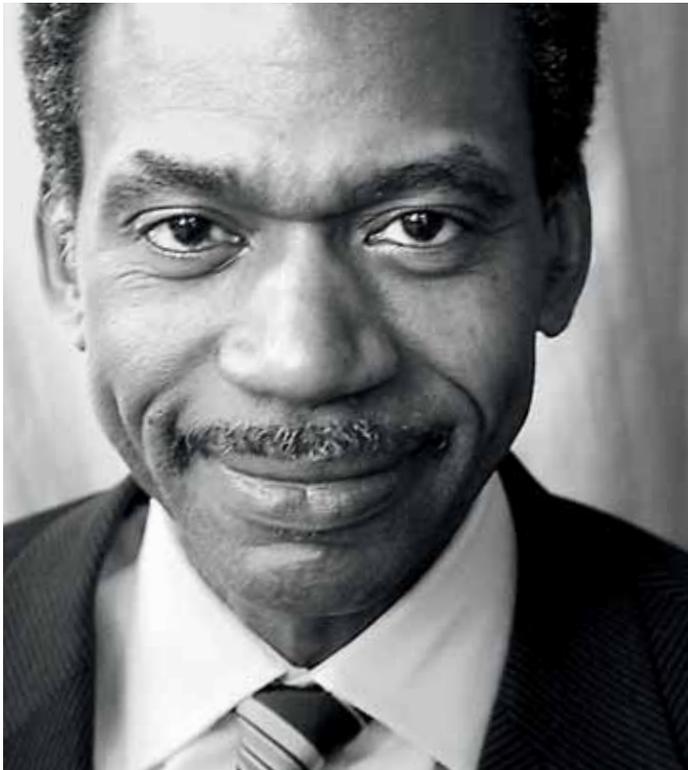


# Kissing the right frogs

Hard times need tough managers—this idea seems to drive the current trend toward CROs [chief restructuring officers]. These masters of disaster are expected to manage a corporate recovery process better than CEOs. But are they? Michael Jarrett is skeptical.



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**THE THIRST FOR A CONQUERING HERO** or heroine is universal across time, language and culture. The corporate world is no exception. So, it is no surprise that the title "corporate restructuring officer" has become the height of organizational fashion. It is the new black of organizational myth making, the latest in a long line of corporate saviors. The CRO is the magician, the superhuman executive who will turn 70 percent of transformational failure into success.

As you can tell, I am skeptical. I believe that CROs are being set up to fail. I can understand the allure of this archetypal myth of successful change. We all enjoy slaying the dragon, recovering lost treasure and the key character returning with gold—or good news for analysts. But, such a story, while appealing, is based on a poor understanding of how change works. I'd like to rewrite it. Research evidence shows that successful change is systemic. It forms part of the organization's DNA. As a result, it cannot be left simply in the hands of a single individual—even if they rejoice in a C-suite job title. Change is everyone's job or no one's.

**MY RESEARCH OVER THE LAST DECADE** has led me to conclude that there are four things required to make change stick. First, you need to be kissing the right frog. If there is one person that can make a difference it is the CEO. A transformational leader who sets a vision, resonates with his or her team and gets things done is the real prince or princess of this story. Such leaders make a real difference to the culture and performance of the organization. The competitive challenge facing Indra Nooyi, when appointed as CEO of Pepsi, meant she had to inspire the troops to move from just selling fizzy drinks to a wider portfolio of health snacks. She was able to rouse her team and staff. Her colleagues say she "brings her whole self" to the office. She inspires them. She has the qualities

of a transformational leader (without the CRO moniker). Second, you need to assemble a good band of travelers. Leaders are only as good as their management teams. Top management teams which are aligned with their leaders enhance the chances of successful change. If there is dissent or a lack of team congruence, then the leader's efforts, influence and success will be vastly diminished. When Xerox was on the cusp of collapse, it was making an annual loss of one-third of a billion dollars, debts were \$17.1 billion, debt ratings were rapidly falling and share prices were an all-time low at \$4.43. Anne Mulcahy, who took over as CEO, had a clear mandate for change and to take the flab out of the organization.

Mulcahy built an inner top-management team that operated as the head, heart and hands of the organization. CFO Larry Zimmerman worked the numbers with Jim Firestone, who ran the North American region. Ursula Burns was the hands, carefully implementing difficult cuts yet trying to build the new company. The CEO held the heart of the organization. Her motto was to stay close to the values of the company. Mulcahy states, "I've been with the company for 30 years ... I stayed because I became enthralled by a culture that broadly defined 'citizenship' to include how you treat your people, your customers, your suppliers, and the communities where we work and live ... Every decision I make is aligned with those values."

**OUR OWN RESEARCH CONFIRMS** these findings. We surveyed 5000 executives across a wide range of industries in countries as diverse as Austria to Zambia. In addition to the qualities of the top management team, we also found that organizations' strategic capabilities also made a significant difference. Third, you have to have the right rituals and culture to respond to change. Organizations successful in large-scale change had a level of internal fitness for change compared with those that found change more difficult. We found distinct change types. Change "avoiders" did not like change, were resistant and inert. "Analyzers" knew what they needed to do but spent too much time thinking about it. "Adaptors," on the other hand, had the internal capabilities to change. Not only did they change once. They are able to do it repeatedly. The secrets to their success were their

innovative and collaborative cultures, the quality of their people and their structures that helped fluid execution of their goals.

Google demonstrates how this takes place. It innovates, has a collaborative culture and executes efficiently. These are the three capabilities for organizational fitness. They directly affect the success of change and organizational performance. Finally, strategies for change should align to environmental conditions. You have to tune in to the world in order to change it. CROs are not the villains in this story. But neither are they the new heroes. They carry the bag on behalf of the leader and the top management team. They are limited by the culture of the community. They are subject to the unexpected twists and dark corners of the forest of competition. They may be part of the solution, but they are not the solution. Beware kissing false frogs.

## Counterpoint: Sushil Khanna

**THE PROFESSOR FOR STRATEGIC MANAGEMENT AT THE INDIAN INSTITUTE OF MANAGEMENT THINKS THAT IN POSTMERGER SITUATIONS, A CHIEF RESTRUCTURING OFFICER CAN DO A VALUABLE JOB.**

**"USUALLY,** acquisitions and mergers require the bidding firm to pay a premium to acquire the target firm. This can be justified only because of the expected gains from the merger. These gains are strictly a function of synergies and savings that can be generated through restructuring. Hence generating the necessary gains from changes in the organizational and operational parameters is the key task. Research shows that this is not easy; a reason why many mergers result in destruction of shareholder value.

**IT IS UNLIKELY** that a CEO will be able to devote adequate time for such detailed restructuring, though his support and mandate will be necessary. A CEO's main task is corporate-level strategy. Hence the merged firm will be better off appointing an independent corporate restructuring officer to plan and execute the key tasks that will help generate the synergies, as well as handle the organizational and human resistance that is inevitable."