



A balancing act

Leadership lessons from reversal of fortunes

A company is a form of business organisation, which has a legal entity like any individual but is governed by the action or decisions of the people working for it. This reflects how important it is for the employees of a company to make the right move for the company.

So, even a single fault by the employees can affect the growth chart of the company. But under whose guidance do these employees act?

The leader's. This makes it of utmost importance to have the right leader or a leader with the best set of leadership qualities. This article focuses

on some of the leadership lessons that can make all the difference in a successful enterprise.

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few years ago, I went to receive an acquaintance at the Phoenix airport.

This was a time when you could walk right up to the gate. I did not know the status of the flight, so I asked the gate agent. She typed several commands into the computer and was peering at the terminal to determine the flight status, when I saw the plane pull into the gate right behind her. I wondered why the most modern monitoring and navigational devices could not inform accurately what I could tell by looking out of the window. That is because sometimes we all forget to look out of the window!

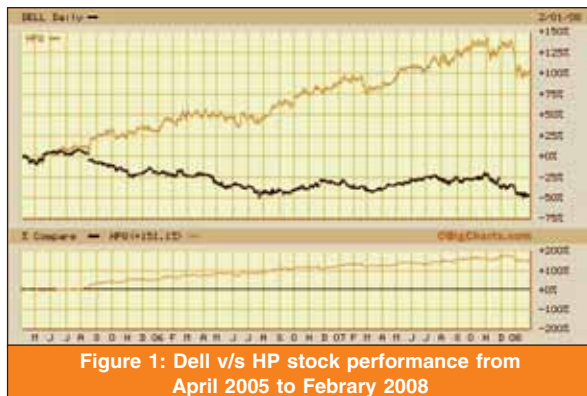
If you are in the pharmaceutical industry, it is very easy to become insular and put blinders on about what may be happening in other industries. However, if we are able to sometimes 'look out of the window', many lessons

can be gleaned. For the purpose of illustration, let us look at two giants in the computer industry - Hewlett-Packard (HP) and Dell.

In the clash of these two titans, Dell easily won the first round in the mid 1990s through the dot com era. But, HP has come back with a vengeance and has unanimously won the second round while Dell has floundered. What are the leadership lessons for leaders (and those aspiring to be) in this reversal of fortunes? The article draws several leadership lessons and raises thought-provoking questions based on the strategies and tactics employed by both the companies.

Turning the tide

Dell pioneered the direct marketing approach resulting in high quality, state-of-the-art PCs while undercutting prices by cutting out the middleman.



This strategy catapulted the company to the top in PC business. The tide, however, has turned again and HP bounced back on the top in this cut-throat business. What has happened since Carly Fiorina's departure at HP can be described better with a single picture than a thousand words.

Figure 1 shows HP's stock price (HPQ) in comparison to Dell's (DELL) from the time when Mark Hurd succeeded Carly Fiorina. Suffice it to say that HP has easily won Round #2 - at least from the shareholders' perspective. Dell's stock has underperformed HP's by a whopping 151 per cent from April 1, 2005 through February 1, 2008.

Best of both worlds

Dell Direct concept along with a fanatical focus on the lowest cost allowed Dell to drive IBM out of the PC business after perennial losses. IBM sold its PC business to the Lenovo group. Dell backed Gateway into a corner, and the struggling PC maker agreed to be bought by Taiwanese rival Acer last year. Dell also took away the major marketshare from HP and Carly Fiorina, CEO of HP at that time, was forced into what critics called a risky merger with Compaq to gain economies of scale. She was roundly criticised for combining two money-losing businesses. She was later forced out by the Board of Directors of HP after a stormy relationship.

Mark Hurd, her successor, neither undid the HP merger as many had

expected nor did he spin off different parts of the company as many desired. He just made the merger work. He has been everything Carly Fiorina was not. He is a hands-on guy who is all about execution, and apparently not very big on vision. He also happens to be an upfront kind of

individual. He openly admitted that the seeds of HP's performance in the PC business were sown long before him.

So, who should get the credit? Both! As Alan Murray wrote in the *Wall Street Journal* (May 24, 2006), 'In the end, they got the best of both worlds - a charismatic CEO who brought about a hotly contested but transformational merger, and a no-nonsense, operations-oriented CEO determined to make the combined company work.'

Lesson #1: Strategy without execution or vice versa is like yin without yang. You cannot have one without the other. You really need both in equal measures.

Are you balanced in your leadership approach when it comes to strategy and execution?

Leadership attitude

Alan Murray further writes, 'The truth is that HP's board members never completely lost faith in the merger - after all, many of them had been a party to it. They just lost faith in Fiorina. She created a matrix-management structure, which they could not understand and muddled lines of reporting that made it difficult to hold anyone responsible. She concentrated too much power in her

own office, and then took to the road making speeches and was not there when decisions needed to be made. Perhaps most importantly, she was disdainful of the board's efforts to change her ways.'

As always, there are two sides to a story. Fiorina has laid out her side of that story in full detail in her book *Tough Choices: A Memoir*. If the board version has a grain of truth, however, a confusing bureaucratic structure, lack of accountability, and a peripatetic, power-hungry leader looking for limelight does not bode well for a successful organisation. Regardless of whose story you believe, it was pretty obvious that Fiorina was unable to connect with a majority of the employees, had a stormy relationship with the board, and lost the investors' trust.

In re-making IBM, Lou Gerstner in his book - *Who Says Elephants Can't Dance* described that 'changing the culture - the mindset and instincts of people' as the hardest part. He goes on to describe that 'this kind of wrenching cultural change does not happen by executive fiat'.

That is why in times of great change, leadership is of utmost importance. Leaders walk a fine line between pushing the envelope just far enough by doing unpopular



things and alienating the stakeholders completely. Leadership is mainly about aligning people, motivating them, and creating a culture of leadership. Getting people to believe in a broader purpose and challenging them to go beyond their comfort zone without breaking them is the art and science of leadership.

James O'Toole, author of *Leading Change*, says that traditionally there are three generic leadership models offered to effect change. A leader can be autocratic, manipulative or paternalistic. He says that while the three models are quite distinct, they have in common an all-knowing leader who is wiser than the collective followers. O'Toole writes that 'leaders fail when they have an inappropriate attitude and philosophy about the relationship between themselves and their followers'. Without followers there is no leadership and good leaders know that people do not simply follow a leader because he or she is right. So, they enlist the hearts and minds of followers through inclusion and participation.

Lesson #2: Inability to build a collective view of the future throughout the organisation leads to strategies that look good on paper, but are hardly worth the paper they are printed on.

Are you a know-it-all leader or do you believe in the art of inclusion?

Changing the rules of the game

Dell successfully changed the rules of the game in selling computers. It bypassed the retail channels and reached the customers directly. For years, Dell's strategy was based on selling its products directly over the phone and then internet saved inventory and distribution costs and brought profits through bulk sales of mostly desktop computers to corporations. Started by Michael Dell from his dorm room, Dell became the world's largest PC maker and a Wall-Street darling, by keeping costs low and aggressively pricing its PCs to be less costly than those made by rivals such as IBM, HP and Gateway.

However, Dell's strategy became increasingly askew over the years - not so much because of anything they did, but because of what they did not do. Dell did not recognise the subtle change in the buying behaviour. In the last few years, much of the PC growth has come from consumers rather than business - an area that had been Dell's main focus. Consumers looking for a new computer are buying laptops. And for laptops, consumers prefer to hold and test them in a store, but Dell was nowhere to be found in retail stores where a majority of the laptops are now being sold. Dell even nixed some overtures from retailers to sell its wares in stores.

Competitive advantage can be rather fleeting if the rules of the game change, but you are still playing under the old rules. These changes can be quite subtle because they happen over a period of time. Also, there is a natural resistance in large organisations to getting out of the comfort zone and doing things differently or doing different things altogether.

Lesson #3: Just because you successfully changed the rules of the game in your favour, does not mean they remain changed forever. You have to stay tuned to subtle changes in the marketplace and not be bound by your previous success.



Are you aware of the changes taking place in the pharmaceutical marketplace and their implications for changing the rules of the game?

Penny wise pound foolish

Dell mostly ignored the consumer boom. Although, it says it still considers consumers an important market this belies Dell's then-CEO Kevin Rollins's declaration at a conference in 2004, "We have never focused on the consumer as a company." Dell took its fanatical focus on lowest cost a little too far and in doing so sacrificed customer service. For a while, Dell staffed its call centres taking calls from customers who wanted to buy a PC in the US with temporary workers rather than more expensive, full-time staff. The turnover soared to 300 per cent and the sales leveled off.

At the same time, rivals like HP, Gateway and Apple saw the trend in PCs becoming less of a corporate tool and more of a consumer-electronics gadget. HP charged ahead by investing in consumer-friendly features in its computers. It started building stronger relationships with retailers. Companies like Apple opened their own retail stores across the country to be close to the consumers. Apple also offers technical assistance at its stores. HP developed a programme to create a build-your-own-PC programme inside Wal-Mart stores. It even dispatched its



district managers to retail stores to help customers during the 2005 back-to-school season.

HP cut costs to become competitive, reinvested the savings in intensifying its marketing efforts, and taken the bull by the horns by investing several hundred million dollars in its first-ever global marketing campaign - 'The Computer is Personal Again'. This HP campaign 'focuses on the highly individual and personal relationship people have with their computers, unique to each user. Whether, what they are creating is a spreadsheet or a work of art, HP's goal is to make the personal computer a more powerful personal tool'. The campaign will also make HP's own approach to selling PCs more personal - putting more emphasis on empowering users and enterprises, and less emphasis on the 'feeds and speed' and other technical matters.

So, while Dell was trapped in its own paradigm of efficiency and

lowest cost, HP saw an opportunity to differentiate itself by capitalising on personal effectiveness - and not on cost alone. Michael Dell, the founder of Dell has taken back the reins of the company since January, 2006. The company has been cautiously moving to expand sales of PCs in stores, inking a number of deals in recent months to sell its products to retailers in the US and hoping to expand them to top 20 countries in the next 18 months.

Lesson #4: Clearly, efficiency is important in any business, but when taken too far it can affect your effectiveness.

Are you missing the broader picture by focusing too closely only on one aspect of the business?

Conclusion

While the final round in this heavyweight bout is yet to be fought, many of the leadership lessons are clear. The biggest lesson is that of

being able to strike the right balance. Effective leaders must be able to strike the right balance between strategy and execution; between making tough choices and alienation; between sources of past success and future opportunities; and between keeping an eye on the details and not missing the forest for the trees. MPH



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