture of where you would like to see things in the future. And then you have to envision that everything that you do structurally, culturally, and people-wise is headed toward the vision you have. It is a precursive belief of what it is going to take to be successful. And then you align people, processes, and messages all around what you and the board believe that the culture should be.

**How do you think the culture is different now from what it was five years ago, and what did you do to actually change it?**

When I took this job, one of the things I tried to do was to begin to push accountability and responsibility down throughout the organization. You should not be looking to management to indemnify you for decisions you should be making about how to run the business.

I had people—my direct reports, people I pay a lot of money to—coming and asking me to help them decide on things that I thought they should be deciding on for themselves, and I told them that. I said, “Why are you asking me to decide this? That’s what I pay you for. If you are hung up or something is wrong, tell me. Otherwise, tell me what you are going to do.”

The first month that I was in the job, I significantly increased the delegation of authority related to decision making and the financial decisions that people could make. It began to send a message down into the organization that “I am accountable for this decision and have the authority and governance to actually make it without having to go ask for permission.”

Somebody told me once that if you want to do something, you have to do something. That’s what I tell people in this organization: If you want to do something, you have to do it.

**One question that all CEOs ask is what role they should play in transforming and restructuring. What are the elements that you decided to focus on rather than delegating them to your teams?**

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I think the most important thing the CEO does is create the team that the organization sees as the leadership body. We have an executive team called the SET, or senior executive team. And throughout the organization, everywhere, we hear references to the SET. The SET decided on this, the SET needs to approve this, or this has to go to the SET. So having a very effective team of people at that executive level is the single most important thing for the CEO to do.

The other thing that I do is check out our agenda. If we are discussing things that are off the subject or are not really on that list of priorities, I think it is important as the CEO to raise your hand and say, “That may be important, but we have said we want to do three or four things here. Let’s make the best use of our time together to be focused on those things.” So R&D productivity, commercial excellence in the marketplace, operating an ethical business: those are things that you cannot delegate.

People in the organization need to see the executive team living the beliefs that they say that they want to be living. People can read a “phony” a mile away. If you are telling people things that they do not believe are true, or if you are saying something to satisfy what you think their needs are, they can recognize it and disengage.

**You said that getting the right senior team in place is crucial and that you have replaced most of the positions during your tenure. It’s obviously sensitive, but when did you make those changes? Was it early? Was it because they were not buying into what you were doing? Were you looking for new blood?**

The culture of the organization between 2000 and 2005 was very functionally oriented. My predecessor strongly believed that my accountability as a member of his team was to run my function. He was less concerned about cross-functional teamwork. He saw clear accountability in R&D. He saw clear accountability in operations. He saw clear accountability in each of the two commercial organizations. So the people on the team were very much in that kind of a mindset.

I believed that we needed to have more cross-functional collaboration to run a global business. Not so much at that moment—we were doing okay, but I was thinking

about a much tougher period of time, beginning in 2011 and 2012. So part of the shift was to test people and see whether they really wanted to be on that train or not. A couple of people left when I first took the job, and then there were a series of people who left by mutual agreement or retirement.

It was not a crisis. I do not want to say that it was a luxury, but I had the opportunity to assess them against a different set of goals and against whether or not I thought they could be there—and ultimately whether or not they thought they could be there. Some of them said, “I’ve been operating in my silo in my way for a long time.” And I said, “That’s fine. That’s been good. That’s what we wanted, but we’re starting to move that along a little bit.”

**What lessons do you have for CEOs who may be about to transform their companies?**

Make sure you know where you are headed and test that. Do people think that is a bad place or a good place, or are they not sure? Everybody looks to the CEO to give that type of direction to the organization.

If that is the place you really want to go, then you have to look at the steps you are going to take. We are in the process of restructuring one-third of the jobs in the company over seven or eight years, reallocating thousands of jobs from developed markets to emerging markets, and shutting down some areas of research to invest in other areas of research. You need to be prepared for the reality of taking the steps to actually get where you want to go.

Do not ever convince yourself that you delivered the message and the organization gets it. You may think that you delivered the message, but you have to recognize that you need to repeat it. You have to deliver it in a different way. You have to show up. You have to be in Korea. You have to be in Vietnam and Russia, talk to the people, tell them what you are doing, give them a chance to engage you and see that you are a real person, and try to connect with them and understand what is going on.

This is not a desk job. This is a contact sport. You have to be out with the gang. You have to be out with other stakeholders and help them understand what is going on.

**As we move into the twenty-first century, do you think the characteristics of a good leader or good CEO are any different from what they were in the last century, and how might they vary? What does it mean for the leadership position?**

The speed at which the economy operates, at which decisions are made, and at which information is transferred via technology enabled a world that I do not think I could have envisioned even 10 years ago, much less 20 or 30 years ago. You have to carve out for yourself how you want to lead in a world that operates differently than the one you grew up in.

I have been having some meetings with millennials. I meet people who have just joined the company in the last year or two and get a sense why they came to the company. What are their expectations of the company and themselves? It begins to remind me of the differences in values and culture that are created by age alone.

These are people who grew up on Facebook, with computers in their laps. They are constantly wired and enabled. We have this broad variety of people, culture, experience, knowledge, age, gender, and religion. It's very diverse. I think you have to acknowledge that and accept it. It can create strength if you get it right.

# Keep on Trucking

Martin Daum

President and CEO, Daimler Trucks North America

**M**artin Daum had spent more than two decades at Daimler in a wide range of positions in Germany and the U.S., but nothing could have prepared him for the direct damage that the Great Recession inflicted on Daimler Trucks North America, the company he was appointed to lead in 2009. Sales fell more than 50 percent from 2006 through 2009, and employees were understandably fretting about the future of a company that had started nearly 70 years earlier as Freightliner Corporation, and whose trucks had helped to bring together the far-flung corners of the North American economy.

When Daum arrived, restructuring was already under way. He quickly concluded that the skeleton of that initiative was solid. Rather than start over, he set about to ensure that the restructuring would be executed speedily and thoroughly. Successful transformations require leadership alignment, employee engagement, and close monitoring of progress. As the restructuring unfolded, Daum made sure that all three elements remained strong.

Daimler Trucks North America is now reaping the rewards of Daum's focus. Although the slump in trucking sales continued into 2010, the company generated nearly \$1 billion in extra cash flow attributable to the restructuring.

Grant Freeland, a senior partner and managing director of The Boston Consulting Group, recently talked with Daum about his role in helping to restore the heritage of this proud company.

**Martin, thank you very much for joining us for this CEO leadership series. Could you start by describing your background and your career?**

I have worked my whole life for Daimler. I started in the sales area and then worked in the dealer operations area and in finance. In 2002, I was appointed CFO of the Mercedes-Benz truck brand. Mercedes-Benz is the leading truck manufacturer in Europe. After four years, I shifted and ran worldwide production operations for the brand. In 2009, I was appointed president and CEO of Daimler Trucks North America.

**When you took over as CEO, you faced a pretty tough set of challenges. The market demand had fallen more than 50 percent. Even though there were some changes already under way, how did you think about the transformation journey that you were about to face?**

I found the already existing program really comprehensive, and so the main focus was execution and speed of execution.



**MARTIN DAUM**

Born in Karlsruhe, Germany  
Year Born: 1959

**Education**

1985, Master's degree in economics, University of Mannheim

**Career Highlights**

2009–present, president and CEO, Daimler Trucks North America

2006–2009, head of operations, Mercedes-Benz Trucks

2002–2006, head of controlling, Mercedes-Benz Trucks

1987–2002, various positions in sales, marketing, finance, and general management, Daimler

**What were some of the initiatives that were under way to lower costs and get your house in order?**

It was the full house: We really had to turn around every single stone. There was not much low-hanging fruit. That means you have to collect a lot of small pebbles in each and every area through a thousand initiatives. That is the biggest challenge in a comprehensive program. You have to align a thousand different work streams.

**How do you manage something that complex? Did you set up a program management office? Did you have a road map? How much discipline was there?**

There are three prerequisites to a successful program. First, certainly you need a program management office. You need full-time people dedicated to push the process and to keep top management informed in an unbiased way and without fear of retaliation. Second, you need the commitment of the whole company. That starts with the tone at the top and has to be ingrained in every management level of that company. Third, you need a measuring system. You need a kind of IT tool that helps you track those thousand different measures and then rolls them up comprehensively.

**You talked about the change effort really having to start at the top. When you thought about your role as CEO, how did you think about what you engaged in and what you did not—or would not—engage in?**

I should never be engaged in developing single answers for single topics. I have to create a noble cause. I have to live that noble cause. People have to believe me.

**Did the senior team come on board to share the vision of what you were trying to achieve quickly? How did you get them on board?**

It's pretty easy to win people over. Ninety-nine percent of people want to be successful. If you tell them how they can be successful, they want to be successful. You have to show them when they are successful. If you create that culture, you get the benefits from it.

**I also heard that you delayed the organization, meaning that there are now fewer people between**

**you as the CEO and a frontline employee. You collapsed the organization. Why did you do that? What is the value that you're seeing from having done that?**

Big organizations grow organically. You always add; you never take away. There's so much inherited power and so many levels, and there's always a good explanation for why the situation is the way it is. It is a good exercise, from time to time, to question every single position.

**How did you engage with the organization more broadly? I know there were cycles. Daimler Trucks was in a trough when you took over; things are getting better now. It's a tough journey for employees, how did you engage them? How did you communicate with them?**

First, everybody was always informed about where the program stood. What is our fill rate—are we at 100 percent? Are we at 80 percent? Everyone knew about the different implementation levels. We communicated them openly to everybody.

Second, everybody knew what his part was in that whole thing. Everybody in the company was involved in one of our work streams or initiatives. Employees always knew they were part of a greater effort—one important part. They knew that if they failed, we might not reach our target.

**You talked about a role for everyone in this change effort. How did you balance that with the day-to-day business of delivering good customer service and making good trucks?**

We were lucky that the crisis took so long. At a certain point in time, I thought that if the market went up, everything would become terribly difficult, since the need would no longer exist to hurry up and to get things right. And, on the other side, the requirements from the customer to ramp up production would have been so big that we might have lost focus. But in this sense—only in this sense—we have been lucky.

**So the old expression “A crisis is something you never want to waste” applied?**

I should never be engaged in developing single answers for single topics. I have to create a noble cause.

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Absolutely, we haven't wasted a single month.

**If another CEO were sitting in my chair and were about to launch an effort like the one you launched a couple of years ago, what would you say?**

You lose if you don't lead. You have to give to your people a market vision. What do you want to achieve once you have your own balance sheet—your house—in order? Just having a good return in sales or just having a nice key performance indicator does not ultimately motivate people.

# Uniting United Way

Brian Gallagher  
President and CEO, United Way Worldwide

United Way, founded in 1887, has grown to become one of the world’s largest charitable organizations. When Brian Gallagher took over as chief executive of United Way of America in 2002, however, the organization was at a crossroads.

United Way had become more of an engine to raise funds than a driver of community impact. It faced stiff competition from single-cause nonprofit organizations that appealed to groups of donors focused on specific issues. Growth had slowed, and public confidence in United Way had been shaken in the wake of a scandal.

Gallagher addressed these challenges by going back to the basics. He started by questioning the mission and purpose of United Way: was it to drive community impact or to fundraise? And then he steered the organization toward community impact. “We are in the business of changing people’s lives,” he said. “Fundraising is a strategy.”

Armed with this cause, Gallagher was able to garner support throughout the organization to improve transparency and accountability across his affiliates. He also focused United Way on the critical issues of education, financial stability, and health, and he set ambitious, measurable goals centered on those themes.

In 2009, Gallagher was named president and CEO of United Way Worldwide, a federation of 1,800 local United Ways that are located in 45 countries and ter-

ritories, are supported by 2.5 million volunteers, and raise more than \$5 billion annually from 11 million donors.

Steve Gunby, a senior partner and managing director of The Boston Consulting Group, recently talked with Gallagher about United Way’s transformation.

**You have been committed to United Way for many years. When you took over as CEO, how did you recognize the need for a transformation?**

My sense was that we had forgotten how to create value. We had forgotten how to connect with donors as customers and how to combine community interests and corporate interests because we were so focused on raising money in the workplace using a monopoly position. We had lost where north was. Especially those of us who were raising money and interacting with donors knew intuitively that we needed to make a shift.



**BRIAN GALLAGHER**  
Born in Chicago, Illinois  
Year Born: 1959

**Education**  
2003, Honorary doctorate of humanities, Ball State University  
1992, Master’s degree in business administration, Emory University  
1981, Bachelor’s degree in social work, Ball State University

**Career Highlights**  
2009–present, president and CEO, United Way Worldwide  
2002–2009, president and CEO, United Way of America

1981–2002, various positions at local United Way affiliates in North Carolina, Pennsylvania, Rhode Island, and Georgia, rising to president of United Way of Central Ohio

**Outside Activities**  
Board member, Independent Sector

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**So you felt it intuitively. That does not necessarily mean that the entire organization felt it intuitively.**

That is right. We had a big scandal at United Way of America in 1992. The CEO went to jail for a number of years. And the organization, as a movement, went adrift. If that had not happened, it would have been much more difficult to create dramatic change when we did.

**Part of the transformation involved changing the business model. What changed, and why was the change necessary?**

It started with two things. The first was the conditions in which people were living. About 35,000 new nonprofits were being created every year in the U.S., and yet, if you looked at education or financial stability or access to health care, those issues were not improving. Second, if you looked at our business model, folks were going around us or through us to get to their favorite nonprofits. And so we had to go back and say, “What value do we actually have? What do we bring?”

When we ask the American people, “What do you value about United Way,” they tell us, “You are not oriented toward special interests. We like the fact that you focus on the common good.” What we had to do was go from understanding the common good to developing the platform that creates opportunities for people to have a better life. And that’s what got us focused on education, income, and health.

If you go back 100 years, the most pressing issues were education, income, and health. If you look at the United Nations’ Millennium Development Goals, the top issues are education, income, and health. It is always education, income, and health. It is just the environment that changes.

For the first time in our history, we reached agreement among local United Way affiliates to set goals in each of those three areas. Our goals are to cut in half the dropout rate in high schools in the U.S., increase by 2 million the number of families who are financially stable, and increase by 2 million the number of young people who are living healthy lives and avoiding risky behavior. So we moved from a vision focused on the common good to a

platform built around education, income, and health; then we moved to goals, and, now, to an agreement on strategies. This has allowed us to go to our partners—government, foundations, corporations, individuals—and connect them to those strategies.

**So you had an organization that was at least willing to change. Maybe there was a latent need for change. You still had to actualize that. You still had to reach down and get it and bring it to the surface. How did you go about doing that?**

We are in the business of changing people’s lives. ...And so we aligned around purpose.

We started with mission and purpose. For a year before I came into the job, I had the opportunity to be a part of a group of local

United Way professionals and national volunteers working to understand the environment in which United Way operated. Of the 1,400 United Way affiliates across the U.S. at the time, half thought they were in the fundraising business, and half thought they were in the community impact business.

We were completely divided, but my sense was that almost everybody wanted to get back to community and social change. So the first thing we did was drive toward that mission and get agreement. And it came incredibly quickly.

We are in the business of changing people’s lives. Fundraising is a strategy; everything else is a strategy. And so we aligned around purpose. The second thing we had to do was get our arms around our operations. We were too decentralized; there was too much autonomy in local United Ways. We were having too many ethical and operating issues.

**You inherited a team. You inherited a culture—both here in the corporate headquarters but also with affiliates. It sounded as if people were ready for change. But that does not always mean people have exactly the right mental map or the right tools, or even the right skills. How did you think about that and create the team that would help you get the changes made?**

It was clear to me that we needed both people who had United Way experience and those who did not have United Way experience. I have a lot of United Way experience. So for my senior team, I needed folks around me working in key areas that I do not understand.

We got the right finance people. We brought the right people in on community impact. I recruited a young man from Grand Rapids, Michigan; he had been running the United Way there. He is now the CEO of the United Way for the metropolitan area of Detroit, and he is just tearing it up. But the point is, I put together the team by looking inside and outside the organization.

Transformation is a revolutionary idea. If an approach is truly transformative, it will be executed over time. Anyone who is thinking about making a big change wants it to go fast, but sometimes it does not go fast. Talent is one of those things. If you want to win in the long term, then you have to take a long-term view of talent and culture in order to build what you want.

**You rallied people around a new vision, around community impact. You changed some fundamental operations in the business, including accountability and governance. You changed the team. You put in place some longer-term cultural changes. Now you are in year ten. How do you sustain that energy and that momentum over an extended period of time?**

The best corporate leaders I have ever seen understand that everything happens on the ground. Value gets created on the ground. The way that you sustain value creation is making sure that you do not centralize things to a point that you just suffocate innovation.

**If you were sitting across the table from a new CEO, what one, two, or three lessons would you share?**

I would start by saying to them: Understand your environment. Take the time to know the organization's history, know the industry's history, and know the national and global history as it relates to your organization.

Be really open about what value you are creating and not creating because sometimes we get enamored with what we used to be. And sometimes we get blind to what is really not creating value any longer—and to what *could* create value in the future.

Your field of vision has to be really wide, and you have to be open to the need to take risks. You have to be flexible and adjust as you go. There are not any full stops anymore. There are just yield signs along the way occasionally.

# Pausing to Recharge

Chanda Kochhar

Managing director and CEO, ICICI Bank

**I**n May 2009, when Chanda Kochhar ascended as CEO of ICICI Bank, the world economic crisis was in full swing. The institution, India's second-largest bank, had previously experienced rapid growth but now required rapid change. Kochhar quickly launched a transformation to rebalance the bank's mix of loans and funding and to cut its operating and credit costs. These measures were designed to enable ICICI Bank to resume growth with a fine-tuned business model—indeed, Kochhar wants the bank to rank among the top 20 in the world.

Kochhar, who joined ICICI in 1984 as a management trainee and had been the architect of its successful push into retail banking, understood that she could not simply issue a new strategy and expect compliance.

Instead, she undertook a multipronged program and spent a large portion of her time explaining the new strategy to ICICI Bank's employees, investors, and regulators. Kochhar needed to convince employees—who were unaccustomed to consolidation—of the overall need for the changes; she also needed to demonstrate steady progress to regulators and investors.

To give employees and other stakeholders confidence that the transformation was moving forward, Kochhar built it around the achievement of regular milestones. But she also recognized that just hitting financial metrics can be a

grind, so she blended that discipline with a vision of how these steps would enable ICICI Bank to resume growth down the road.

This mix of short-term realism and long-term idealism gave employees the right combination of push and pull, allowing them to persevere through the consolidation and look to the future.

Janmejaya Sinha, The Boston Consulting Group's chairman of Asia-Pacific, recently talked with Kochhar.



**CHANDA KOCHHAR**  
Born in Jodhpur, Rajasthan  
Year Born: 1961

**Education**  
1984, Master's degree in management studies, Jamnalal Bajaj Institute of Management Studies  
1982, Bachelor's degree, Jai Hind College

**Career Highlights**

(Following positions held at ICICI Bank)

2009–present, managing director and CEO

2007–2009, joint managing director and CFO

2006–2007, deputy managing director

2001–2007, executive director

1984–2001, various positions, starting as management trainee and rising to head of retail banking

**Outside Activities**

Member, Prime Minister's Council on Trade and Industry

Member, US–India CEO Forum

Member, UK–India CEO Forum

Executive board member, Indian School of Business, Hyderabad

Member of the Board of Governors, Indian Council for Research on International Economic Relations

Member, Council of Scientific and Industrial Research Society

**You were appointed CEO in May 2009, bang in the middle of the global financial crisis. ICICI was facing some challenges of its own. What were your immediate priorities?**

The immediate priority was to realign the strategy of ICICI Bank to the new economic environment. This required conceptualizing, communicating, and executing the strategy.

Basically, we were saying, “Having come through a period of very aggressive growth in the past 20 years, let’s look at the next one or two years as years of consolidation.”

**What was your level of involvement? Were you able to delegate, or did you have to lead from the front?**

I think my involvement was essentially leading from the front. I spent a lot of time meeting people at various levels in the organization, explaining to them what the new strategy would be, why the new strategy was relevant, and what the logic was behind it.

I spoke to them about the three or four priorities that we had set out for a year or two, how they fit into a longer-term five-year positioning of ICICI Bank, and how they would actually position us for the next phase of growth.

The big lesson for me was that you have to always put the strategy in perspective. You cannot just dictate a strategy and say that this is what I want done.

**Did you have to affect the culture in any way—reinforce it, change it, or manage it?**

The culture is the basic DNA of the organization. And in my view, the DNA of the organization is not growth or consolidation. ICICI’s DNA and strong point have always been the agility and the ability of the team to execute a strategy. I think the team is very entrepreneurial and executes a strategy in a very dynamic and agile manner.

I think that the culture remained the same. We executed a growth strategy when the environment demanded that strategy. We executed a consolidation strategy, with as much finesse, when the environment demanded a consolidation strategy.

**One of the things that happens when you shift from growth to consolidation is that there is a slowing down of promotions, and the ebbs and flows in morale are more accentuated. Did you experience that? How did you manage that?**

Putting the strategy in perspective helped a lot. What we said was that while we are going to go through this period for the next one or two years—and we are going to consolidate and there is going to be no growth and there would be tightening of the belt—we are doing all this so that we become efficient. The goal was that two years later, when we started to grow, our ROEs [returns on equity] and ROAs [returns on assets] would be much higher. I think people saw that medium-term picture, rather than just the one-year picture, and that helped to keep morale stable.

To start with, you can only keep morale stable. But then gradually, as we started executing the strategy and people saw that the strategy could be executed and saw the results, morale started improving. I would say that the improvement in morale started happening even before the financial compensation came because people saw positive movement on the direction of the strategy.

**You were dealing with the employees, investors, customers, and regulators. Which was the hardest part? And where did you, as a leader, spend most of your time?**

It was as important to explain the strategy to the regulators as it was to explain it to the investors, analysts, and employees. So I would say that all the stakeholders needed my attention and needed to see the logic of the strategy.

It was important to go back to these groups almost every quarter and say, “This is what we had set out to do, and this is where we are in the journey.”

We had shown them a two-year path and also told them how we would gradually move toward it every quarter or six months. We were moving in that direction and moving pretty well. And that gave people the confidence to say that we could execute the strategy that we were talking about.

The big lesson for me was that you have to always put the strategy in perspective.

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**What would you identify as some of the key tenets a CEO must have in the twenty-first century?**

The pace of change in the twenty-first century is going to be even faster than it has been in the past. The ability of the CEO to foresee change and prepare the organization for the coming environment—rather than just coping with the existing environment—is very important for the success of an organization.

The next tenet that would be especially relevant for India is that as we keep growing at this fast pace, we have to rely on leadership that will be younger and younger. We are a young country. The pace of growth is actually faster than the rate at which our leadership is aging. As leaders, we will have to learn how to rely on younger and younger people: give them more responsibilities at a younger age, mentor them that much better, guide them that much more, and get them to handle more responsibilities.

**What advice would you give to a CEO?**

I think you have to find the right balance between being a visionary and making sure that execution takes place. What happens with most CEOs is that they go to one extreme. They are so visionary that their ideas sometimes don't transform into reality, or they get so involved in day-to-day matters that they don't allow their team to

breathe, or they themselves do not have the time to think of the next big step.

**Any other comments for CEOs?**

As you go up the chain, life is more and more lonely. It's very important to be in touch with grounded reality. I've always said that the best learning that I get, now that I have become a CEO, is when I spend 30 to 40 minutes at a branch. It's not in the ivory tower of Bandra Kurla Complex, where I sit every day. But if I really spend some time at a branch, I see how customers come in and how my youngest employees speak to the customers and deal with them. I think that is the best learning. It is always important to keep touching base with reality so that whatever you dream of has some connection with reality.

**How will you judge whether you are successful?**

That is really not for me to judge. I think it is for the next generations to judge. The only thing I would say is that I have created a vision for myself and therefore for my team and my organization. By global standards, we are a very small bank, maybe fifty-fifth in the global ranking. Can we aspire to become in five years one of the top 20 banks in the world? As of now, I just have that five-year vision. And then we'll set our aspirations as we go along.

# The Coles Revival

Ian McLeod  
Managing director, Coles

**I**n Ian McLeod's varied career, he has been the CEO of a professional soccer team—the Celtic Football Club—and Halfords, a company that makes car parts and bicycles. He also worked for Asda, a U.K. retailer, and Wal-Mart, which bought Asda. His latest role is chief executive of Coles, an Australian supermarket chain and retailer. He joined the company in 2008—at the bottom of its long decline in market share—and had to quickly start a massive transformation of operations and attitudes.

The overall Australian supermarket field is dominated by Coles and Woolworths and was woefully behind the times when McLeod arrived. Store formats were outdated and consumers complained about spoiled produce. Australia is larger but less densely populated than continental Europe, exacerbating the difficulties of a turnaround.

McLeod quickly applied many of the lessons he had learned in his prior jobs: the need to listen to, communicate with, and praise employees and to impose tough but realistic short- and medium-term goals.

Fortunately, Wesfarmers, the diversified company that bought Coles in 2007 for nearly \$20 billion, recognized that transforming a business as large as Coles, with some 2,200 outlets, would take some time.

Earlier this year, Coles reported its tenth consecutive quarter of comparable-store sales growth—a sign that, halfway through, the transformation is starting to take root.

Andrew Dyer, a senior partner and managing director of The Boston Consulting Group, recently talked with McLeod about the transformation of Coles.

**Could you share your history at Asda and how that prepared you for what you are doing now?**

The actual experience was terrific. I was with Asda for 20 years. I was there when they were a great organization. I was there when they were going through the decline. And I was there during the resurrection and the purchase by Wal-Mart.

I was there through the whole roller-coaster journey. It gave me experience with what was good about retail but also how to get out of challenges when they hit. I was able to observe some of the changes needed to ensure a successful turnaround. One of the biggest parts is engaging and motivating the people who work for you, as well as having an effective strategy.



**IAN MCLEOD**

Born in Oban, Scotland  
Year Born: 1958

**Education**

1999, Advanced Management Program, Harvard Business School

**Career Highlights**

2008–present, managing director, Coles (a supermarket, liquor, and convenience division of Wesfarmers)

2005–2008, CEO, Halfords Group

2003–2005, COO, Halfords Group

2001–2003, CEO, Celtic (the public company that controls the Celtic Football Club)

2000–2001, chief merchandise officer, Wal-Mart Germany

1997–2001, managing director, Asda operating division

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**In your first couple of weeks, you consulted broadly across the organization. You went into the stores and met the leadership team. Could you give us some insight into how that helped you set your agenda?**

Part of that is to understand what is going on at the shop floor, but part of it is symbolic too. I went out into the stores and talked to a number of store managers about how they were feeling about the organization—where they would like to take it and how they would like to improve.

I had done quite a lot of homework beforehand and made sure that I understood what best practice was in retail around the world and had thought about a clear strategy for how we might evolve and create change. But first and foremost, I wanted to meet people and let them get to know me, what made me tick, and what kind of characteristics and traits I like to see throughout an organization—and also those that I did not like. I wanted to make sure they had some understanding about me and what motivated and drove me—and what I was expecting of them, too.

**After forming your initial views, I understand that you laid out a five-year plan. Could you share a little about the key milestones and what that involved?**

You have to recognize that so many different things have to be changed within the organization. We developed a plan that was broken into three phases across a five-year time frame: building a solid foundation, delivering consistently well, and delivering the Coles difference.

Those three phases gave us benchmarks that both outlined how we were going to migrate over time and measured how effective we were being.

**How have you managed to juggle the priorities of short-term profitability with setting up the business in the medium term and investing for that medium-term outcome?**

Wesfarmers paid almost \$20 billion for the organization, and there's an expectation of a return for that money. But Wesfarmers is a patient owner and recognizes that it is going to take time to turn this business around and is, therefore, fully supportive of the plans we put in place.

You are planning for the future in terms of building change, but you also have to make short-term changes in order to make sure you get some improvement in returns almost immediately. That is what we did, particularly in relation to sales, because it was going to be a sales-led turnaround.

We drove hard at improving our performance in terms of the offer in order to make sure we got more customers through our doors early, which gave people some early indications of success. That gave encouragement that we would do even better in the future.

**Transformations often require their leaders to think long and hard about their teams. Could you tell us how you thought about building a team that was going to help you deliver the transformation, and how you engaged broadly across such a diverse organization?**

What's important is that we put people in here who could hit the ground running. They had the right level of skill, experience, motivation, and energy in order to effect change quickly. Given the acquisition, I was able to effectively handpick my senior management team. It was important for me to have individuals who were of like mind in terms of what needed to change. But we have a balance between international recruitment and home-grown expertise. I think that is very important when you are going into a new market.

**Today's your third anniversary in the role. The results that have been achieved are quite remarkable. Will you share with us your views on how you're going to sustain these results?**

The first thing to say about the turnaround is that it is incomplete. We are very pleased with the progress we have made. But we know that we still have a significant way to go.

The challenges that we face really are turning Coles around. A lot of what we have been focusing on is getting our customers back. You have to bear in mind that the company was effectively in decline for 20 years. And during that period of time, it lost a lot of customers. It lost a lot of market share.

This is about Coles versus Coles rather than necessarily any one competitor. The focus is very much on delivering better value for our customers. And ultimately that means that we will gain share in this marketplace.

**And as you reflect on the last three years, are there any milestones or tipping points that stand out for you in what has been achieved?**

When I arrived here, I looked at the marketplace and felt that the store design was probably 20 years out-of-date compared with other markets. I felt there could be a significant improvement in how we presented ourselves to the customer. And that was not just Coles. That was the market in general. Taking ideas about best practice in the U.S., continental Europe, and the U.K. and blending them into the store environment in Australia within four months of arriving—that was quite exciting.

**And if you were asked by a CEO who had stepped up to lead a transformation, as you did, what would your advice be to him or her?**

You have to give people motivation for change. We are the kind of individuals here who are never satisfied that we are doing enough. We are always looking to improve even further. One of the values we set in the business is that we constantly strive to do better. Sometimes, in that environment, you are so focused on improvement and doing better that you forget to give people the acknowledgment they deserve for the efforts they have made.

That is something that I would always recommend. Make sure you give credit where it is deserved. You have to balance giving too much credit and declaring victory too soon against managing expectations for the future. But it is probably too easy not to acknowledge often enough the great work that people are doing.

**Could you share with us some of your general thoughts about leadership?**

I was in the fortunate position to work for Wal-Mart for two or three years and had a meeting one day with [former CEO] Lee Scott. He offered me a piece of advice, which was just to remember to be humble.

It is something I have never forgotten. Hopefully, that is something I can carry out here. If you can connect with your team members—regardless of what job they are doing—and if you can convince them that what you are saying is something that you believe in yourself, then they can have faith in it as well. If you can get some early successes on the board that give further encouragement, you can then start to create some momentum. That is about generating early successes that make people ready for the long march, because five years is a long time.

We are just halfway through that journey, and we have more to do—but we have people who believe that the turnaround can actually be achieved. Before, it was hope. Now it is becoming reality.

You forget to  
give people the  
acknowledgment they  
deserve for the efforts  
they have made.

# Nonstop Transformation

Hiroshi Mikitani  
Chairman and CEO, Rakuten

**R**akuten, the largest Internet company in Japan, has been on the move since its founding in 1997, expanding from e-commerce into finance, travel, online content, and ownership of professional sports teams. Not satisfied to operate solely within Japan, Rakuten has also leapt into China, the U.S., and Europe through a series of acquisitions and partnerships.

In the last year, Rakuten acquired Buy.com in the U.S. and PriceMinister, the most-visited e-commerce site in France, and opened an online shopping mall in China with Baidu, China's search-engine giant. In order to achieve its goal of becoming the largest global Internet player, Rakuten is certain to have more acquisitions in store.

Transformation, in other words, is a way of life at Rakuten, which was founded by Hiroshi Mikitani, a former investment banker at the Industrial Bank of Japan, now known as Mizuho Corporate Bank. As Rakuten expands globally, Mikitani understands that senior leaders cannot directly oversee every outpost and new initiative.

Rakuten has developed a core set of management and cultural practices that it expects all businesses to adopt. By 2012, for example, the company will require all employees to be English speakers. It also tries to cross-pollinate best practices across borders and businesses. But otherwise, Rakuten lets local managers manage.

David C. Michael, a senior partner and managing director of The Boston Consulting Group, recently talked with

Mikitani about his philosophy for leading a company that is a study in transformation.

**How has your own leadership style evolved as you have gone from leading a start-up with a very small group of people to leading a truly global corporation?**

I don't think I have changed much. I'm sticking to basic practices: managing objectively, facing the truth as much as possible, encouraging people, encouraging people to take on challenges instead of blaming them for mistakes, and trying to be as fair as possible.

**How do you balance your own time as CEO? On the one hand, you are continually looking at deals and new investments and partnerships. On the other, you have a massive operation to manage.**

We have many types of business—e-commerce, travel, finance, online content, and ads. I cannot have hands-on involvement everywhere. I pick a couple of important projects on which I can be reasonably hands-on. For other businesses, I monitor the key performance indicators



**HIROSHI MIKITANI**

Born in Kobe, Japan  
Year Born: 1965

**Education**

1993, Master's degree in business administration, Harvard Business School

1988, Bachelor's degree, Hitotsubashi University

**Career Highlights**

1997–present, founder and CEO, Rakuten (and chairman since 2001)

1996–1997, founder, Crimson Group

1988–1996, investment banker, Mizuho Corporate Bank

and the big-picture strategy. But I try to delegate the details as much as possible.

**Certainly, people must be key. How much time do you spend on people issues, and what does it take to attract the talent that you have?**

Obviously, a sense of respect is important. The compensation package is very important too, but that is not all of it. Fostering ownership of the business and creating a sense of team are also very important.

**You have embarked on globalization. You have joint ventures in China, and you have made some major acquisitions in the U.S. and Europe. How has that changed the company, and how do you manage those new challenges?**

We are trying to stick to our original way of managing. While the corporate language is moving away from Japanese, and English is becoming our corporate language, I think our basic framework is the same.

**How do you ensure that?**

We took the core components of our management—the corporate culture, our brand concepts, and our basic practices—and put them together into a corporate philosophy. We translated that into Chinese, English, and French. We tell managers to follow the basic framework and the foundation of our corporate practice. Beyond that, I am trying to give management as much freedom as possible. It is a little bit different from most American IT companies.

**You are operating in an industry that changes incredibly quickly—we see the iPad, social networking, and so many other rapid developments. How do you keep the organization moving at the right speed? And how do you maintain the right level of innovation?**

What we have been doing is sharing expertise across different businesses and countries. For example, if Rakuten Securities does something unique, we basically transplant those activities into other businesses. Although we are in many different businesses, most of the components are the same: Web technology, Web marketing, and databases. There are so many things that we can share. My man-

agement style is to enhance communication across business units at all levels—not just the management levels—as much as possible.

We can take the best practices within the organization and transplant them. If I see something going on in one country, we can transfer that to other business units. This is what we call in Japanese *yoko-gushi*, or horizontal penetration. We also call it *yokoten-kai*, meaning that we transfer one model to another business unit. And now we're going to do this globally. We are trying to export our expertise to the U.S. and Europe and to learn from our European business as well.

**You are embarking upon such dramatic change. What is your vision for where you would like Rakuten to be five years from now?**

We would like to create a company with a very high level of corporate management and an organization that will enable us to compete against any company. We need to be very careful not to lose our core values, and that will lead us where we need to be. Obviously, we have very concrete target numbers, but those targets may or may not be met. The numbers are results, not our goals.

**In your travels around the world, certainly, you have gotten some sense for the dramatic changes in the business environment overall. Could you comment a bit on what you see as the biggest challenges for CEOs in the next ten years?**

In the IT industry and maybe more generally, consolidation is going to happen. You need to think about whether you want to be the acquired company or whether you want to acquire somebody. You need to think about whether you will embrace various styles and cultures or whether you want to enforce your culture in other companies and countries. Our style is that we try to respect the culture of the company we acquire. Even if we build our own business, we try to respect the regional management as much as possible. We want our companies to keep our very basic practices, but many other companies try to force their style and the use of the same brand. Sometimes it works; sometimes it does not.

Globalization will accelerate, and it will be very challenging.

We took the core components of our management...and put them together into a corporate philosophy.

# The Four Ps of Transformation

Christopher J. Nassetta  
President and CEO, Hilton Worldwide

**C**hristopher J. Nassetta joined Hilton Worldwide in 2007, shortly after Blackstone Group purchased the global hospitality chain for \$26 billion and just as financial markets worldwide—and hotel occupancy rates—were starting to plunge.

Nassetta inherited a loose federation of well-known brands—such as Waldorf Astoria, Doubletree, and Hampton Inn—amassed largely through acquisition. He quickly set out to create a company unified by a common culture and emphasis on performance, brand expansion, and international growth. These four themes had emerged consistently from discussions he had held with employees while he toured numerous Hilton hotels during his first few months on the job.

Despite the near-term pressures facing him, Nassetta focused on the strategy and supporting platforms needed to drive long-term growth. In order to fund his growth aspirations, he removed layers and duplication in the organization. These changes not only generated cost savings but also improved alignment, accountability, and responsiveness across the organization.

Like most CEOs who lead transformations, Nassetta made wholesale changes to his senior leadership team. It is tough to lead fundamental change, he concluded, unless all the top leaders are excited to be on the journey.

Collectively, these moves have started to pay dividends. Occupancy rates and room rates are rising, and the international expansion campaign is in full swing. In 2010, for example, 73 percent of the Hilton hotel rooms under construction were located outside the U.S., up from 11 percent in 2007. Many of these rooms are in fast-growing developing markets.

Steve Gunby, a senior partner and managing director of The Boston Consulting Group, recently talked with Nassetta about the successful transformation of Hilton Worldwide.



**CHRISTOPHER J. NASSETTA**

Born in Arlington, Virginia  
Year Born: 1962

**Education**

1984, Bachelor's degree in finance, University of Virginia  
McIntire School of Commerce

**Career Highlights**

2007–present, president and CEO, Hilton Worldwide

2000–2007, president and CEO, Host Hotels & Resorts

1997–2000, chief operating officer, Host Hotels & Resorts

1995–1997, executive vice president, Host Hotels & Resorts

1991–1995, cofounder and president, Bailey Capital Corporation

1984–1991, chief development officer, The Oliver Carr Company

**Outside Activities**

Chartered financial analyst

Director, CoStar Group

Member, Federal City Council

Various positions, Arlington Free Clinic

Director, Wolf Trap Foundation for the Performing Arts

Member, McIntire School of Commerce Advisory Board

Vice chairman of the corporate fund, John F. Kennedy Center for the Performing Arts

**You came off of this extraordinarily successful transformation of Host Marriott, and you were recruited to become CEO of Hilton—a company with a 90-year history and iconic brands. How did you know it needed a transformation?**

Where I learned the most, not surprisingly, was talking to our people. In my first 90 to 120 days, I literally circumnavigated the globe. We are in 84 countries around the world, and we employ 135,000 team members—that’s a lot of people to talk to. Obviously, there was no way that I could talk to 135,000 people.

People were practically screaming from the company’s rooftops around the world, very consistently, that we needed to really transform this company in a major way. Most of the people shared a very consistent view, interestingly, on what this transformation needed to look like.

**When you came back from your time in the field, what did you think the company needed?**

There were four key priorities on which this company needed to focus. First and foremost, we needed to focus on aligning the culture in our organization. That was foundational to being able to do anything else.

Second, we needed to have a much more intense focus on our performance, optimizing it across the entire enterprise.

Third, while we have ten terrific brands and very strong engines that drive revenues into those brands, it was clear that there were opportunities to strengthen our brands and to expand our family of brands.

Fourth and finally, it was really clear that there was an opportunity, if we could get the first three things done properly, to really expand our footprint, particularly in the international arena.

**Let us start with the first of the priorities, which was culture. When you got to Hilton, you were quoted as saying that it was like “getting into a boat with oarsmen rowing out of sequence.” Say some more about that.**

In my first 90 to 120 days [as CEO], I literally circumnavigated the globe.

There was great consistency in terms of people wanting change in the company and what the transformation would look like. But that is where the consistency ended.

Our company, while it has been around for almost 100 years, was really put together in its current form by mergers and acquisitions. We had six or seven different companies that were reasonably siloed. They were doing good work but operating without alignment and without a consistent vision, mission, or set of values. There were no key strategic priorities to ensure that everybody around the world knew who we were, what we stood for, and where we were going.

When I talk about our four key priorities, I sing it from the mountaintops—all the time, everywhere I go—so that people will know that what we want to do as an organization is channel our energies more to get those things done over other extraneous things that might be good but are not going to be as helpful to us over the long term.

Our founder, in the 1940s, coined a phrase: “to fill the earth with the light and warmth of hospitality.” Everything we do—whether it’s in our accounting department or our legal department, whether it’s in our brand groups or on the frontline with the housekeepers—is all about serving our guests and all about providing exceptional guest experiences. And if we all do not rally around that cause, we will ultimately fail as a business because that is what we are here to do.

**Sometimes people use a lot of other levers to influence culture—a unifying vision and communications can be part of it. Sometimes people decide that organizational change is necessary and people change is necessary. Did you use any of those tools, or was vision by itself enough?**

We used all those tools. Because of the way the company had been put together through mergers and acquisitions and because of the lack of integration among these various silos around the world, it became clear that changes in senior management needed to occur in order to get the entire global organization energized around the transformation.

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The net result was very significant change in the makeup of the senior management team. Of the top ten people—what I would call my executive committee of the company—every employee but one is new—a 90 percent changeover. Of the top 100 people, more than 50 percent are new.

We had layer upon layer of duplication in all sorts of roles—and many more layers of decision making than we needed. It just slowed us down. We just were not competing in the marketplace as effectively as I thought we could, and certainly as we have proved that we could.

**Sometimes people delay because they see it as an essential element of changing the culture of an organization, making it more nimble. Sometimes they do it actually for cost reasons, to fund the journey. In your case, which was it?**

It was clearly both. We had a cost structure that was bloated, and we needed to do something about it. But we had the added benefit of becoming a lot more effective.

**It would be great to talk about the growth aspirations that you are helping the company achieve.**

We created huge efficiencies, which we've talked about already, as part of our transformation restructuring. We took a significant component of those efficiencies and those savings, and we redeployed it to development resources around the world, to technical-services resources, and to the building of our engines and our sales forces so we could perform and deliver.

**I think I have read that you have opened up more hotels since you became CEO than Hilton had opened cumulatively in its previous history?**

Yes. Since I got here, we have opened well over 800 new hotels.

**How have you kept people motivated through the ups and downs of the transformation and the ups and downs of the economic cycle?**

It is all about alignment, communication, and ultimately leadership—leadership from the senior management of the company so that people know and are confident that you are heading to a better place and that you are being thoughtful about the strategy of the company.

You have got to be persistent...change is hard, and the natural human condition is to avoid change.

**A lot of new CEOs come into an organization and feel the need to transform it. Based on your experiences, if you had one piece of advice to give a new CEO, what would your advice be?**

The Four Ps. You have got to have *passion* for what you do, because it's a lot of hard work. You have got to be *persistent*, because change is hard, and the natural human condition is to avoid change. You have got to be *patient*, because it takes time to get this done, and you cannot have a cultural revolution overnight. It takes years and years to get it right. And then probably *Pepto-Bismol* because there are good days, and there are bad days. Fortunately, there are a lot more good days than bad, but you do need some antacid every now and again.

**As you look forward into the twenty-first century, do you think companies will have more or less need for transformation?**

I think of the next decade or two as being different from what we might have seen 10, 20, or 30 years ago. I call it the *age of empowerment*. In big global companies that are far-reaching geographically and have functional or matrix structures, no one person or small group of people can ultimately know enough about what is going on to manage every detail effectively. Those organizations that are able to push decision making throughout and effectively empower their people structurally and geographically to advance the corporate priorities will succeed and outperform those that do not.

# Behind All Financial Failures Is Organizational Failure

Archie Norman  
Nonexecutive chairman, ITV

**A**rchie Norman has seen turnarounds from all sides now. Since he became finance director of troubled Kingfisher (then Woolworth Holdings) in 1986, Norman has been on a mission to rescue struggling companies. Most famously, Norman joined Asda as chief executive in 1991 and sold the U.K. retailer to Wal-Mart Stores eight years later, rewarding shareholders with an eight-fold return.

Norman is now a key advisor to Wesfarmers on its turnaround of the Coles supermarket chain in Australia and serves as nonexecutive chairman of ITV, the main broadcasting competitor of the BBC. He served as a member of U.K. Parliament from 1997 to 2005.

Norman is not one of those turnaround specialists who engage in financial tricks to flip a company for a quick profit. Instead, he sees turnarounds as long journeys, requiring years of steady management and leadership, and he cites the early days of a transformation as possibly the most important. At Asda, Norman formed many of his ideas about reinventing the layout and make-up of stores, focusing on everyday low prices, and reinvigorating growth from employees.

Grant Freeland, a senior partner and managing director of The Boston Consulting Group, recently talked with Norman about the lessons that this leader has learned while turning around companies.

**You have been involved in multiple transformations. I am sure there is no magic formula. But what are some of the characteristics of the approach that you take?**

The first thing to realize is that there is not a magic formula. If there were, turnarounds would be kind of easy, and we probably would not be having this conversation. The second thing is that most turnarounds do not turn around. Companies do fail, often for good reasons. The first tip is this: make sure that you are going into a situation where the heart is still ticking and there is still a reason for that company to exist.

A failing company needs direction and a firm hand on the tiller. But as the new leader, you probably do not



**ARCHIE NORMAN**

Year Born: 1954

**Education**

1977, Master's degree in business administration, Harvard Business School

1975, Master's degree, University of Cambridge

**Career Highlights**

2010–present, nonexecutive chairman, ITV

2009–present, advisor, Wesfarmers

2006, founder, Aurigo Management

2002–2005, chairman, Energis

1997–2005, member, U.K. Parliament

1996–1999, chairman, Asda

1991–1996, CEO, Asda

1986–1991, finance director, Kingfisher (Woolworth Holdings until 1989)

1979–1986, consultant and partner, McKinsey & Company

**Outside Activities**

Trustee, Cystic Fibrosis Trust

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know exactly what to do on day one. So you have to set a degree of direction and a broad sense of purpose because the defeated army needs to know which way to march.

At the same time, give yourself time to listen. Listen to the river. Listen to the frontline. If it is a retail company, wander around the stores. Talk to the people who run the stores. Talk to the checkout operators.

Understand the DNA of the company and what—culturally—led it to be in a failed situation. Behind all financial failures is organizational failure.

**I have heard you talk about the hard side of change, the economic side. And you have written a lot about the people side, the need to get an organization working. What does that actually mean in practice? How do you get an organization to function?**

The two go together. What is really dangerous is to get the things in the wrong sequence. In any failing company, there's probably going to be some hard stuff you have to do. You're probably going to have to do something about the cost base. You are probably going to have to sell off some assets.

When I was at Asda, we had to make 5,000 people redundant—1,300 on one day—and close all our vertically integrated meat operations. We had to have a wage and salary freeze from top to bottom in the company. We had to sell the forward pipeline of stores. We did not open a single store for three years. We sold our growth because we needed the money. And it was very important to do that in the first year.

I believe people will follow you anywhere as long as they believe that there is a sense of purpose, that there is a journey plan and a sense of destination that eventually they will arrive at a sunny outpost. When I went to Asda, within three or four months, I went to see the shareholders first, then I went to our own people—our colleagues in the business.

We did not pull our punches. The tougher we were with the people—the tougher we stated the problem—the more they said, “Yes. That is what we think. That is what we have been feeling for years. And thank God some-

body has come here and recognized the problem. And now we are going to get to grips with it, and we'll get behind it.”

**If you have to do the hard economic side and the people side, can one person do both, or do you need to have a team with some people who are maybe better at the “softer” things and some people who are better at the “harder” things?**

Understand the DNA of the company and what—culturally—led it to be in a failed situation.

It is important to have people who are great at communicating and great at delivery. But most turnarounds are not delivered by real teams. Almost all the chief executives I talk to say, “I have a

great team. I have a team of 12 people.” They are not teams. They are 12 people who report to the chief executive.

A real team is relatively rare. If you create one, it is really powerful. But it is going to be three or four people who are very close to one another. Nothing runs smoothly in business. You are very lucky if it does. In a broken company, you will have crises. In the crises, if you have three or four people at the top—people who can go to one another and say, “I think I made a mess. Can you help me out?” without fear of retribution or criticism—that can be very powerful. But it is unusual, and it is not the way most chief executives work.

**The three or four core executives you describe, would they typically come from outside the company, or would they be already there?**

My general rule in broken companies is that people changing means changing people. So typically, among the top 200 executives, 70 to 90 percent will change.

You want to go in there and obviously motivate the people who are there even if they are not going to stay. But you do not have ten years. You have one or two years. You have a burning platform. New people with new energy and new attitudes enable everyone to move faster.

Recruitment of that team is everything. If you bring new people in, they define your success or failure. One of the early tasks for a new chief executive is recruitment. You are what you recruit.

**In the role of transformations, when you were a CEO, how did you think about your role? How actively were you involved in the change?**

If you come into a transformation as the chief executive, you carry the organization on your shoulders. There are no two ways about it. Leadership is a lonely place, and not always a happy place, either. You have to face up to that. When you come in, you probably do not have colleagues who will give you good advice. They may not support you if the going gets tough. But the organization is looking to you. The day I walked into the doors of Asda on December 10, 1991, 55,000 people wanted to know which way to march. They look to you.

You have to take responsibility not just for setting the direction and for putting a crow bar into the organization to change it. That means getting involved in extraordinary levels of detail. It is no good sitting in the boardroom with your feet on the table issuing instructions in a broken company. It is not going to happen. You pull the levers, and they come off in your hands. You need to get down in the engine room with your spanners and start changing things.

**Talk about employee morale. You have a vision at the start; people get excited about hearing the truth. I can see that lasting a year or so. How do you keep people motivated in the second, third, and fourth years of a transformation?**

It is not just about morale. It is about attitude. I want people to buy in, to see the necessity of what we are doing, and to say, “Yes, that’s right. We want the company to succeed, too. And we are going to put our back behind it, even though it is going to be tough.”

I am not asking them to think, “Whoopee, this is great.” I’m asking them to think, “Yes, this is right, and I want to make it work.” Attitude is what matters. “I am going to put in the extra half-hour and go the extra mile because I want this to succeed and I think it is the right thing to do.” That is what you’re looking for.

Stage one is going to be tough. You want people to buy into the logic of the project. As you start to perform, then

you can start to forge a new culture—a new sort of motivational spirit. But that does come later.

The culture you forge—and the way you express it—that is phase two, not phase one. If you start talking about new values, missions, and all these things in the middle of making people redundant, and all you are doing is branding your new values as having to do with misery and making people redundant, it will not work.

Time and place—you always need to have a sense of what is right to do, at the right time, and the right place. And then you will bring people with you.

It is no good sitting in the boardroom with your feet on the table issuing instructions in a broken company.

**I’ve heard a lot of CEOs talk about changing culture. How did you change the culture?**

You send signals that old patterns of behavior are simply not going to continue. You look for those 5,000-volt shocks that send a frisson around the whole company, and you get everybody talking and saying, “Wow, this leadership really means it. It really is different now.”

That process of fracturing the old culture, showing that old habits are unacceptable, and bringing in new people gives you a platform for change.

Once you have that platform and you have reasonable economic and employment stability for people, then you can start building a new set of values and a sense of mission and creating motivational models to bring people on board.

Line managers need to take responsibility for the attitude of their people. They should be measured on what their people think. It is not a popularity contest. But if you have people who have a bad attitude or who think that you do not treat them well, that is a problem.

At Asda, I could typically tell how sales would be going by looking at the morale and attitude surveys. If I see bad attitude, high turnover, and absenteeism, I know I have a problem with sales. People’s motivation is the input; sales and financial performance are the output.

**Do you have any advice for a new CEO about to launch his or her first transformation?**

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Most failing companies continue to fail probably because of some unavoidable shift in the marketplace that you cannot do much about. You have to really do your research and convince yourself that this can be done.

A lot of transformation is about what is happening deep in the company. It is about understanding the cultural habits that led to this failure. That is why getting people to come and just talk to you about it is very powerful.

It is also powerful because people will always say what an enormous energy release it was for them to meet the chief executive face to face early on: "And he did not just talk at us. He wanted to know what we thought." Every 10 people who talk to you will go back and talk to 10 other people, so you affect 100 or more people. And it will spread like wildfire.

**We are now in the second decade of the twenty-first century. Do you think that the characteristics of a good CEO or the needs for a good CEO have changed?**

Management has changed enormously. It has become more dynamic and much more leadership intensive. The personality of the CEO and his leadership qualities are now much more important. The days of hierarchy and sitting in the boardroom and barking at people are gone. You have to lead by personal force.

What I think has really changed now is that the chief executive has to be a great communicator. It is much more demanding. Everything has sped up. That is probably why chief executives do not last that long nowadays.

# An Appetite for Growth and Risk

Irene Rosenfeld  
Chairman and CEO, Kraft Foods

**B**efore Irene Rosenfeld returned to Kraft Foods as CEO in 2006, she wanted to be confident that the food company could be rescued from a relentless focus on cost reduction, especially in the areas of R&D, marketing, and advertising. Once Rosenfeld, who holds a PhD in marketing and statistics, decided that Kraft had potential to return to its glory days, she jumped—from a two-year detour at Frito-Lay—back to her former home company of more than 20 years.

Rosenfeld, who was number two on *Fortune* magazine's 2010 list of the most powerful women in U.S. business, set about quickly reenergizing Kraft's brands, such as Oreo, Jell-O, Maxwell House, and Philadelphia cream cheese. She introduced the "growth diamond"—a visual representation of how Kraft tries to improve its product line by promoting health and wellness, quick meals, snacks, and premium brands. She also set about to reenergize the culture that had become complacent under former owner Altria Group, a tobacco company.

After concluding that Kraft would need to build a greater presence in developing markets, she acquired LU, a French biscuit maker, and U.K.-based Cadbury. The Cadbury deal was initially opposed by the target's management and by Kraft's largest shareholder, Berkshire Hathaway. Undeterred, Rosenfeld pressed ahead because, in her words, the deal was the right thing to do. In recent months, she unveiled the next phase in the firm's development, the splitting of Kraft Foods into two compa-

nies: a fast-growing global snacks business and a North American grocery business with cash flow advantages.

Kraft's journey under Rosenfeld is not yet over, but the fruits of her efforts are visible in the company's improving financial performance. The company expects operating earnings per share to grow by 11 to 13 percent in 2011.

Michael Silverstein, a senior partner and managing director of The Boston Consulting Group and a BCG Fellow, recently talked with Rosenfeld about the transformation of Kraft.

**In June 2006, you came back to Kraft. What were you thinking?**

My first question as I thought about coming back was, "Can the company be saved?" I was very disturbed,



**IRENE ROSENFELD**  
Born in Brooklyn, New York  
Year Born: 1953

**Education**  
1980, Doctorate degree in marketing and statistics, Cornell University  
1977, Master's degree in business, Cornell University  
1975, Bachelor's degree in psychology, Cornell University

**Career Highlights**  
2006–present, CEO, Kraft Foods (and chairman since 2007)  
2004–2006, CEO, Frito-Lay  
1981–2003, various positions at Kraft Foods and General Foods, including president of Kraft Foods North America  
1980–1981, consumer research, Dancer Fitzgerald Sample

**Outside Activities**  
Member, Cornell University Board of Trustees

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watching from the sidelines what had happened to the company over the prior couple of years. I was worried about whether things had deteriorated to a point that the company could not be turned around. I spoke to enough people and did enough homework to convince myself that this was indeed the iconic portfolio that I had always thought it was. There were still some very talented people at the company. There was still an opportunity to turn it around. So my first thought was, “What is it going to take, and what do I need to do to get it going?”

**You started off with the message “Let’s Get Growing.” Why?**

The company had become maniacally focused on cost, to the exclusion of thinking about growth. So for me, it was both a call to action and, I think, a liberating idea for an organization that had been really battered and had lost its self-confidence. So I found that the idea of “Let’s Get Growing” really resonated with the population.

**You introduced the idea of the growth diamond. What was the growth diamond about?**

It very quickly became clear that our issue was not our categories. It was our participation within those categories. Consumers were eating cheese, they were eating meat, and they were drinking coffee. They just were not eating and drinking our brands in those categories. So the idea was really to take a look at what we needed to do to look for the growth opportunities within those categories.

The growth diamond was simply a visual representation of the megatrends that were going on. It was about trading up to premium products. It was about a focus on health and wellness. It was about a focus on convenience and snacks. That was the lens that we then used to reframe our categories and to make them more relevant and contemporary to our consumers.

**You have been fearless about changing Kraft’s portfolio—taking businesses out and bringing new businesses in. What gives you the confidence to do that?**

I felt pretty good about the fundamental categories that we were in. It became clear though that, even if we could

get those categories growing at a faster rate, we would not be a top-tier performer. We really needed a few more tail winds.

**By my count, you spent \$25 billion on acquisitions.**

We spent \$27 billion—about \$7 billion on LU and about \$20 billion on Cadbury.

**Did LU move Kraft into China and Cadbury move you into India?**

Cadbury gave us India and solidified our positions in Mexico. The neat thing about LU is that it gave us a beachhead in a number of the developing markets where

we were not particularly successful. I am really proud of this fact: The legacy Kraft business, before we bought LU, was about \$50 million in China in 2007. We just sold \$100 million there in the month of January 2011.

It’s a real testament to the power of finding the toehold, putting the right managers in place, and then building on that infrastructure. The combination of those two moves leapfrogged us into a whole new position. And that’s one of the reasons I’m so confident that we’re on a much stronger growth trajectory today than we were a couple years ago.

**One of the great things you have done is a cultural transformation. You have this string of phrases to describe it: inspire trust; act like owners; keep it simple; be open and inclusive; tell it like it is; lead from the head and the heart; and discuss, decide, and deliver. That’s the Irene I know. How did you come up with that?**

It’s fascinating. People read those, and they say, “That sounds like you, Irene. How does it pertain to the company?” The LU acquisition was the catalyst for the work we did on values. We had all these new employees who came into the company and said, “What is Kraft? Who is Kraft?”

We were in the process of evolving. So it was a terrific time to step back and say, “Who should Kraft be?” We spent time talking to employees around the world. We conducted focus groups. We held online chats. We talked to them about the characteristics of the companies that

We were in the process of evolving. So it was a terrific time to step back and say, “Who should Kraft be?”

they admire, the characteristics of a company they would like to work for, some of the strengths that they see in Kraft, and areas of opportunity.

We distilled that work down to the seven values. I found them to be incredibly powerful articulations of where we want to be. We are very clear that these are aspirational values. We are not yet where we need to be on most of them.

**When you think about doing a transformation, what do you use as your guidance?**

I think anybody who has been involved in a transformation typically wishes he or she had gone faster. I think that's the thing I hear most frequently. And there's always a challenge to figure out.

How fast is fast enough? I am reminded of a story that I heard Léo Apotheker from Hewlett-Packard tell. The Swedish parliament was contemplating changing the side of the road that Swedes drive on, from the left to the right. And there was a lot of controversy about it. They said, you know, this is a really big decision; let's not move too quickly. How about if week one, we have bicycles move over; week two, we have trucks move over; and week three, we will have buses move over? Then in the fourth week, we'll move over the cars.

I thought it was such a telling story about the reality of making cosmic transformational change. You have to move quickly to have all the pieces come together.

**If you were giving advice to a new CEO who was looking at her operating team, what kind of expectation should she have about how many operating-team members would remain with the company after five years?**

I don't know if have a rule of thumb with respect to numbers. I would say that I have a major criterion for operating-team members: Do they get it? Do they understand the direction that you want to take the company? It's pretty clear who gets it and who does not. The key is whether the leaders are on the bus. What I have come to understand is that if they're not on the bus pretty quickly, they are never coming. And you have to deal with it. The key is making sure you have the right leaders in the right

roles, and then the rest takes care of itself. That was a critical consideration of mine as I looked around at my own executive team.

Over the first two years, I actually replaced almost half of those top two levels of management. It made a profound difference. When you have people who are like-minded, who are thinking new thoughts, and who are in line with the directions that you're trying to take the company, the rest of it happens far more naturally. There is only so much that the leader of the organization can actually do. I can make all the pronouncements I like. It's those moments of truth every day that the employees experience with their im-

mediate leaders, and so for me, it's all about the people.

**So you've been able to move Kraft from the bottom quartile to the top quartile in terms of performance. What is next for you? What is next for Kraft?**

What is next for Kraft is to continue to perform at a high level. It has been a long time coming, and it is going to take us a while before the market stops thinking that what we just did is a flash in the pan. So our focus now is sustainably performing at that higher level, but I have every confidence that we have the right people, the right tools, and the right portfolio in place.

I am going to just breathe for a while. I am looking forward to just watching it play out.

**Some people say you are fearless. Are you fearless?**

No, but I would say I am a prudent risk taker. There is a lot of discussion about how you know a smart risk from a silly risk. I do my homework. When I make a decision about what the right thing to do is, I go for it. The Cadbury transaction played out rather publicly. But we had really done our homework. I knew it was the right thing for the company. I had a fairly good sense of what it was going to take to pry the asset loose, and, fortunately, it played out the way we had hoped it would.

**Some people say that managing over the next two decades in business will be much more difficult than managing over the last two decades. Do you**

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**see the twenty-first century as being exceptionally challenging?**

I do. It is partly because there are so many more variables out of our control. The impact that the macroeconomic environment has had on our business over the course of the last two years has been profound. It has been profound in the impact on our categories, on our consumers, and on our input costs. That's not going away any time

soon. You also have government regulation, which is at an all-time high—whether that is the Sarbanes-Oxley Act or the new regulations that give us far fewer degrees of freedom to operate. And then we have the globalization of the economy; that creates a whole new set of challenges—whether that is dealing with foreign governments or facing political unrest in different parts of the world. It is a unique set of challenges, so many of which are outside an individual company's control.

# It Takes More Than a Slogan

Louis Vachon

President and CEO, National Bank Financial Group

**L**ouis Vachon came up with a slogan “One Client, One Bank” as a pithy synthesis of the critical needs served by National Bank Financial Group. The slogan came to him after holding conversations with employees in 2006 and 2007 when he was promoted, in quick succession, to chief operating officer (COO) and then to CEO of the Montreal-based financial institution.

The slogan was meant to galvanize the bank around the needs of clients and to smash the silos that frequently stood in the way of client service. In the midst of the global financial crisis, in 2008, Vachon launched a four-year transformation designed to put money, muscle, and momentum behind the slogan.

The cornerstones of the transformation were major investments in distribution networks, technology, marketing, and branding; a simplification of processes; the streamlining of corporate functions; and the strengthening of management practices to foster cooperation across the organization. In order to fund these initiatives, the bank needed to lower operating and procurement costs.

Just recently, National Bank Financial Group was named the strongest bank in North America by *Bloomberg Markets* magazine. This recognition is just one of many signs—along with rising earnings and stronger client ties—that the transformation Vachon launched is succeeding.

Grant Freeland, a senior partner and managing director of The Boston Consulting Group, recently talked with Vachon about the transformation of National Bank Financial Group.

**You came in, and the global financial crisis happened shortly afterward. How much did the crisis affect your agenda? Or did you already have plans to change before the crisis happened?**

The genesis of “One Client, One Bank” predates the crisis. I was named COO of the bank in July 2006. With my investment-banking background, I knew that I needed to



**LOUIS VACHON**

Born in Lévis (near Quebec City), Canada  
Year Born: 1962

**Education**

1985, Master’s degree in international finance, The Fletcher School

1983, Bachelor’s degree in economics, Bates College

**Career Highlights**

2007–present, president and CEO, National Bank Financial Group

2006–2007, chief operating officer, National Bank Financial Group

2005–2006, chairman, National Bank Financial Group, and chairman, Natcan Investment Management

1997–2005, senior vice president of treasury and financial markets, National Bank Financial Group

1996–1997, president and CEO, Innocap Investment Management (subsidiary of National Bank Financial Group)

1990–1996, various positions including president and CEO of a Canadian subsidiary, Bankers Trust

1986–1990, various positions, Lévesque Beaubien (acquired by National Bank in 1988 and merged to become Lévesque Beaubien Geoffrion in 1989)

**Outside Activities**

Chartered financial analyst

Chairman, Conseil des Gouverneurs Associés, Université de Montréal

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have a bit of a crash course on the ins and outs of retail and commercial banking.

I went around and met a lot of people and asked a lot of questions. A couple of themes came back. One of them was, “We all work in silos. Maybe we could have more cooperation within the organization; it would be more fun for us as employees. And more important, our clients would be better served if we had a more client-centric view.”

I said to myself, “Where can we improve as an organization? Where can we take the organization to the next level?” At first, it was not a transformation program. I started with a slogan, “One Client, One Bank.” From the development of the slogan to the transformation program, there was another year of searching about how to make the idea operational. That is basically how it started.

**People often have slogans, to use your words, but often companies do not put anything behind those slogans. What did you actually do?**

We launched the program in the fall of 2008 at absolutely the worst moment you can imagine because we were at the peak of the financial crisis with the Lehman Brothers collapse and so forth. But it was also the best decision because it focused our team on the positive.

Despite everything else that was going on at that time, people were focused on the transformation, they were looking to the future, and they did not get too bogged down or distracted by all the negative news in the industry at that time.

As a consequence, we came out in early 2009 as a very strong organization. We had a game plan. Our people were mobilized around the transformation program. From a risk standpoint, we had learned the lessons of 2007 and 2008 but had not completely mitigated risk in the organization.

To succeed as a bank, we knew that we needed to take some credit risk and some market risk. Given where the risk premiums were in 2009, we saw fantastic opportunities.

### **How did you change the culture?**

The culture is still being changed. Changing a culture is certainly not done with a slogan. It takes a long time, and it requires discipline, rigor, and perseverance. We wanted to become client centric; we had been an organization that, through history, acquisitions, and internal development, was very product focused.

At first, it was not a transformation program. I started with a slogan, “One Client, One Bank.”

We had to change the way we run our distribution model, the way we remunerate people, the way we organize, and the way our marketing and branding are done. We touched on all these elements to change the culture.

We established 360-degree feedback. We defined people’s responsibilities down through the fifth layer of management. A culture of collaboration means a matrix-type system, so that not everyone is in full control of IT, marketing, and processes. Initially people were figuring out how they had to work in this new way. We have made huge improvements, as I think our results have shown, but we still have more work to do.

### **Did you change your team when you took over as CEO?**

Yes, there was significant change. In every crisis, there are some opportunities. Just 73 days into my mandate as CEO, the financial crisis started. You can see very quickly who is willing to stay in the boat to row through the storm and who wants to jump overboard. Probably half of the team had to be changed during my first 12 to 18 months as COO and CEO.

### **How did you think about strategy and organizing for your strategy?**

The message from the Street was quite clear: The bank had been performing quite well, but we had an optimization strategy in personal and commercial banking and a growth strategy in financial markets. The percentage of our revenues from financial markets was growing each year, and there was a concern from investors that this could lower our price-to-earnings multiple.

One of our key strategic objectives was to resume a growth strategy in personal and commercial banking.

It was a fair amount of work moving from optimization, efficiency, and cost management to growth, new products, new markets, and new customers. The first thing we did was change our distribution model. When you have an optimization strategy, you focus on minimizing cost in the branch structure. When you move to growth, you make sure you have more people in your branches. We hired 300 people in our branches. We went from managers overseeing two to three branches to one branch. We also invested a lot more in branding, marketing, and technology—specifically client-relationship-management (CRM) systems and business intelligence.

**Through the ups and downs of a transformation, people can get tired. How are you keeping the employees engaged and motivated?**

You need to be consistent in your message. You need to persevere and stay the course. We have gone through what we call phase one of One Client, One Bank—a new distribution model and investments in the branches and technology. People are seeing dividends. The market is now starting to appreciate that we are probably on the right track. So that is giving encouragement to people. They see the external feedback from clients and from shareholders—that is certainly a source of encouragement.

But as a management team, we still need to stay the course. I have personally talked, through conference calls, to thousands of employees four times a year. I have toured every single region in which the bank operates in Canada—twice already in the last three years. You go talk to people in the branches in the different regions and ask them how things are going. I know that many on my management team do the same thing. So it is about communicating, living the transformation, and staying the course.

**What counsel would you give to another CEO embarking on a change effort?**

The order is important: people come first; risk management, second; and technology, third.

Listen to your employees. As I said, the genesis of One Client, One Bank basically came from employees. All organizations have their strengths, but most of them also have areas where they can improve.

You should also ask your customers, but your employees in many cases know what needs to improve and can tell you what you need to do better. A lot of people will spend a lot of time listening to market analysts and to shareholders, but I think one of the good decisions I have made in my four-year tenure as president was to listen to employees first. They know what customers want, and they know what the customers need.

**We are now in the second decade of the twenty-first century. How have the challenges of leading a bank changed over the last several decades?**

You need to focus on a few key elements that you absolutely need to get right. If you have the right expertise and the right people, you will be able to change. At the base of financial markets and financial services, it is people first. So, first, we start with people.

Second, we need to make sure we have very good risk management. That is not a nice-to-have expertise in a bank. It has been shown, unfortunately in spectacular fashion over the last three years, that if you cannot manage risk within financial institutions you are going to have major problems, and it could have an impact on your long-term survival.

Third are technology and processes. Efficiency and part of your client experience will come from technology. But, again, the order is important: people come first; risk management, second; and technology, third. Those are the three types of expertise you really need to get right within your organization. We are trying to do all that in a client-centric environment. That is what we're trying to do with One Client, One Bank.

# Going Global

Jasmine Whitbread  
International CEO, Save the Children

**S**ave the Children, a nongovernmental organization that has been around for nearly 100 years and operates in 120 countries, was run largely as a decentralized federation of 29 independent organizations around the world—until last year. In an effort to achieve greater scale and scope, Save the Children created an international board of directors in 2010 and tapped Jasmine Whitbread, who had been leading Save the Children UK, to be the organization’s first international chief executive.

Whitbread faced—and still faces—a tall task in leading the \$1.4 billion organization. She needed to staff the international headquarters from scratch and merge international operations—and 14,000 employees—from all the member organizations into a single line-management structure. None of the chief executives of the 29 Save the Children organizations report directly to her, and yet she is charged with overseeing the entire global strategy.

These challenges have required Whitbread to mobilize people with differing views and agendas around a common cause and to build trust and understanding. Whitbread, who spent many years in the for-profit sector before joining the public sector, says that the leadership skills required to bring people together are remarkably similar across both realms—despite the fact that the corporate world has clearer lines of authority. One of the keys to her success in transforming Save the Children has been having a core group of people to-

tally committed to the endeavor. In other interviews in our Leadership series, private-sector CEOs have made the same point.

Grant Freeland, a senior partner and managing director of The Boston Consulting Group, recently talked with Whitbread about creating a new international organization at Save the Children.

**Save the Children has a pretty ambitious mission. What is its mission?**

Our mission is to inspire breakthroughs in the way that the world treats children and to deliver immediate and lasting change in their lives. Our theory of change is that we want to innovate on the ground—come up with new and better ways to help children—and to scale that up



**JASMINE WHITBREAD**

Born in London  
Year Born: 1963

**Education**

1997, Executive program, Stanford Graduate School of Business

1986, Bachelor’s degree in English, with honors, University of Bristol

**Career Highlights**

2010–present, international CEO, Save the Children

2005–2010, CEO, Save the Children UK

2002–2005, international director, Oxfam

1999–2002, regional director of West Africa, Oxfam

1994–1999, managing director, Thomson Financial

1990–1992, volunteer in Uganda, VSO

1986–1990, marketing positions at Rio Tinto-Zinc and Cortex Corporation

**Outside Activities**

Nonexecutive director, BT Group

and then use the evidence to inspire much wider changes. We need to demonstrate what's possible, what's affordable, and what's doable. And we must bust the myths that make people think that there have always been—so always will be—children going hungry or children out of school, and that we can tolerate these problems because “that's the way it is.”

The key thing is we want to inspire those breakthroughs. We know we won't achieve them all on our own. No matter how many children's lives we save directly through our programs—and we save millions—they will still only be a drop in the bucket. We have to use that evidence to push for wider systemic change.

**You have a new international role. What is the role of the CEO?**

It is still forming. I do not have a blueprint. I am the first international chief executive. My first task was to handle a merger of Save the Children's international programs, all of which grew up separately over the last century. We have been on a journey over the last decade, bringing all of our work together in order to achieve more. Save the Children decided a year or so ago to bite the bullet and do a full merger of all our international programs.

**So that's the structure part. Have you been playing around with the culture? What changes have you made? How have you made them?**

What we are keen to do is not just join up the parts of what was essentially a twentieth-century organization but re-create ourselves as a twenty-first-century organization. We asked ourselves, “What are the fundamental tenets of a twenty-first-century organization with a mission like ours?” First and foremost, it is about being a catalyst. It is not just about delivering great programs on the ground, which is our stock-in-trade and what we know how to do. Second, it is also about being able to communicate what we are doing, to learn from what we are doing—inside the organization but, critically, with other players as well. We are not the only people working on these issues. We are trying to use knowledge to help to create change.

If you...imagine a twenty-first-century organization, where is the center of that organization?

We have expertise in these areas, but we do not want to sit on the expertise. We want to leverage it. Creating the culture in which people really use that information to achieve wider change is fundamental to our transformation.

**You talk about creating a new center for an international organization. How did you think about that center? How large? How small? How did you think about whom to choose?**

If you close your eyes and imagine a twenty-first-century organization, where is the center of that organization? I think the answer is that it is not really in any one place. You do not imagine a great big tower in New York City. You do not imagine a United Nations-type structure in Geneva. You do not actually imagine an office like this one in London.

What I envisage is a series of connected hubs around the world. Here in London, we will have the center of a billion-dollar organization. But even when we are at full strength, we still want to have only 100 or so people in the center, where I will be based. The virtual center will be much more widely spread out and will allow us to tap into world-class and diverse talent.

**Is the CEO in the twenty-first century going to require different things than what was required 10 to 20 years ago?**

I can certainly see that my job has changed, even in the last decade. My current job involves leadership without lines. Sure, I have my line-management responsibility heading the seven regions and the 70 countries where we are running international programs—those will report up in a slightly more traditional way. But even within that structure, we are pushing decision making much more to the country level.

There are still these 29 different chief executives who have their own boards around the world and who, in a way, own Save the Children; I need to do what they want. But at the same time, they appointed me to take forward our global strategy in the way I think best—although, clearly, I have to get buy-in from them.

When I started out in this job, I started agonizing, and I wondered, “If I cannot tell these people what to do, how

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am I going to get everyone moving in the same direction?” But when I thought about it, what chief executive of any successful company runs it by telling people what to do? You do not. Even if people report to you—which, in my case, the chief executives do not—you have to listen to people. You have to bring people together. You have to go and get the buy-in. You have to get people to reach a conclusion about the right direction. You have to play a role in that as a leader. But it is not about telling people what to do.

**As you reflect on the transformation you’ve helped drive over the past year or so, what lessons can you offer to others who might be about to embark on that journey in their organizations?**

Make sure you have laid your groundwork. Make sure that you do have a core group—and it need not be that

large—of key players who are totally up for going on that journey with you. Really nurture and do not underestimate the value of that group. Bit by bit, try to broaden that group.

There’s a lot of talk about the need for communication in a change or transformation. I think we have all gotten that message now. We all know how to make sure that we have good two-way communication.

But there is a difference between communication and building trust and understanding. Do not underestimate the need to continue to have that trust and understanding with a small group of people, and then continue to foster it. Do not take it for granted, and build out from that a wider and wider constituency for change.

# Note to the Reader

Many chief executives feel a sense of urgency to fundamentally change the trajectory of their organizations. Even the most successful companies look to reinvent themselves, at least periodically. Change is, however, extremely difficult, and these efforts often fail.

Often, we at BCG are asked which factors impede change and how failure can be prevented. But rather than focusing on what went wrong, we focus in this report on those leaders who have succeeded in effecting transformative change. Our thinking is that tremendous insight is to be gained from their experiences, their advice, and the lessons they offer.

We hope that you enjoy reading their insights as much as we have enjoyed gathering them.

## About the Authors

**Andrew Dyer** is a senior partner and managing director in the Sydney office of The Boston Consulting Group and the global leader of the Organization practice. **Grant Freeland** is a senior partner and managing director in the firm's Boston office. **Steve Gunby** is a senior partner and managing director in BCG's Washington office and the global leader of the transformation topic. **Cynthia DeTar** is a principal in the firm's Washington office and the global manager of the transformation topic.

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