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Leadershiparticles.net

14 August, 2008

**Leadership and Turnaround: How Change in Leadership Style Can Save an Organization.**

In 1981, General Electric, one of the world's largest companies, was sluggish with lagging (though improving) performance in the stock market and an aging infrastructure. In 1978, Chrysler was on the verge of bankruptcy with losses approaching a billion dollars a year and debt equal to 10% of the entire corporate debt of the United States. IBM, an icon of American industry, fell so far behind competitors by the 1980s that the future of the company looked questionable at best. However, within just a few years, each of these companies was outperforming contemporaries in the stock market, becoming a leader in the economic expansion of the US in the past three decades. So, what changed in these companies to bring about such incredible results? By studying Jack Welch with General Electric; Lee Iacocca with Chrysler; and Lou Gerstner with IBM, and contrasting them with the company's leaders prior to the turnaround, one can get a clear picture and pattern of leadership and leadership style that takes a company from low performance (or even from the brink of extinction) and places it on a path of revolution and profitability. This picture can assist emerging leaders in developing their leadership skills making the need for turnarounds in companies less likely.

## General Electric

General Electric was started in 1890 by Thomas Edison as the Edison General Electric Company. In 1892 the company became General Electric, and is so named today. By the 1960's GE had transformed into one of the major players in the computer industry and had become a leader in other areas including defense contracting, finance, and consumer electronics. The company reached maturity and was approaching the decline phase by the late 1970's. Aging infrastructure and the need for innovative leadership allowed GE management to become complacent in their position as a global corporate leader.

Today, GE derives over half of its revenue from the financial services sector, but is still a global leader in manufacturing.[1]

**CEO Reginald H. Jones (1972-1981)**

In 1972 Reginald H. Jones was named Chairman and CEO of GE. Mr. Jones' entire career was with GE having started GE's business training course in 1939. Jones, who is often described as a controlled and statesmanlike leader, used his superior leadership capabilities to more than double revenues, and earnings grew even faster ($572 million to $1.4 billion). Jones had inherited a company which was headed toward financial crisis. With this in mind, Jones "stopped the bleeding, solving (GE's) cash crisis within six months". He saw "26 consecutive quarters of improved earnings and a 14 percent compound growth in profits". (Reginald Jones Biography)

**CEO Jack F. Welch, Jr. (1981-2001)**

Even with the successes seen under Jones' leadership, Jack Welch, named Chairman and CEO in 1981, saw enormous need for change. Although GE was doing well comparatively, Welch sensed it was approaching the decline stage in the business cycle. His tough new policies required GE to become lean with divisions, be either first or second in their industry, or to be sold. Welch had little time for the humane approach to business and scaled back the payroll 25% within his first five years. Under his leadership, revenue grew from $26.8 billion to nearly $130 billion with the company having a market value of $410 billion. In 1999, fortune magazine named Welch "Manager of the Century". (John F. Welch, Jr.'s Biography) While Jones could only be described as a great leader and left GE in solid shape, Welch brought an innovative, fresh approach not only to GE, but to the business world in general. Welch's approach to management is best communicated www**. *1000ventures.com*.** This article breaks Welch's leadership down into four areas with 25 lessons. The first area talks about leading more and managing less, and includes lessons of inspiring leadership, articulating vision, facing reality, and following up, just to name a few. In the second area when Welch speaks about building a winning organization, he writes of getting rid of bureaucracy, eliminating boundaries, putting values first,

[1] For more information on GE, go to www.ge.com/company/history/index.html

cultivating leaders, and creating a learning culture. In section three, Welch speaks of involving everyone and making business fun; a process which he refers to as "harnessing people." In section four, he teaches the principle of being number 1 or 2, living quality, and (even though GE was one of the largest companies in the world), to behave like a small company. (Kotelnikov)[2]

Welch, in implementing these well articulated lessons, was able to transform GE from a lackluster company to an illustrious company during his 20 years of leadership. By not taking the status quo as the inevitable, and by not allowing the mentality of "that's the way we have always done it" to continue, Welch lead the company through a makeover that transformed the way business is done around the world.

## Chrysler

The Chrysler Corporation was started in 1925 by Walter Percy Chrysler. (Chrysler) Throughout much of the 20th century, Chrysler was one of the "Big 3" in automakers and leader in reinventing the car manufacturing business. Part of this reinvention mentality was necessitated by Chrysler's repeated miscalculations in product development, causing it repeated financial crisis. By the late 1970's Chrysler was near bankruptcy, see a decline in revenues and an alarming increase in recalls due to the low quality of their products. Today, Chrysler, having recovered in the 1980's and 90's, is once again in need of reinvention and recovery with declining revenues and enormous financial loses.

### Lynn A. Townsend-President 1961-1966, CEO 1967-1975; John Riccardo Chairman 1976-1978

In order to understand the near demise of Chrysler, the leadership of both President Lynn Townsend and Chairman John Riccardo must be examined. Both Townsend and Riccardo were long time employees of Chrysler seeing Chrysler plummet into a distant third position in the American car industry. The company was plagued by "slow decision making" and dismal financial results. In 1979 Chrysler owed "$4 billion" and "was bleeding red ink". Townsend and Riccardo both appeared to lack the vision necessary to turn Chrysler around. However,in 1979, Riccardo, as Chairman of Chrysler, brought in Lee

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[2] For a comprehensive list off the 25 lessons, see Winning by Jack and Suzy Welch. (Kotelnikov)

Iacocca from Ford Motor Company to implement sweeping changes to the nearly bankrupt company. (Anastakis)

**<u>Lee Iacocca President 1978-1992</u>**

Lee Iacocca is one of the most well known names associated with 20th century American business. Credited with the success of the Ford Mustang, Iacocca came to a very ailing Chrysler in 1979, having been fired by a reportedly jealous chairman Henry Ford II as President of Ford Motor Company. Almost immediately upon coming to Chrysler, Iacocca "called for government assistance for the company", buying him time to put his vision for a new line of vehicles into place. Iacocca "created a sense of urgency" (Anastakis 6) and put into place four steps to Chrysler's recovery. The first was the creation of urgency with company stakeholders, insisting that the changes he demanded were necessary to the survival of Chrysler. Secondly, Iacocca asked the government for aid by guaranteeing loans to the company. This step was unprecedented and "challenged the historical relationship of the Big Three auto companies to government" (Anastakis 8) . Thirdly, Iacocca negotiated deals with unions, suppliers, creditors, etc. Fourthly, he became the public face of Chrysler, selling himself to the American public and rebuilding confidence in the Chrysler brand. (Anastakis) By 1983, Chrysler was back on its feet and profitable, revolutionizing not only Chrysler, but the American car industry in general. Confidence in the brand was high with new models, such as the Chrysler minivan, which has become an American icon.

**<u>IBM</u>**

The Computing-Tabulating-Recording Company (C-T-R) started in 1911 and became International Business Machines Corporation (IBM) in 1924. Post World War II and throughout much of the mid to later part of the 20th century, IBM was the leader in computer technology. In 1944 IBM created the Mark I computer, the "first machine that could execute long computations automatically". (1940's) During the 1950's, 60's and 70's, IBM continued to dominate the computer industry with inventions such as the large computers based on vacuum tube (eventually switching over to transistors), RAMCA, the first computer disk storage and the floppy disk in 1971. In the 1980's, IBM created the IBM PC, revolutionary with its integration of components into one small machine. However, by the 1990's

IBM was in trouble, falling far behind in the PC revolution of the late 1980's and early 1990's. By 1994 IBM was experiencing record loses of over $8 billion making some question whether "Big Blue" could succeed in the modern era of computers. Today, IBM is a leader in e-commerce infrastructure, having adapted to the needs of the modern consumer. Great leadership at IBM is shown in part by $100 billion plus revenues in 2008 with record breaking profits. (Kelley 1)

**John Akers (1985-1993**

John Akers took over a profitable, yet declining IBM. Akers, having been with IBM for 33 years, was very much a part of the "highly conformist environment" (Tichy 40) of company leadership, lacking the vision to change the company in a way which would make it competitive in the new business culture of global computing. During Akers tenure as CEO, IBM went from a world market share of 30% in the computer industry to 18% in just 8 years. (Myerson 6) Akers, an able manager, saw sharp increases in product quality. In spite of his vision for IBM, he was never able to revolutionize the company's culture to the degree necessary to regain its competitiveness. In 1993, amid sharp criticism, Akers resigned as Chairman and CEO of IBM.

**Lou Gerstner (1993-2002)**

Gerstner, unlike predecessor Akers, did not come from the IBM culture. Having served successfully as CEO of American Express and credited with saving RJR Nabisco, Gerstner was a seasoned veteran of turnarounds emphasizing quality and teamwork as key values. In his first years at IBM, he "flew in the face of IBM tradition", demanding such things as a "$1 billion (cuts) from the research and development budget". (Myerson) Gerstner's vision for a lean yet aggressive company proved to be the prescription necessary to turn IBM in the right direction. His lack of "debating issues endlessly" and "charg(ing) ahead" made IBM "nimble" and competitive globally. (answers.com)

**Leadership Lessons From Turnaround CEO's**

Although each of the aforementioned turnarounds are unique in both circumstances and strategies, there are some commonalities with each leader that give us some indication of what characteristics are necessary in order to take a failing organization and make it profitable and competitive once again. Although Welch, Gerstner, and Iacocca are credited with revolutionizing their respective companies when the future was bleak, leaders in relatively successful companies with bright futures can use these leadership lessons to maximize the potential in their own organizations. Although there are a myriad of lessons to learn, there are three that stand out as common to all three men: Execution of vision; cultural shifts and decisions based on values; and convincing confidence from the top.

**Execution of Vision**

Each of these turn around leaders had very specific vision for their respective companies. Welch envisioned a time when GE would be either number one or number two in all of their business divisions. Iacocca saw a time when Chrysler and quality were used interchangeably. Gerstner saw IBM with a future that was leaner and more customer-driven. Regardless of the vision, however, what sets the men apart was the execution of the vision. Each company had a culture that changing would mean great angst and significant losses of jobs. GE sold off many of its subsidiaries. Chrysler had to renegotiate its union contracts and IBM terminated the employment of thousands. This fact alone could demoralize a workforce and drive boards of directors to fear the very change that was needed. What carried each of these men through this tumultuous time was the articulation of vision and an execution that was consistent and focused on the end goal: the turn around of the company.

**Cultural Shifts and Decisions Based on Values**

The cultural shift required for the turn around was based on more than words, it was based on values. Each of these leaders had core values which they believed in strongly, and on which the company could build a foundation. These values were closely tied to the vision of the company and helped keep the company on course during the difficult times of the cultural shift. For example, Iacocca spoke candidly about the dire situation Chrysler was in. Because of this honesty, when he later went on television and said the new Chrysler automobiles were of great quality, he was trusted as a straight shooter. This core value of being honest with stakeholders was key to turning the tide of Chrysler, particularly in the minds of the consumer.

GE, on the other hand, was doing relatively well, but Welch new this would not last. Their aging infrastructure and passive attitude toward the future was making the company stagnate and bureaucratic. Welch brought new values to the leadership of GE. Not only was his vision to be either one or two in an area, his values where such that managers knew that they had to make this so or their jobs would be on the line. One highly controversial value was that he would terminate all employees evaluated to be in the bottom 10% of the company. While effective in raising productivity, many believe that the demoralization of the workforce would offset any gains from this policy. Regardless, Welch did change the culture of GE and the results to shareholders were amazing.

At IBM, Gerstner knew that the company would not survive if there were not fundamental and substantive changes throughout the company. The slow reaction to consumer demands and responsiveness to new markets was allowing IBM to fall further and further behind. Large cuts in research and development and a new focus on customer driven solutions were core values for Gerstner. Gerstner knew this major shift in culture was necessary for IBM to be competitive. IBM's success today can be linked back to that basic value that still exists in the company today.

## **Convincing Confidence from the Top**

Regardless of vision, cultural change, a new focus on competitiveness, Etc., the success of these troubled companies depended largely on the personality of the leader and the how he was viewed by the stakeholders. Each leader had to have convincing confidence about the direction they were taking the company. It wasn't enough that they would be right; they had to convince the board, the employees and most importantly, the consumer, that the new direction would work and that they ultimately would benefit from these changes no matter how painful they seemed in the short run. Iacocca was a master at this. He put himself in front of the consumer and stated boldly that if they could find a better deal, they should get it. This bold new approach to selling automobiles convinced the public that he meant business.

Welch, on the other hand, was not focused on the end consumer of GE's products. His focus was mainly on systemic and profound changes in the attitude of his managers and employees. The value of being the top one or two company set a very high standard for managers. When he started selling off underperforming subsidiaries, managers knew he meant business. They realized that he was convinced and confident in his direction and would see it through to the end.

Gerstner had a much tougher job with IBM. The cultural shift that was needed required an effort that essentially reinvented the company. Gerstner was able to pull this off due in part to his past performance at RJR Nabisco and American Express. His tried and true approach to change gave the board of directors at IBM confidence that he would get the job done. Having their support as he shifted the culture of the company was crucial to his success. The confidence he exuded as a proven commodity allowed him to make changes that were extreme and would otherwise have caused doubt in most stakeholder's minds.

## Conclusion

Whether you are a seasoned CEO or a novice entrepreneur, in a thriving company or in a company on the rocks, each of these men teach us valuable lessons in leadership. By executing a focused vision, by sifting the culture of an organization and making decisions based on values, and by having convincing confidence, a company can see significant change and prosper in a seemingly dismal future. Each of these men is proof that leadership based on these core principles is key to the success of an effective turnaround.

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