A Study on Transformational Leadership

(Case Studies of Transformational CEOs)

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Abstract

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Transformational leadership was formulated in the 1980s as an alternative leadership paradigm to meet the needs of the new era.

This thesis examines the essential characteristics of transformational leadership through review of the existing literature and case studies of 10 representative CEOs

Based on the10 case studies, the author found four common behavioral characteristics of transformational leadership such as idealized influence, inspirational motivation, intellectual stimulation and individualized consideration.

In addition, transformational leaders were skilled at forming human network, had good insights and intuition to see the future, had talents in taking symbolic actions for the turnaround and for moving forward to realize the vision of their corporations.

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I. Introduction

1-1. Purpose of the Research

Just a year before the new Millennium, Korea is coming out of an unprecedented economic crisis which started in the end of 1997 with a special bailout program from IMF. Today, under the strong initiative of the Korean government, four main areas of reforms are under way, which include the financial, business, labor and public sector reforms. Since the engine of economic growth is the private business sector, business sector reform must be successfully and effectively executed not only for the optimal utilization of the nation's resources but for the rehabilitation of its global competitiveness.

Among the various stakeholders of the corporations, the CEO's (Chief Executive Officer) role is critical since the success or failure of a corporation largely depends on the CEO's selection or utilization of its strategy, organizational and managerial system under the given management environment.

In today's business environment characterized by global competition, there are many types of problems and challenges facing the corporation. As a result, the CEO's leadership ability to cope with the crisis is becoming increasingly more important.

In addition, drastic changes of the corporate organization are under way with non-bureaucratic, fewer rules and levels, and more decentralized than before. Therefore, traditional leadership characteristics, such as heroic, political and authoritative leadership will be neither necessary nor sufficient for business leadership in the future.

According to S. Covey (1994), pathfinding, aligning and empowering are the three main roles of business leaders in the 21st century. This means business leaders will deal with more uncertainty in the future, but will match the value system and vision with the need of customers and stakeholders by igniting the subordinate's enormous talent.

As an alternative leadership paradigm to meet the needs of the new era, "transformational leadership" was formulated by Burns (1978), Bass (1985) and Tichy & Devanna (1986).

The purpose of this research is as follows.

First, analysis and comparison of transformational leadership studies through a review of existing literature.

Second, examination of 10 representative cases of prominent CEOs who successfully overcame the crisis through transformational leadership.

Third, analysis of the common characteristics of transformational CEOs that can provide implications to Korean business leaders in preparing for the new millennium and overcoming the unprecedented economic crisis.

1-2. Research Methodology

In order to achieve the purpose of the research, the author conducted a literature review and case studies of transformational leaders.

Case study is an effective research methodology to explain a business phenomenon in a descriptive and exploratory way. In addition, since multiple case studies can be considered as more compelling and more robust than single case study, this study will examine 10 different cases.

Among these, the first 8 cases consist of prominent CEOs of world class corporations who successfully overcame their crisis. The last 2 cases consist of founders of venture businesses who created a dynamic organization with transformational leadership.

In the selection of CEOs, the author considered criteria such as incumbent CEOs' with proven management capabilities among Fortune 500 corporations.

1-3 Organization of the Thesis

The research is organized into the following four chapters.

Chapter I examines the purpose, methodology and organization of the research.

Chapter II analyzes the concept and differences of transformational leadership studies which were made by several researchers.

Chapter III examines the turnaround cases of 10 prominent CEOs who effectively overcame the crisis in their corporations.

Chapter IV distills some of the common characteristics of transformational leaders which can provide implications for Korean business leaders in preparing for the next millenium.

II. Literature Review on Transformational Leadership

2-1.Concept of Transformational Leadership

1)Backgrounds

In the 1980s, management researchers formulated a new type of leadership described as "transformational" "charismatic" "visionary" and "inspirational" (Burns, 1978: Bennis & Nanus 1995: Tichy & Devanna 1986) which focused at the emotional and symbolic aspect of leadership influence. These researches have focused on how leaders influence followers to make self sacrifices and put the needs or mission of the organization above their materialistic self interests.

This study will regard the above concept as "transformational leadership" since it comprehensively incorporates the attributes of the visionary, charismatic and inspirational leaders. Corporations increasingly recognize the need for transformational leadership today for organizational transformation and organization revitalization. (Yukl & Fleet, 1992)

Leadership behavior of transformational leaders is quite different from that of the existing leadership theories. Existing leadership theories emphasized the transactional relation between leader and subordinate (Gran & Caxina, 1975), instruction and support (House,1971). Transformational leadership theories emphasize the symbolic leader, visionary and inspirational message, nonverbal communication, appeal to ideological values, intellectual stimulation of the leader to subordinate, self confidence of the leader and subordinates, leader's expectation about successful accomplishment of given task.

2) Comparison of Theories

(1)Transforming Leadership by Burns

An early conception of transformational leadership was formulated by Burns (1978) from descriptive research on political leaders. Burns (1978, p. 20) described transforming leadership as a process by which "leaders and followers raise one another to higher levels of morality and motivation." These leaders seek to raise the consciousness of followers by appealing to ideals and moral values such as liberty, justice, equality, peace, and humanitarianism, not to baser emotions such as fear, greed, jealousy, or hatred. Followers are elevated from their "everyday selves" to their "better selves." According to Burns' theory, transforming leadership may be exhibited by anyone in an organization regardless of his/her position. It may involve influencing peers and superiors as well as subordinates. It can occur in day-to-day acts of ordinary people, but it is not ordinary or common. Burns contrasted transforming leadership with transactional leadership. The latter type of leadership motivates followers by appealing to their self-interest. Political leaders exchange jobs, subsidies, and lucrative government contracts for votes and campaign contributions. Corporate leaders exchange pay and status for work effort. Transactional leadership involves values, but they are values relevant to the exchange process, such as honesty, fairness, responsibility, and reciprocity.

Burns (1978, p. 440) described leadership as "a stream of evolving interrelationships in which leaders are continuously evoking motivational responses from followers and modifying their behavior as they meet responsiveness or resistance, in a ceaseless process of flow and counterflow." Transforming leadership can be viewed both as a micro-level influence process between individuals and as a macro-level process of mobilizing power to change social systems and reform institutions.

(2) Transformational Leadership by Bass

Bass (1985) proposed a theory of transformational leadership that builds on the earlier ideas of Burns (1978). The theory includes two distinct types of leadership processes. Like Burns (1978), Bass views transactional leadership as an exchange of rewards for compliance. Transformational leadership is defined in terms of the leader's effect on followers: they feel trust, admiration, loyalty, and respect toward the leader, and they are motivated to do more than they originally expected to do. According to Bass, the leader transforms and motivates followers by making them more aware of the importance of task outcomes, inducing them to transcend their own self-interest for the sake of the organization or team, and activating their higher-order needs.

(a) Transformational and Transactional Behaviors

According to Bass (1985), leadership behavior can be described in two broad categories of behavior (transformational and transactional), with each having four subcategories . Bass views transformational and transactional leadership as distinct but not mutually exclusive processes, and he recognizes that the same leader may use both types of leadership at different times in different situations.

The original formulation of the theory (Bass, 1985) included three types of transformational behavior: charisma, intellectual stimulation, and individualized consideration. Charisma (also called "idealized influence") is behavior that arouses strong follower emotions and identification with the leader. Intellectual stimulation is behavior that increases awareness of problems and influences followers to view problems from a new perspective. Individualized consideration includes providing support, encouragement, and coaching to follower. A revision of the theory added another transformational behavior called "inspirational motivation", which includes communicating an appealing vision, using symbols to focus subordinate effort, and modeling appropriate behaviors (Bass & Avolio, 1990). Active management by exception includes monitoring of subordinates and corrective action to ensure that the work is carried out effectively. Laissez-faire leadership describes behavior that shows passive indifference about the task and subordinates (e.g., not monitoring, not responding to problems, ignoring subordinate needs).

(b)Transformational versus Charismatic Leadership

Bass views transformational leadership as distinct from charismatic leadership in several respects. According to Bass (1985,p. 31), "Charisma is a necessary ingredient of transformational leadership, but by itself it is not sufficient to account for the transformational process. Followers may identify with a charismatic celebrity and imitate the person's behavior and appearance, but they seldom become motivated to transcend self-interest for the benefit of an abstract cause. Like charismatic, transformational leaders influence followers by arousing strong emotions and identification with the leader, but they may also transform followers by serving as a coach, teacher, and mentor. Transformational leaders seek to empower and elevate followers, whereas many charismatic leaders seek to keep followers weak and dependent and to instill personal loyalty rather than commitment to ideals.

(c)Transformational versus Transforming Leadership

Transformational leadership is similar in many respects to transforming leadership, but there are also some important differences. Burns limits transforming leadership to enlightened leaders who appeal to positive moral values and higher-order needs of followers. In contrast, Bass classifies transformational leader as any leader who activates follower motivation and increases follower commitment, regardless of whether the effects ultimately benefit followers. Bass would not exclude leaders who appeal to lower-order needs such as safety, subsistence, and economic needs.

Burns includes three influence processes (legitimate authority, exchange, inspiration), whereas Bass has included only two (exchange and inspiration). Burns regards leadership as a distributed process carried out by many members of an organization or society, and he describes change at the macro level (organizations, societies) as well as change of individuals. Bass focuses on downward influence over subordinates, and the change of groups and organizations is only a byproduct of individual change. Finally, Burns does not identify component behaviors associated with exchange and inspiration, whereas for Bass the behaviors associated with each process are emphasized rather than the underlying process itself.

(3) Transformational Leaders by Tichy and Devanna

Tichy and Devanna (1986) conducted a study of 12 CEOs in a variety of organizations, most of which were large corporations. The primary method of data collection was to conduct interviews with the leaders and occasionally with other people in the organization. The interviews were analyzed to identify typical processes that occur when leaders transform and revitalize organizations, the behaviors that facilitate this process, and the traits and skills characteristic of transformational leaders.

a). Recognizing the Need for Change

The first requirement for transformational leaders is to recognize the need for change. When changes in the environment are gradual, many leaders fail to recognize the threats to their organization. An important role of the leader is to persuade other key people in the organization of the seriousness of the threat and the need for major changes rather than incremental adjustments. It is more difficult to make changes in strategy when the organization is still prosperous than when there is an abrupt crisis. It is more difficult to make changes in strategy that are incompatible with the existing culture than to make changes that build on existing values and assumptions.

b) Managing the Transition

After people recognize that the old ways of doing things are no longer effective and major changes are necessary, the next task of the transformational leader is to manage the transition process. This process includes diagnosis of the problem to determine what changes are necessary. A major danger for transformational leaders to avoid is the pressure for a "quick fix" that will not involve major changes. Another important function of the leader at this stage is to help people deal with the emotional turmoil of rejecting old beliefs and values.

Transformational leaders help people accept the need for change without feeling that they are personally responsible for failure. At the same time, these leaders increase followers' self-confidence and optimism about making a successful transition.

c) Creating a New Vision

When a leader discovers the need for major revitalization of the organization, it becomes necessary to find ways to inspire people with a vision of a better future that is sufficiently attractive to justify the costs of changing familiar ways of doing things. Effective transformational leaders create a vision that conveys an intuitive, appealing picture of what the organization can be in the future.

d) Institutionalizing the Changes

To implement major changes in a large, complex organization, the leader needs the help of top-level executives and a plan for getting the support of other important people in the organization. Once again, participation in strategic planning helps develop commitment to the plans. In effect, the transformational leader must develop a new coalition of important people, both inside and outside the organization, who will be committed to the vision.

2-2. Other Theories Related to Transformational Leadership

In the 1990s, there has been a new wave of leadership studies such as "value-driven leadership" (Badaracco,1990), "post-heroic leadership" (Bradford, 1998). In addition Farkas & Wetlaufer(1990) classified the representative approach of transformational leader as "change approach" among his 5 different approaches.

1) Value Driven Leadership

Badaracco classified leadership types based on management philosophies such as "political leadership" "directive leadership " and "value driven leadership". Each is an internally consistent set of assumptions about human nature, people in organization, the work of management, and the ways leader should work day-by-days.

(1)Categories of Assumption

Political leadership, as a philosophy of management of certain fundamental assumptions about human nature and about the way people behave in companies. These assumptions fall into two categories : the splintering forces that diffuse a company's efforts and the inertial forces that make companies bureaucratic and resistant to change. Unlike political leadership, directive leadership places importance on facts, on the strategic substance of decisions, and on the direct involvement of a leader in guiding the company to superior performance. 'Directive' leaders make three assumptions about people and organizations.

First, people are motivated more by internal forces than by external prods. Second, organizations need strong pushes toward coherence. Third, coherence and substance are more important than style. In other words, action is better than reaction.

On the other hand, 'value driven' leaders believes in the intrinsic work ethic of the subordinate and outstanding performance will come from the "hearts and minds" of employees attracted and motivated by higher values. They believe the leader's job is to harness people's deep needs and aspirations.

In addition, these leaders think beyond financial reward and prospect of career advancement, people value work that enables them to contribute to worthwhile purposes, that challenges their creativity, and that gives them a sense of pride and accomplishment .

Value driven leaders regard a company as much more than a political arena or one strong person's instrument for achieving economic ends. Companies are above all communities, in which people seek to meet a wide range of personal needs.

(2) Philosophy in Action of Value Driven Leadership

'Value driven' leaders institutionalize the values in the organization when values and beliefs become embodied in work, they can intensify employees' commitment, enthusiasm and drive, making a company a much stronger competitor. Shared values can give employees the incentive to work longer hours and do harder, more careful work. Values, such as trust, fairness, and respect for the individual can greatly, improve the quality and accuracy of communication, the integrity of the decision making process, and management ability to evaluate personnel and projects

2) Post-Heroic Leadership

(1) 'Heroic' Leadership

Bradford(1998) formulated a type of leadership called 'post heroic' leadership which has the opposite meaning of heroic leadership.

He believes most leadership theories make the same heroic assumption about fundamental difference between the responsibilities of leaders and subordinates. The leader is responsible for achieving overall success, making the critical decisions, and coordinating the actions of staff, while subordinates are supposed to run their own areas, point out problems, and follow the boss's lead.

The assumptions of heroic leadership contribute to a mutually reinforcing system that causes and perpetuates the leadership trap of control and passivity.

It is difficult to escape the trap because the role of subordinates does not include obligation to take responsibility for the coordination of the whole unit. Even when the leader is not controlling and is eager to have subordinates take initiative, they act from the perspective of their own area.

The tension and contradictions inherent in the heroic style blind the players in the system whatever their systems, to the commonality of their experiences.

They see individual flaws, not their shared assumptions as the actual cause of the problems.

(2) The Alternatives : Post Heroic Leadership

According to Bradford(1998), post heroic leadership begins with the new mindset, in which both the leader and subordinates take on new obligations.

Leaders must shift away from the traditional notions of sole responsibility and control to induce greater acceptance of responsibility and initiative by their subordinates.

In turn, subordinates must not only remain responsible for their own areas but become working partners in what is usually thought of as the leader's job.

Their duties include holding the leader accountable for his or her behavior just as the leader hold them accountable. The implication of shared leadership are profound. Shared leadership does not eliminate the leader's role or deny hierarchy: leaders still have plenty of work and remain accountable for the unit's performance.

For shared responsibility to work, three elements are necessary beyond the new mindset. First, a setting in which shared responsibility can occur. To make critical managerial and strategic decisions, strong, cohesive, team where those issues can be raised, debated and jointly resolved.

Second, basic agreement about the purpose and direction of the unit.

This requires developing commitment to a tangible vision of what the unit does that make it special and significant.

Third, a dramatic increase of team members influence on each other.

This leadership between individuals are based on mutual influence rather than dominance or avoidance.

Through the shared responsibility, tangible vision, mutual influence, leader and members can create better performance than the system based on 'heroic leadership'.

3) "Change Approach" for Maximum Leadership

C.Farkas & S. Wellaufer(1996) interviewed 160 CEOs of the world's major corporations and found 5 distinct leadership approaches such as "Strategy Approach", "Human Assets Approach", "Box Approach ", Expertise Approach" and "Change Approach".

A leadership approach is a coherent, explicit style of management, not a reflection of personal style. CEOs adopt the approach that will best meet the needs of the organization and business situation at hand.

(1) The Strategy Approach

CEOs who use this approach believe the most important job is to create, test and design the implementation of long-term strategy and devote most of their time to matters external to the organization's operations.

They tend to value employees to whom they can delegate day to day operation and those who possess analytical and planning skill.

(2) The Human-Assets Approach

CEOs who use this approach believe their primary job is to impart to the organizations values behaviors and attitudes by closely managing the growth and development of individuals.

They travel constantly and spend the majority of time in personnel-related activities such as recruiting, performance review and career mapping.

Their goal is to create a universe of satellite CEOs and tend to value long term employee who consistently exhibit "company way" behavior.

(3) The Expertise Approach

CEOs who use this approach believe the most important responsibility is selecting and spreading an area of expertise that will be the source of competitive advantage.

They devote time to activities like studying new technological research, analyzing competitors' product and meeting with engineers.

They tend to hire people with expertise, but seek candidates who possess flexible mind and lack biases.

4) The Box Approach

CEOs who use this approach believe the most value adding job is communicating and monitoring an explicit set of financial and cultural control.

They devote time for organizational control such as quarterly results, develop detailed policies, procedures and rewards to reinforce desired behaviors.

They tend to value seniority in the organization and often promote people with many years of service and rarely hire top-level executives from outside.

5) The Change Approach

CEOs who use this approach believe their critical role is to create an environment of continual reinvention, even if such an environment produces anxiety and confusion, and temporarily hurts financial performance.

They focus not on a specific point of arrival for their organizations but on the process of getting there.

They spend most of their time making speeches, conducting meetings and other forms of communication to motivate members of the organization. They spend their days in the field with a wide range of stakeholders at all levels of organization.

They value people who are aggressive and independent and they change the performance review and reward system. For them, seniority matters little: passion, energy and openness matters much more.

Farkas and Wellaufer found that a leadership approach will be most effective if it is correctly matched to the business situation and whatever the approach, it is important for the CEOs to act decisively and boldly.

III. 10 Representative Case Studies of Transformational CEOs

3-1. Louis Gerstner of IBM

1) Crisis of IBM

When Louis Gerstner took the CEO's position in 1993, IBM was facing a crisis mainly due to the enormous accumulated loss of US$16 billion since 1991, chronic bureaucratism and continuously declining productivity. While the computer industry was rapidly moving toward the PC and networking system market, IBM was too much dependent on the large mainframe business.

This one time representative U.S. company with the first electric typewriter and No.1 producer of mainframe computer was becoming an ailing dinosaur. Due to the long rooted elitism and bureaucratism, IBM's attitude toward customers was arrogant. IBM was not effectively responded to the consumer's expectations and market needs. As a result, despite their development of the world's first personal computer, they failed to recognize the rapid development of this market and fell behind to newcomers like Compaq and Dell.

2). Current Status of IBM

Since April 1993, IBM has been led by Louis Gerstner, who recently accepted the board's offer to remain at the helm until 2002.

Under his leadership, IBM achieved revenues of US$81 billion in 1997 with US$6.1 billion in net profit, making IBM the world's largest information technology company with more than twice the size of its nearest competitor,HP. IBM has targeted leadership in the creation, development and manufacture of the industry's most advanced information technologies including computer systems, software, networking systems, storage devices and micro- electronics.

3). Gerstner's Leadership Action

a). Drastic Restructuring of Organization & Corporate Culture

Shortly after Gerstner took the helm in April 1993, he let it be known subtly where tradition stood in the new IBM.
He did not do away with the three basic beliefs passed down some 73 years earlier by IBM legend Thomas Watson Sr. But the "respect for the individual" principle moved from the top of Watson's list to the bottom of the eight business principles handed down by Gerstner. At the top of the list was "The marketplace is the driving force behind everything that we do". Days of lifetime employment were gone and the battle of the survival of the fittest has started. Lay-off policy started from his predecessor was accelerated by reducing 45,000 during the first year of his term.

Through the drastic restructuring program IBM's headcount was reduced from 400,000 to 200,000, while the productivity per person has increased by two-fold during the recent 10 years. Lay-off was just a start of the medical treatment of the chronic patient IBM. Gerstner thought the most urgent and difficult thing is "renovation of the corporate culture" and "conversion of the way of thinking of the employees".
He withdrew IBM's traditional decision making system like "Contention Management" which caused "contention for contention" and also removed the traditional subordinate's veto system, the so called "pushback"

b). Gerstner's Guerrilla to Save the Dinosaur

Withdrawal of the lifetime employment and drastic lay-off gave the sense of urgency to the employees. (He emphasized the importance of the market and customer and made customer satisfaction as the most important criteria for performance measurement).
He recruited capable managers from outside and appointed them to key positions like CFO, and successfully mixed them with long-term IBM men who have expertise in technology.

He introduced a new concept of human resource management, so called "Gerstner Guerrillas and "China Breakers". He selected five thousand strong believers of his management philosophy and spread them throughout the front line organizations of IBM. In addition, he carefully selected the new and aggressive business leaders who can break the old framework of IBM's corporate culture.
His nomination of China Breakers as chief of the PC business unit in 1996 was a legendary success which led to the on time introduction of the new version "think pad" PC.

c).Sharing the New Vision of "Network Computing"

Gerstner's ultimate goal was to transform IBM from thinking of itself as a makers of boxes into a provider of one-stop solutions.

Gerstner was determined to regain the preeminent position in the industry. He wanted to remake IBM into the No.1 provider of network-centric computing products and services with the Notes groupware. Gerstner's new corporate vision, so called "Network Computing" was supported by industry leaders like Andy Grove together with the increasing Internet fever throughout the world. This vision was an effective stimulus for the IBM people who once were responsible for the information system of Corporate America.

4). Gerstner's Leadership Style

A native of Mineola, New York, Gerstner received a bachelor's degree in engineering from Dartmouth college and an MBA from Harvard Business School in 1965. He became the youngest partner of McKinsey & Co when he was 28 years old. Gerstner also served at American Express for 11 years and worked for RJR Nabisco for 4 years as CEO before he joined IBM.

Since he was the second son of a humble family of Long Island, N.Y, he had to work his way up with his own effort. He learned how to make a crisis into an opportunity for self development. This sense of crisis helped him to reshuffle the corporate culture of IBM.

His leadership style seemed bold and charismatic when he executed the drastic restructuring program with massive layoffs. However, he was not only thoughtful in establishing a new vision of IBM and network computing but also considerate in focusing on customers and shareholder values.

He was also a change-agent by adopting "China Breaker" and "Gerstner's Guerrillas" system.

3-2. NobuYuki Idei of Sony

"No More Conventional Japanese Management"

1). Crisis of Sony

When Nobuyuki Idei, a Sony corp. executive who was a relatively unknown in the clubby Japanese business world and even in Sony itself, became CEO in April 1995, Sony had unprecedented hard time. Until the1980s, Sony's "Walkman" and "transistor; Trinitron TV, radio' were the most prestigious brand name throughout the world.

However, the defeat in the battle for VCR standard specification beginning of 1980s against Matsushita's VHS was the first failure of Sony who put huge R&D resources and money for the promotion of Betamax system. Another failure was the acquisition of CBS Records and Sony Pictures which resulted in a huge loss as well.
To make the matter worse, even in the consumer electronics field where Sony traditionally believed to have core competence, were taken by strong competition.
Silicon Valley based multimedia related companies like Microsoft, Intel, Netscape, Oracle emerged as a threat in the "internet era" and eventually hurt leading "hardware" standalone manufacturers like Sony in early 1990s. Many journalists criticized them as the "Collapse of the Myth of Sony" at that time.

2). Current Status of Sony

Many analysts nowadays believe that Sony is the first truly global company to be able to offer hardware electronics, software contents, and distribution services. Since Idei's grand innovation started in 1995, Sony's performance has been remarkably successful. Sony is enjoying explosive turnover increase in passport sized digital video camera and Mini-Disc player market. The biggest surprise of Sony was the success in video game market, once the domain of Nintendo and Sega Enterprises. After only 2 years in business, Sony's Play Station game machine became No.1 in the world. In addition, long time trouble maker, Sony Pictures topped the US movie company in terms of box office receipts in 1997.
As a result, Sony's profit hit over US$3 billion in 1997 with US$50 billion sales. It was indeed a big turnaround from the loss of US$2.9 billion in 1995.

3). Idei's Leadership Action

a) Changing Corporate Concept from "Technology" to "Digital Dream Kids"

"Digital Dream Kids" means the realization of children's pure dream through digital technology. This means Sony's entering digital video camera market and participating the field of digital satellite broadcasting since Idei's inauguration in 1995. Sony showed strong intention to be the frontrunner of multimedia era through digital technology by participating in the computer- communication-satellite broadcasting-electronic game market.

Under the "Digital Dream Kids" concept, Sony wanted to retain the leading position even in digital era as they enjoyed during analog stand alone product era.

b) Strengthening the Promising Entertainment Business

Idei's qualification was proved by his strong drive to the so called entertainment industry such as movie-music-game business where Sony was traditionally not strong.

This drive was caused by the bitter lesson of the defeat in the battle of VTR standard specification with Matsushita in the beginning of 1980s that "the success of hardware depends on the software". Since then Sony intended "to be the strongest in software" rather than remaining as a "symbol of hardware technology".

Since being nominated as the new president, Idei strengthened Sony pictures entertainment, which had run up billions of dollars in debt.

In 1997, Sony produced 33 new movies taking No.1 market share with over US$1 billion box-office sales. Sony successfully introduced such movies as "Men in Black" "Sense and Sensibility" "Airforce One" from the crises of the disposal of the company due to huge accumulated losses.

Perhaps the biggest surprise has been Sony's bold entrance into the video game market which was dominated by Nintendo and Sega. Sony wisely understood that the key to winning the game machine sweepstakes was winning over many software developers who wrote the games since the kids will buy the machine with the best games.

Sony induced the developers by persuading its powerful CD-ROM format for holding more data and offering reduced payment that game developers must make to hardware company for each game sold.

c) Changing Sony's Organization toward "Slim & Global"

First of all, Idei trimmed the Sony board from 38 to 10, with 3 outside directors who can represent the shareholder's interest, and he started to put the drop-out directors to the front line of sales operation.
Second, for more independent management strategy formulation and implementation Idei established a second headquarter at N.Y. USA and he conducted regular overseas management meetings to keep the "global company" image.
Third, Idei put aggressive R&D investment reaching more than 5% of sales revenue for its traditionally strong segment of technology and newly emerging IT industry.

d) Establishing a Global Human Network

Idei focused Sony's attention and resources on the digital future, in which traditional consumer electronics products would converge with computers and communications technology. Idei sought advice on the computer business from Intel's CEO, Andy Grove; on the movie business from media mogul, Rupert Murdoch and on the digital world from Masayoshi Son, head of Softbank, a fast growing Japanese Internet company. He has done major deals with all three, getting Intel's help in entering PC business, and joining Murdoch and Son in satellite broadcast service in Japan.
While Sony's engineers race to mix and match technologies, Iedi has been forging as many business alliances as possible.
Sony also started to provide Web TV hardware for Microsoft and IBM making strategic partnership for shaping the new DVD format.

4). Iedi's Leadership Style

The golf loving, son of an economic professor, Idei is a Sony lifer who started in 1960, straight out of Waseda University. Waves of surprise rippled through the company when Idei was nominated for the job in April 1995.
He leapfrogged a dozen more senior managers, accomplished executives with nickname like "Mr. Walkman" "Mr. Semiconductor" and "Mr. Camcorder", for their roles in Sony's engineering triumphs
He studied European history in college. He is fluent in French and English, and held a number of marketing job in Europe and Japan.
Sony did not need a Techno-whiz. It needed a global manager who could master the ever increasing

complexity of the digital marketplace.

His leadership style can be seen as open-minded. As an example, he decided to follow its competitors' Toshiba-Matsushita standard of DVD format. He was also at the center of global human networking with the world's "inner circle" members such as Bill Gates, Rupert Murdoch and Masayoshi Son.
He was bold and decisive when he entered the entertainment industry like movie-music-game business, but he had a foresight to see the industry trend by changing the corporate vision of Sony from technology to Digital Dream Kids.

3-3. Jan Timmer of Philips

1). Crisis of Philips

In the early 1980s, Philips' reputation for engineering excellence and its financial strength was unparalleled. It was a prestigious company to work for, which pioneered the development of the audio cassette, the video recorder, and the compact disc. Despite its continued excellence in engineering innovation, Philips was having trouble in getting new product to market in a timely way. Margins were squeezed as manufacturing cost slipped out of line in comparison with Sony's and Panasonic's, and started falling even in the company's northern European heartland, where Sony was rapidly taking over the leading position.
During Philips's prosperous years, a tradition of lifelong employment was part of the company culture. Job security came in exchange for loyalty to the company and to individual managers. Informal rules and personal relationships dominated formal systems for performance evaluations and career advancement. Philips also had no effective mechanism for holding managers accountable for failing to achieve financial targets.
By the time Jan Timmer took over the helm at Philips in May 1990, the company recorded net loss of US$2.3 billion, while its rivals, Sony and Matsushita were buying up film studios. Philips, isolated in its company town of Eindhoven, looked distinctly provincial.

2). Current Status of Philips

Through a turnaround and reform program, called Operation Centurion (initiated by Timmer), Philips came out of the crisis of bankruptcy. After 5 years of effort, Philips recorded a profit of US$1.3 billion in 1994.

However, there are some critics about Timmer's 6 year performance saying that his underlying problems and barely reduced its bloat by comparing, Sony Corp. which competes in many of the same electronics product sectors, turned out US$43 billion in sales (versus US$37 billion at Philips) in 1996, with just 150,000 employees - 57% of Philips's 262,000 - strong workforce.

Before having the final decision of his strong 6 year reform program, under the severe competition with Japanese rivals, which threaten Philips's stable future, Timmer left the company on May 1996.

3). Timmer's Leadership Action

a) Organizational and Cultural Change

Timmer proposed organizational and cultural change named "Operation Centurion", which came from the army officer of ancient Rome, commanding a company of about 100 men. This brutal restructuring plan started with closing of factories, transferring production from high-cost Europe to cheaper Asia. About one-fifth of Philips's total workforce was let go between 1990 and 1993, reducing it to 240,000. In the same period sales climbed 5% to US$ 32 billion while net debt was cut by 43% to US$48 billion. Top managers were often hired from outside. The 6 member board of management, the firm's most senior decision-making body, include 3 foreigners. The 14-strong group management committee, which includes division heads has only 5 Dutchmen.

b) Consensus Building through "Centurion Forum".

Although the competitive landscape around Philips had changed, the company and its employees had not. Employees' personal compact favored maintaining the status quo, and resistance to change was imbedded in the culture. To achieve the turnaround, Timmer had to reach deep into the organization and not only lead the initiative but also closely manage it. Shortly after becoming CEO in mid-1990, he invited the company's top 100 managers to an off- site place at Philips's training center. There he explained the company's situation in stark term. To reinforce the message he handed out a hypothetical press release stating that Philips was bankrupt. In Operation

Centurion, Timmer captured the mind-set he wanted and created the process he would use to focus managers' attention on the new goals.

Timmer offered his managers new personal contracts, which were like the assignments given officers by their superiors in the Roman army specifying target for reduction in head count and operating costs as a formal budget agreement.
But Timmer knew that he could not accomplish his goals unless managers and subordinates throughout the company were also committed to change. So, at workshops and training programs, employees at all levels talked about the consequences and objectives of change. Timmer reached out via company "town meeting" to answer questions and talk about the future. His approach made people feel included and his direct style encouraged them to support him. It soon became clear that employees were listening and the company was changing.

c) R & D and Marketing Reform

Philips's engineers were very proud of their ability to make new high-tech products such as DAT (Digital Audio Tape) and CD-I (CD interactive). However, even though they were the first in the development, Sony and Matsushita always sold more with higher prices than Philips. Through the series of Centurion Forum among the R&D, production and marketing, they reached consensus on their problems and came up with countermeasures.
Up to then, R&D department put their resources to make just high quality product without considering the various needs of consumers' different taste. Marketing department was also inefficient in providing the right feedback about market movement and the requirements of different market segments.
Timmer started the organizational reform by unifying the R&D and production department for concurrent engineering through close cooperation from the initial stage of product development.

4). Timmer's Leadership Style

Not like the typical CEOs of multinational corporations with an MBA degree, Timmer is a mere high school graduate. He came from a humble family in Netherland whose father worked for a small bakery. He is a self-made man who became CEO from the bottom salesrank.
His business specialty was overseas sales in Africa where he devoted 18 years until he returned with

honor as a division head of Polygram, a music company. Through 4 years of successful operation of Polygram, Timmer grew Polygram into the world's Top 3 recorded-music producers and the most profit able business among Philips's divisions.
In 1987, he was promoted to the president of European consumer electronics division which is the core of Philips and he became CEO of Philips in May 1990.

He was the "Change-Agent " with spiritual revolution in introducing "Operation Centurion" through inspirational motivation to the employees.
Although he was charismatic, action-oriented "workholic", he proceeded the restructuring through open discussion with the employees not through the one sided layoffs or huge incentives.

3-4. Lars Ramqvist of Ericsson

1) Crisis of Ericsson

For over 100 years, Ericsson was beloved by many Europeans as a maker of reliable telephone sets, phone exchangers and also as a almost exclusive service provider of international telephone operation throughout Europe. In the early 1980s, Ericsson diversified into personal computer, office equipment manufacturing and information system business.

Unfortunately, since Ericsson lacked managerial and technological competencies to compete with global competitors in the newly entered businesses, it experienced huge losses during the late 1980s except in the mobile radio telecommunication field which was run by Ramqvist. When Ericsson nominated him as CEO, computer and OA market were dominated by US giants. However, US makers were not fully ready to enter this mobile telecommunication field which Ericsson had core competence. When he became CEO, most of the board members lost the conviction of the future business direction of Ericsson.

2) Current Status of Ericsson

Since Ramqvist was appointed CEO, he sold off money losing businesses and invested 20% of sales to the R&D of the mobile communication field which was fast a growing area. Thanks to his concentration on the core business, Ericsson developed the Pan European standard, GSM (Group Special Mobile) in 1991 with which more than 20million subscriber over 70 countries in 1996 and estimation of 100 million subscriber in 2000.

In addition, Ericsson started to make reasonable profit since 1992 with dominant market position in cellular phone market.

In 1994, sales revenue reached over US$10 billion with US$700 million profit, taking 40% of world market share of cellular phone and 60% of the global radio communication equipment market.

Thanks to these efforts, Ramqvist was named among the world's top 10 managers by Business Week.

3).Ramqvist's Leadership Action

a). Wisdom of Concentration on Essentials

When he became CEO, the first thing he did was to persuade of the board and investors to support his plan.

He believed that mobile communication is the driving force of Ericsson's vision in 21C. He persuaded "We have to realize we can not do everything, we have to concentrate that effort on our primary goals in telecom systems, in particular on mobile communications."

In 1991, He continued to invest 20% of sales in R&D, and persuaded the board to raise R&D investment through the sales of non-essential businesses and cost reduction program through lay-off and outsourcing.

The background of his huge investment on R&D was his insight to develop the digital mobile systems not only covering the European standard(GSM), but compatible digital system for USA and Japan.

Thanks to the explosive market growth, Ericsson's cellular phone and AXE public exchange switch were very successful generating high profits to the board and shareholders since 1992.

b). Alliance and Compromise than Confrontation

Ramqvist made best use of strategic partners in areas outside Ericsson's core competence and in its overseas operation. He also made strategic alliances with TI (Texas Instrument) for its micro electronics business in USA and Toshiba for Japanese market rather than establishing its own overseas subsidiary. Through these alliances, Ericsson was able to utilize its partners' manufacturing facilities.

In addition, he adopted compatible specification which can meet both the CDMA (Code Division Multiple Access), developed by American & Korean companies, and its own TDMA (Time Division Multiple Access) technology.

4) Ramqvist's Leadership Style

Mr. Ramqvist has unique background, unlike typical CEOs who have business management degree. He was a scientist with a Ph.D in solid physics from Stockholm National University.

He worked for 20 years as a researcher before joining Ericsson as a V.P. of Information Service in 1980 and then the president of Ericsson's radio communication subsidiary. He was nominated as the CEO only after 10 years of working experience thanks to his excellent performance in radio communication business.

He was not the man with brilliant management know how but he is the man keeping the principle stubbornly with amateurish sense. He didn't pursue short-tem profit but instead he strongly pushed and persuaded the stakeholders to approve a long term R&D investment, as well as to focus in the core business areas. He was the man of compromise rather than confrontation with an insight and intuition to see the forthcoming future.

3-5. Robert Eaton of Chrysler

1). Crisis of Chrysler after Iacocca

Even after several rationalizing programs were executed by the legendary CEO, Lee Iacocca, critics were suspicious about the effectiveness.
Although the Big Three from the US saw their sales drop, only Chrysler lost ground, sinking from No 6 to the bottom of top 10 list among worldwide automakers.
In 1991, Chrysler lost US$760 million. its debt rate was junk level, and the corporations pension plans were falling short by more than US$4 billion. In the domestic market, Chrysler was selling only one in twelve cars as opposed to five years ago when it was selling one of every nine cars. Critics argued that Chrysler's current financial problems were direct result of the scrimping on new-model investment in the end of 1980s.
Chrysler's board began to find the successor of Iacocca, but in vague situation because the candidates like vice chairman, Greenwald , left the company and next apparent heir like Robert Lutz was in trouble with Iacocca because of the rivalry between two.

2). Current Status of Chrysler

Since Robert Eaton, former president of GM's European division, became CEO of Chrysler from January 1993, the firm has enjoyed sharply increased sales, particularly its minivans, sport-utility vehicles. In 1993 net earning totaled US$2.4 billion, US$2 billion in 1995, with sales of US$53 billion.
Since April 1995, he faced the takeover attempt by Kirk Kerkorian, Las Vegas based institutional investor, backed by Lee Iacocca. Eaton successfully blocked their takeover attempt through good cooperation with Robert Lutz, vice chairman and successfully completed US$2 billion stock repurchase program in 1996. In 1998, Chrysler merged with Daimler Benz and established Daimler Chrysler AG, with combined revenue of US$130 billion, and 420,000 employees.

3). Eaton's Leadership Action

a). Team Based Participatory Management

Unlike Iacocca, Eaton was a consensus builder and a teamplayer.
Just after his inauguration in January 1993, he formed "platform teams" in the headquarter complex in Michigan to bring new vehicles to market, enabling Chrysler to design, engineer, test, build, evaluate and develop marketing plans under one roof.

They have cut product development time almost in half and made Chrysler the lowest cost automaker in North America. Its approach was radically different from the traditional sequential vehicle-development process.

He was less concerned with accomplishments than with momentum. The momentum he wanted was the type generated by "process thinking" which describes as the growing willingness to take the company's process apart and put them back together again, each time making them a little better.

b). Refocusing on the Core Auto Business

He got the consensus about vision and mission of Chrysler saying "we came up with a statement of purpose, which is to be a car-and-truck company that designs and builds cars and trucks that people want to buy, enjoy driving, and want to buy again".

He started to sell the company's non-automotive assets such as Gulf Stream Airlines which Iacocca had purchased, four car rental companies and three defense companies which caused losing its focus on the automotive business.

c). Settlement of Historical Merger with Daimler Benz

Since 1996, when he set some aggressive targets for overseas expansion, he found the limits of Chrysler's own resources in finding the investment returns which can meet the shareholders' expectation.

Eaton thought the auto industry, over the next ten years, will be consolidated into half the number of independent manufacturers and this trend will be speeded up because of the situation in Asia. Meantime, Daimler also tried to find the ideal partner to supplement its weakness in U.S. and Latin America. Chrysler was known for moderately priced cars and light trucks, while Daimler with its Mercedes luxury car and heavy trucks. Chrysler was strong in North America and weak in Western Europe, while Daimler was just the reverse.

Even though his position, after 3 years as co-CEO with Shrempp, is not certain and Eaton proactively and effectively sold Chrysler at US$38 billion to Daimler.

This merger will be a triggering event for the possible chain reaction of mergers in the auto industry.

4). Eaton's Leadership Style

Born in 1940, at Buena Vista, Colorado, Robert Eaton was very interested in the car business. After graduating from college, he entered GM Chevrolet division as an engineer. He developed the X-car, which was improved fuel efficiency during the second oil shock in 1979. When there was a recall decision of 1.1 million X-cars due to the breakdown of the brake, Eaton could win this 30-month long legal actions putting all the possible resources to verify the reliability of X-car. After then he was promoted as the president of GM Europe where he established the most competitive automobile factory in Europe investing US$660 million in East Germany.

He was a consensus builder and team player, with participatory management style. He also had the foresight and intuition to see the industry trend and eventually struck a grand merger deal with Daimler.

3-6. Ferdinand Piech of Volkswagen

1). Crisis of VW

The German auto company, who made the world's best selling automobile, "Beetle" and Europe's No.1 and fourth biggest company worldwide behind GM, Ford, and Toyota, suffered problems since the 1980s.

While Germany's car market was booming, fueled by unification, and with its sales and market share climbing, VW's problems were masked. Carl Hahn, who had run the company since 1982, concentrated on lifting European production, by buying SEAT in Spain and Skoda in Czech.

Mr. Hahn committed VW to investments in factories and new products of about US$30 billion over 5 years until 1996, considering the new demand coming from German Unification. Then in 1992, the German car market stalled.

German car workers found themselves the most expensive in the world.

In 1992, the German Auto Industry Federation found that the total cost of German car worker, at DM47 per hour, was two-thirds higher than the average for the rest of Europe and a third more than in America and Japan. Germany's other car makers faced similar problems and they also slashed costs to raise productivity. Mercedez and BMW could still get away with charging premium prices for cars. As a mass producer, VW found it harder to charge more for its cars simply because they came from Germany. Mercedez and BMW had problems in their overseas markets, but they were stronger abroad than VW especially in the important U.S. market. The company sold 560,000 vehicles in the U.S. However, in 1992, it sold just 82,000.

VW factories were so inefficient that to breakeven they had to operate at more than 100% of rated capacity, through overtime or by adding shifts (70% or 80% is the normal industry breakeven point). In addition, despite record sales in 1992 of US$57 billion, ranking it No. 14 on Fortune's Global 500 list, VW earned a mere US$50 million. But in 1993, when Piech became CEO it had the worst record of US$1.3 billion loss with 270,000 employees producing 3 million cars.

2). Current Status of VW

Thanks to Piech's various turnaround efforts, VW was no longer bleeding cash as in 1993, when it lost US$1.3 billion.

However, it still isn't very profitable. In 1998, VW reported a US$350 million profit on US$60 billion in sales, with its very low margin on revenue compared with GM's 3% and Chrysler's 5.7%. In the meantime, VW started its legendary model of "New Beetle" since 1998 from its Mexico factory and it also merged British ultra luxury car Rolls-Royce. However, domestic rival Daimler, which merged with Chrysler is already moving into VW's bread-and-butter market : small mass-market cars. The Mercedes A-class, launched in 1997 is aimed at the Golf, the VW's biggest-selling car, and Chrysler with its subcompact Neon.

The biggest challenge VW face is winning the support of those who fear any global expansion.

VW is an inward-looking company, 20% owned by the German state of Lower Saxony, whose ministers sits on the board and whose first concern is protecting jobs.

3). Piech's Leadership Action

a). Outsourcing and Reduction of Working Time Rather than Lay-Off.

The first challenge he faced was the low productivity of the Wolfsburg factory where there were 60,000 'Meister'. Since there was a "management committee" consisting of management, labor and state government, it was difficult to make lay-off unless consensus is reached.

So, Piech changed the 'inhouse' production policy to maximization of efficiency through outsourcing by hiring outsourcing specialist, Mr. Lopez. In addition, to keep the jobs for the employees, he reduced the working time of workers rather than laying them off from the hometown of VW, Wolfsburg factory.

b). Rationalization of Production System

Piech addressed a major part of the problem with a program to reduce VW's production from 16 car platforms to only 4, by unifying the engine and major component of 'Audi' and 'Golf' for example. This contributed savings of nearly US$2 billion from manufacturing cost. In addition, he pushed the deep-rooted bureaucratic workers who took 30% of the total workforce, to the front line direct manufacturing jobs.

c). Victory of German Capitalism

Through the silent and indirect way of solving problems, for the first time in VW's history, management and labor union agreed to lay-off 36,000 employees to save the VW from low productivity. Not like the dry and inhumane lay-off process of the USA, it was the victory of German style capitalism which led to consensus among the participants, even if it may have taken longer and higher cost to reach the conclusion.

d). Reproduction of Symbolic "New Beetle" of VW

In 1997, Piech decided to produce the 'New Beetle' as a tribute to his grandfather, Ferdinand Porsche who established VW 60 years ago.

Thanks to the revival, the old-fashioned cars, New Beetle, which is produced in Mexico is very successful in the North American market.

4). Piech's Leadership Style

Piech was born in 1937 as a grandson of Ferdinand Porsche the founder of VW, and graduated from the Engineering College of Zurich, Switzerland. He worked as an engineer in Porsche, where he built a reputation as an intense and extremely determined manager until the late 1970s. Beginning 1980, he moved to VW subsidiary Audi, where he enhanced his reputation as a demanding taskmaster making it a uniquely profitable company among VW subsidiaries.

His leadership style was determined but humane as demonstrated in the layoff agreement. He was very persuasive and consistent even if it took long time and high cost. He also showed 'expertise approach ' in rationalization of production system as an engineer and specialist in that field.

3-7. Arthur Martinez of Sears

1). Crisis of Sears

The 70 year old retail giant, Sears, Roebuck and Co. was well down the slope prior to Martinez's arrival in the fall of 1992 as CEO of Merchandise group. Management was preoccupied with running its non core businesses, such as All State Insurance and brokerage Dean Witter, while the company's stores were left to oblivion.

Mall operators didn't want Sears as a tenant for fear it would scare away traffic. Meanwhile, competitors were increasing market share. By the late 1980s and early 1990s, competitors including Circuit City, Best Buy and Home Depot, were Zeroing in on Sears's business.

Comeback kid J.C. Penny and a host of specialty mall-based retailers were taking its share of the apparel market.

The year 1992 was the worst in the history of Sears. Net loss was US$4 billion with sales revenue of US$31 billion. The company's operating profit as a percentage of sales was a mere 0.7% compared to Wal-Mart's over 6% in 1992.

The primary cause of Sears's thin margin was the bloated expenses. Selling, general and administrative costs were 23% in 1992, while Wal-Mart's were a neat and tidy 14.9%. Instead of reinventing itself as J.C. Penny had done in becoming a moderately priced mall-based department store, Sears continued to flounder.

2). Current Status of Sears

The turnaround unfolded under the direction of Arthur Martinez, who became the company's CEO in 1995. Since Martinez took over Sears' merchandising, sales increased 13% to US$35 billion, while earnings have almost tripled, to US$1.2 billion. The stock price has gone from US$15 in 1992 to US$46 in 1996. Sears' reemergence from the retail ashes can be traced back to several key decisions Martinez made in his first 100days as head of merchandising.

3). Martinez's Leadership Action

a). Refocusing on the Customers

When Martinez came in, Sears didn't know whether they were a discount store, a specialty store, or a department store. Sears had no concept of a unified target customer.

First, he refocused the target customer from men to women between the ages of 25 and 54 with average household incomes of US$38,000 a year. He believed 'she' is the center of our universe, if we are not top of the line for 'her' set of choices, we are going to lose to somebody else.

Next, he started a large scale renovation program to change the traditional men's store image to women's soft image by putting US$4 billion for 5 years on improving and expanding the shopping environment.

Last, he reengineered store operation and service strategy such as accepting all major credit cards, putting the best employees during evenings and weekends and Sunday delivery services.

b). Surgical Turnaround of the Business

First, He declared Sears to recover its basic identity as a retailer. So, he sold or spun off the non retailing side of Sears, including Allstate Insurance, the Dean Witter brokerage house and the Coldwell Banker real estate chain.

Second, he closed the 101-year-old catalog business which was the soul of the company's roots since it was losing US$1.5 billion a year.

Third, he closed 113 stores and laid off about 50,000 people, 17% of the total which means the largest shake-out in retailing history.

c). Cultural Transformation for Stakeholders

He established the so called employee-customer profit chain model to make Sears as a compelling place to work and invest. In addition, he suggested shared value as passion for the customer, value adding people and performance of the leadership. He also formulated "Town Hall Meeting" for the open discussion among store managers, in-store associates and district managers.

d). Entering Value Adding New Businesses

First, Martinez swiftly moved into new private-label merchandise business. Revenues from private-label apparel has jumped from US$360 million in 1994 to US$1.2 billion in 1996. Newly introduced "Circle of Beauty" brand of cosmetics designed for moderate-income customers and "Canyon River Blues" new jeans and casual wear also enjoyed good reputation.

Second, considering the tough retail environment with operating margin of only 2.6% in 1995, he emphasized the different type of off-the-mall stand-alone outlets such as the current 108 stand-alone hardware stores in major urban markets. Then there are franchise stores which carry appliances tools and electronics.

These stores, which carry the Sears name are located in rural areas, where many of the former catalog purchasers reside. The number of such stores where Sears controlled the pricing and marketing reached 375 franchise stores in 1996.

Third, he expanded into the promising service market which consists of such services as roofing repair, carpet cleaning and pest control.

4). Martinez's Leadership Style

A native of Brooklyn, New York, Irish with a trace of Spanish blood, Martinez graduated with a Bachelor from Science of Polytechnic University and graduated with an MBA from Harvard Business School in 1965. After graduation, he worked in Exxon Chemical for 10 years and entered RCA Corporation as a financial manager. In 1980 he joined Saks Fifth Avenue and was promoted to vice chairman in 1990. In 1992, he joined Sears as the CEO of Merchandise group and finally became CEO of Sears in 1995.

He was the catalyst who could accelerate Sears' change and was a man who concentrated on his competent areas.

3-8. George Fisher of Kodak

1). Crisis of Kodak before Fisher

Kodak started to feel the limit of the film industry when the digital scanner and computer graphic technology was introduced in mid-1980s. Kodak was uneasy to see the new movie market which enable the movie production without film thanks to the elaborate 3 dimensional animation and high picture quality video technique.

Kodak tried to diversify the business by investing in unrelated industry such as consumer products, including Lysol, and pharmaceuticals, office equipment which created a huge burden to repay the interest of the debt with the money from the film business. Since the early 1990s, Competitors like Fuji Film and private-label manufacturers threatened up to 30% of Kodak's once proud monopoly. Film sales revenue dropped to US$16 billion in 1993 from US$20 billion in 1992 with only US$670 million profit which was 50% lower than 1992.

In 1993 the board fired the former chairman Kay Whitmore and nominated George Fisher, then CEO of Motorola, who had nursed the cellular phone business from infancy to No.1.

2). Current Status with Another Crisis

Fisher has methodically rebuilt confidence among Kodak's stakeholders while refocusing the company on its core business and at the same time pushing new techniques and ideas.

Since 1993, debt has fallen to 19% of capital, and Kodak earned US$1.5 billion on sales of US$16 billion in 1996.

Since Fisher's appointment, the stock price has increased by more than 70%, to about US$ 80 in the end 1996.

However, the disaster struck. First, came the price war with the powerful enemy Fuji Film. Despite cutting prices, Kodak faced its U.S. market share drop to 65% from 70% and the digital unit lost US$440 million in 1997.And the WTO ruled against Kodak in a dispute over opening up the Japanese market.

Having promised to make Kodak bigger and better, Fisher had to resort to massive layoffs of 20,000 employees to cut expenses.

But now Fisher and Kodak are on an upswing. Cost cutting measures pushed operating profits up 38% during 1998. While Kodak has yet to regain U.S. market share in film the business, Kodak's stock price increased 20% in 1998. Fisher can concentrate again on pushing the company to grow.

3). Fisher's Leadership Action

a). Turnaround through Refocusing the Core Business.

Fisher began the turnaround in May 1994 by laying out a three-phase plan.

First, to reconfigure Kodak, he sold all businesses unrelated to photography, repaid most of the debt, and separated the company's embryonic digital-electronic imaging operations from its traditional, chemistry-based photographic division.

Second, to boost profit, Fisher set strict financial goals that include achieving virtual perfection in manufacturing quality, the so-called six-sigma standard.

Third, Kodak aggressively developed the emerging market, particularly India and China where it showed the growth of film sales revenue of 25% and 50% respectively.

b). Joint Development and Marketing of New Product

Fisher launched a new product, notably an advanced photo system camera called the Avantix, which Fisher described as hitting the sweet spot where digital and film meet. This hybrid, variation of which Kodak's key competitors like Canon and Nikon are marketing as well, enabled film to do what it did best-capture pictures, with high quality at low cost. With this new camera, which cost between US$100~US$450, consumers were able to have their snapshots put on compact discs. They could transmit the images to friends and family via personal computers.

c). Alliances with Digital Era Giants for Digital Imaging Business.

Kodak joined with Hewlett-Packard, Microsoft and Live Picture, headed by former Apple Computer Chairman, John Scully, to develop a product called Flash Pix. This computer software allows people to edit photos more quickly, using less memory than competing products require.

In addition, most recently, Fisher has been forming digital alliances partnering with Intel to put pictures on CDs and with American Online in "You've Got Pictures, a service that allows an AOL members to drop off film and have it "developed" and then delivered via e-mail to his AOL account. Fisher said about the future of Kodak "we'll always sell film, paper and chemicals. But in the future, we'll let people take pictures and scan them in digital form, and we'll make money on the different media such as CD or the Internet, or material for output-ink-jet paper, thermal papers, traditional silver halide paper.

4). Fisher's Leadership Style

George Fisher, Ph.D in applied mathematics from Brown University, already had experiences in overcoming crisis at Motorola, the No.1 cellular phone maker and one of the most admired companies in U.S.A. When he was scouted as a director of production system of Motorola, it was suffering due to delay of product development and unreliable quality. Fisher initiated the so called "6-Sigma" standard, which targeted the defect ratio of product or components down to 3.4 out of 1 million pieces.

Through this program, Motorola was able to lower the defect rate and shorten the cycle time of the company. Thanks to his brilliant management ability, Motorola achieved 3.3 times increase in profit and 2.5 times increase in sales revenue during his tenure as CEO since 1993.

His leadership style was very humane and friendly with individualized consideration to the employees. He also was man of expertise in concentrating on the competent areas of Kodak and was considerate in nominating the future heir 3 years ago.

3-9. Richard Branson of Virgin

1). Who is Richard Branson

One of the world's most imaginative entrepreneurs, raffish British tycoon who has splashed his company's Virgin logo on everything from airlines to a bridal service, a self described "adventure capitalist" who tried round tour of the world with a floating balloon, Richard Branson was the founder and CEO of Virgin. He is the head of Atlantic Airways and a diverse US$2 billion travel-entertainment-retailing with presence on every continent in the world.
Born in 1950, having a happy and secure childhood, Richard Branson was raised in a strict family. He grew up to be a typical mischievous naughty boy and entered the Stowe School, but being crazy about sports with no interest in study. Not long into his study he quit school and established a national magazine called 'Student' at 17 years.

2). History of Virgin

In 1968, he established a national magazine called 'Student' as an editor, publisher, and sole advertisement manager, and enthusiasm succeeded him in gaining the national recognition.
In early 1970s, he started Virgin record mail-order operation, the record store 'Virgin Retail' and Virgin Recording Studio for pop music.
Since late 1970s, virgin signed with famous rock band such as 'Sex Pistol', 'Culture Club' led by Boy George. With no longer constrained by lack of capital, Richard Branson wanted to expand his business in a completely new direction, Airline industry.
In 1984, he established Virgin Atlantic Airways with one plane under the British airways' strong domination. However, he overcame such disadvantage by differentiating the services including world's first drive-through cheek-in at Heathrow airport and providing special dietary catering service.

These differentiating factors made the company become UK's second largest long-haul carrier in passengers and freight size, flying over 2 Million passengers a year. Now, Virgin operates with no division and 150 enterprises with the Virgin name which records over US$4 billion in sales revenue. He says you can fly throughout Europe or across the Atlantic on Virgin Atlantic having insured your life with Virgin Direct, with drinking Virgin Cola, listen to Virgin Radio, and get married with the Virgin Bridal service.

3). Branson's Leadership at Virgin

a). Ability to Provide 'Fun' to People

He has almost unerring ability to attract the consumers, particularly younger ones, with the market leading 'fun' product through innovation.

He also has business ability to motivate people who work for him with much fun. Branson also made himself into a kind of people's capitalist, a Robin Hood figure fighting against big conglomerates on behalf of the consumer.

b). Believer in the Power of Brand

He believes "consumers understand that all the values such as good service, style and quality that apply to one product will apply to the others.

With this belief, Virgin name has been extended to business as different as vodka and insurance and he absolutely believes in the power of brands, much the way that P & G or Coke does.

c). Retaining the Culture of the Small Company

Despite billion dollars of revenue with more than 100 companies, there is no corporate headquarters, no large corporate structure. Yet he continues to enlarge the business while retaining the feeling and culture like a small company. He is proud that "We can decide something in the morning and have it running in the afternoon."

d). Strong Frontier in Developing New Business

In the past 20 months Virgin has gone into 8 new businesses in eight completely different areas. He likes to start from scratch and build a new company his way even if it's totally unrelated with existing business.

3-10. Jerry Yang of Yahoo

1). Who is Jerry Yang

Jerry Yang ranks number 32 among the 100 richest in U.S.A. with personal wealth of over US$200 million, while Yahoo is No. 6 among the world's top information technology leaders. 29 year old, co-founder of Yahoo was born in Taiwan, raised in San Jose, California. He received BS and MS degree in Electrical Engineering at Stanford University.

2). The History of Yahoo

a). The Birth of Yahoo

When David Filo and Jerry Yang set out in 1994 to sort and share their favorite Web sites with friends and the world, they weren't dreaming of millions or carefully orchestrating a business plan. The first version of a directory introduced in April 1994 as a hobby was called "Jerry's Guide to the World Wide Web." They cooked into the Webster's on line English dictionary to find suitable name. Finally they named YAHOO, Yet Another Hierarchical Officious Oracle.

b). Growth of Yahoo

Jerry Yang added "what's new" and "what's cool" to compete against new comers like Lycos and Infoseek.

Yahoo got the capital support of US$4 million from venture capitals called Sequoia Capital.

And then, Yahoo recruited new CEO Timothy Koogle who worked for Motorola & Intermec Corp.

In 1996, Yahoo listed in the NASCAQ market while winning big investment from Soft Bank of Japan which purchased 30% of shares.

Thanks to the explosive soaring of its stock by 500% in 1997, market value of Yahoo amounted around US$6.8 billion as of July 1998.

Today, Yahoo is valued as the first Internet company to turn its name into a brand. Now Yahoo is a global internet media that offers a network of branded Web programming services. Today more people visit Yahoo's site than any other location on the Web, about 30 million visions per month, millions more than Netscape's. Yahoo's more than 12 million registered users for its services such as

Yahoo Mail and Yahoo Chat equal AOL's subscriber base

3). Leadership of Jerry Yang

a). Creative Entrepreneur

He is the creative entrepreneur who turned idea and hobby into the internet media venture. He has also financial foresight especially planning for cash flow. He is also good at building top management team and putting limit on the part of the founding entrepreneur of his own role, area of work and relationship with the venture capital.

b). People Centered Management

He says "what keeps most Silicon Valley company alive is people".

Many Yahoo employees believe they have both the integrity of Hewlett-Packard Co, and the talent and ambition of Microsoft.

Jerry Yang tries to have maximum support for its 475 employees with the pride and enthusiasm through the selection and development of key people in the organization, with comparatively high compensation contingent on organization performance, extensive sharing of information through the organization, and reduction of status differences and barriers in the organization.

He believes "we have to keep the people creating, keep the people imaging, keeps the people being the smartest".

c). Idea-Oriented Leader but has Youthful Enthusiasm

Jerry has a good global strategic partnership with 14 overseas sites. He still surfs the Web with 28.8K modem, spends time with his family, bikes, hikes, golfs and watches Sumo wrestling. He is very much a regular man but idea-oriented, youthful, enthusiastic leader of our era.

IV. Conclusion

4-1. Common Attributes of Transformational CEOs

Through briefly looking at the 10 different case studies of transformational CEOs, the author found several common characteristics of transformational leadership, which was described by B.M. Bass and Avolio in their recent studies. When most CEOs encountered crisis internally or externally, they showed the following common behaviors.

The first characteristic was an idealized influence (charisma) which can be described as CEO's behavior that results in employees' admiration, respect and trust. This also involved risk sharing on the part of CEOs.

Second was inspirational motivation which provided meaning and challenge to employees' work. This included behaviors that articulated clear expectation and demonstrated commitment to overall organizational goals.

Third was intellectual stimulation which solicited new ideas from the employees and encouraged new approach for performing work.

Last was individualized consideration which included CEOs' paying special attention to employees achievement and growth needs.

Although some CEOs undertook drastic restructuring by laying off employees, most of them tried to provide a new vision and goal for the organization through open discussion and with a human touch to their employees.

At the early stage of their tenure, most of them set a totally new corporate culture and new concept of human resource management.

Idei's (Sony) "Digital Dream Kids", Timmer's (Philips) "Operation Centurion", Gerstner's (IBM) "Network Computing" and "China Breaker" are few good examples of the new approaches.

Through these approaches, they drove the companies to new dimensions which had not been experienced by their predecessors.

Other noteworthy characteristics include their global human network with industry leaders and even with competitors. Idei of Sony became one of the key inner circle members of digital world business leaders through good personal and business network by maintaining close relationship with Andy Grove (Intel), Rupert Murdoch, Bill Gates and Masayoshi Son (Softbank). Fisher of Kodak formed alliance with HP, Microsoft and Live Picture to develop new computer software whereas Ramqvist (Ericsson) made best use of strategic alliances with Qualcomm, its key competitor in standardizing mobile communication specification.

Most of the 10 CEOs had good insights and intuition on the forthcoming future of industry movement and their own resources. For instance, Eaton of Chrysler settled the historical merger with Daimler through his thoughtful insight in the automobile industry and balancing well with Chryslers' own resources. Idei of Sony strongly pushed the movie-music-game business where Sony had traditionally little experience while Ramqvist (Ericsson) insisted to give up all businesses except its core business of mobile communication.

Many of the CEOs were good in taking symbolic actions in turning around their companies. Good examples include Piech's (Volkswagen) declaration of "New Beetle" reproduction, revival of the 60 year-old symbolic model which was developed by his grand father, while Martinez (Sears) refocused on its customers proclaiming that "the customer is the center of our universe".

The 10 CEOs of the study demonstrated the transformational leadership characteristics, described by Tichy and Devanna (1986).

First of all, they commonly recognized the need for change in their organization

Second, they managed the transition process through quick diagnosis of the problem to determine what changes are necessary.

Third, they created a new vision that conveyed an intuitive, appealing picture of what the organization should be in the future.

Fourth, they implemented major changes by developing new coalition with key personnels from both inside and outside the organization.

4-2. Limitation of the Research

Generalization of the common characteristics of transformational CEOs' has a limit due to the following reasons.

First, it is difficult to verify and quantify the characteristics of CEOs' behavioral or mental aspect only through publicly available secondary data.

Second, since most of the CEOs are still in the incumbent position, there is a risk in defining their performance as a success.

In addition, since all the cases mentioned in this thesis are non-Korean CEOs operating in a different business environment and corporate governance system from those of Korea, there can be limitations to applying the lessons to Korean CEOs.

Future research could explore the transformational leadership characteristics of Korean CEOs, especially in the electronics business field, which requires more dynamism and change than other businesses.

In addition, it could be meaningful to compare the leadership characteristics and style of US, Japanese and Korean CEOs in the electronics industry as they compete for the leadership position in the 21st century.

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Leadership Comparison of the 10 CEO'S

	Name	Company	Nationality	Line of Business	Age (as of End '98)	Educational Background	Business Background	Tenure As CEO	Character (leadership Style)
1	Louis Gerstner	IBM	USA	Computer	55	Harvard MBA	AMEX & Nabisco	5 yrs	Bold, Charismatic with vision Networking, Change agent
2	Nobuyuki Idei	Sony	Japan	Electronic & Multimedia	61	BA of European History of Waseda	40yrs at Sony	5 yrs	Open minded, Global Network , Vision with Foresight
3	Jan Timmer	Philips	Netherland	Electronics	65	Hi school Graduate	40yrs at Philips	4 yrs	Change agent ,Charismatic ,Action oriented
4	Lars Ramqvist	Ericsson	Sweden	Mobile Telecomm	60	Ph.D in solid physics	Researcher & 18yrs With Ericsson	8 yrs	Compromising, Insightful , Focusing, Stubborn
5	Robert Eaton	Chrysler	USA	Auto maker	58	Engineering College graduate	30yrs at GM 7yrs at Chrysler	7 yrs	Consensus man, Team player, Change agent , Focusing on competence
6	Ferdinand Piech	Volks wagen	Germany	Auto maker	60	Engineering College of Zurich	15yrs Porsche & 10yrs Audi	5 yrs	Determined but humane, Expertise Approach, Persuasive & consistent
7	Martinez	Sears	USA	Retailing & distribution	61	Harvard MBA	Exxon RCA As Financial manager 8yrs with Sears	4 yrs	Change agent, Focusing on Competent area
8	George Fisher	Kodak	USA	Film Maker	58	Ph.D of Applied math of brown Univ	17yrs at Motorola	5 yrs	Humane, Friendly ,Focussing Competence
9	Richard Branson	Virgin	USA	Airline & Entertainment businesses	48	Flight school Dropped out	Founder of Virgin group	-	Fun the people, Innovator, Brand power supporter, Strong frontier
10	Jerry yang	Yahoo	USA (Taiwanese)	Internet Software company	29	MS of Stanford	Co founder of Yahoo	-	Creative, Idea oriented, People centered