Chapter 1

Craziest Idea I've Ever Heard—Let's Do It!

As a boy growing up in New Jersey, I never envisioned a career in finance leadership. No, I wanted to be a sports journalist. In fact, I wanted to be the next Mel Allen, the baseball broadcasting legend. Allen was a guy from Birmingham, Alabama, who, arguably, was the preeminent baseball announcer in the country. He was the voice on the other side of the radio wires as I listened to my beloved New York Yankees during the 1950s and 1960s.

I watched them play on television as well, of course, but in those days, well before cable sportscasts, we could see only the Yankees' home games on Channel 11, WPIX, in New York. I'll never forget Allen's famous catchphrase—"Hello out there, ever'body!"—that began his broadcasts. Today, I often use this effusive greeting to open teleconference meetings.

I thought there was no better, more exciting way to make a living. My mother had other ideas: "That's no job for a nice Jewish boy." (Clearly, she had no clue about Mel Allen's religious background; he was another nice Jewish boy.) At the time, although it was certainly disappointing to hear those words, somehow I knew she was right. I wouldn't be the next Mel Allen.

Nevertheless, my career path has delivered me to the role I believe I was born to fulfill. I still love the Yankees, but that dream of being the voice and face of the Bronx Bombers is now a distant memory, however fond. My days as CFO of AT&T Capital Corp., then later as CEO of Compaq Financial Services—were in retrospect, natural progressions in a life I believe has been defined by a passionate, driven desire to succeed and leave my mark on the American corporate landscape.

Each executive's journey to the pinnacle of corporate leadership has its own stories, its lessons learned and ignored. Each journey is unique. Like fingerprints, no two are exactly alike. My own journey hasn't been without a few missteps along the way, a miscalculation or two. But it's a journey colored for the most part by an operating philosophy that has served not only me well, but has also served my companies and the people who have worked for me over the years.

Certainly, it's been put to the test. We've endured three debilitating recessions during my tenure, including our most recent economic meltdown, the likes of which I had never seen. However, we've survived these difficult times well, coming out in better shape than most businesses for more than a quarter century, spanning senior leadership roles at AT&T, Compaq, and, since 2002, Hewlett-Packard.

Success in business is born of equal parts hard work and simply out-hustling the other guy (getting your fingernails dirty, if you will); taking calculated risks and keeping an open mind to innovation, no matter how out there it seems; understanding the global economy and the markets that define your business growth and potential; and learning as thoroughly as you can the industry in which you operate.

Simply put, you can't steal second base by keeping your foot on first. I've had to fight through an entangling thicket of management risk at many points along my career path—taking 180-degree turns in the midst of billion-dollar projects, telling bosses things they didn't want to hear, seeking approval for initiatives that defied conventional wisdom.

Lessons from the executive office leave their mark for good or bad. They can be like shrapnel, inflicting damage that takes a period of healing to overcome. Sometimes these lessons serve to elevate you above the fray, above the myriad obstacles to the next phase of your particular journey.

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How do you develop and master a business philosophy that will guide you the length of a career that's a high-wire negotiation with no safety net below? Sometimes, it begins with a grilled-cheese sandwich.

It was the mid-1980s, less than a year after I had joined what would eventually become AT&T Capital. It was a time of economic volatility, marked by lots of merger mania and a national economy rebounding after years of inertia. American corporations hungered for expansion and increased revenue, wanting to grow new and innovative businesses.

AT&T Capital—originally AT&T Credit Corp.—was the financing and leasing arm of AT&T. At the time, I was serving as

CFO, the number two in a business that was picking up steam but having to make tough choices regarding its operational direction. We had an opportunity to develop a financing model for small telephone systems, one that could be perfect for small business customers. I understood early on that such an enterprise in the United States might involve hundreds, maybe more than a thousand, deals a day.

No doubt, it would be hugely labor-intensive, requiring countless schedules and innumerable company staff. In other words, a massive amount of data would have to be managed every day. Even more challenging, it required a full-out corporate commitment if we were to have any chance of success.

Still, the concept was untested. AT&T was more than a little reluctant to commit the funding we needed to build a back office for this project. At least internally. Eventually they warmed to the idea, however, on the condition that we lay off operations responsibility (read: the risk of investing budget dollars in such an opportunity) to somebody else. The potential of this thing was enormous—hundreds of millions, if not billions, of dollars. So we outsourced it to Chase Manhattan Bank, a classically organized command-and-control operation.

Normally, that would have given us supreme confidence; however, it soon became quite apparent that Chase was screwing it up. In retrospect and understandably, AT&T didn't care who was responsible for screwing it up. Poor execution was costing them substantial revenues, and we were the face of a project that was making many of my colleagues very nervous.

This was more than a situation where a company might pull the plug on an inefficient or money-losing department. The concept of a captive finance company within the AT&T empire was a notion that held extraordinary promise, and here it was, veering toward the ditch. None of us wanted to see it that happen, but what could be done to ensure that this promising idea would remain on track?

In early 1986, President and COO Tom Wajnert called me into his office and laid it on the line. "I want you to take oversight responsibility," he said. One could take the view that he wanted to distance himself from what appeared to be an impending disaster. The two people running the operation for us at the time, Gerri Gold and Jim Tenner, were high performers trying to fix a huge mess, and I feared they were about to watch their extremely promising careers circle the drain before they'd even had a chance to succeed.

Gerri was bright, energetic, and highly motivated. She had joined us after earning a degree in business administration from the University of Michigan and an MBA from New York University. Jim was a product of Middlebury College in Vermont and held a Masters from Dartmouth's Tuck School of Business. They had worked under AT&T Treasurer, S. Lawrence "Larry" Prendergast as part of the original study team that wrote the business plan for the captive finance business.

They were intelligent and already accomplished, with big futures if they could make this project work. We were struggling to devise an operating methodology that could turn this lemon into lemonade when Gerri and Jim approached me one day and suggested we meet with one of the consultants advising American Transtech. Transtech, a sister subsidiary company at AT&T, was a securities process business—in effect, a processing clearinghouse—that had a unique approach to organizational design.

Its idea was to organize small, autonomous teams of employees with broad responsibility to operate without the stricture of a linear management style. Although common to many American businesses these days, it was a radical concept in the 1980s. In practice, it created a laissez-faire work environment. Transtech personnel often came to work (well before the dot-com era, when such workplace uniforms became routine) in shorts and T-shirts with their hair in ponytails—and I am referring to the guys!

This unorthodox structure was the brainchild of Transtech consultant Paul Gustavson. Gerri and Jim arranged for all of us to get together for lunch and talk about Gustavson's approach to running a business. Lunch? I never do lunch, unless it's with customers. Otherwise, it's a complete waste of time. Still, I agreed to the meeting. Gerri and Jim had been persuasive. They were true believers that this concept would work.

Gustavson was a graduate of Brigham Young University with a Masters in organizational behavior. We couldn't have been more different. I was a kid from New Jersey with a penchant for throwing elbows in a very competitive East Coast business environment; he was a Mormon and a veteran of religious missions to Africa on behalf of his church. The personal differences didn't end there. I was a former basketball player; he was a walk-on who played for the well-regarded football coach Lavell Edwards at BYU in the early 1970s.

I later learned that Gustavson's fascination with leadership and strategy, and the impact they have on performance, derived from his days on and off the football field with Edwards. Most creative business strategists who make the kind of lasting impact that Gustavson did can cite that kind of relationship somewhere along their career development path, with a mentor or boss whose lessons stick with you and guide your own professional growth.

Gustavson had started his own consulting firm, Organization Planning and Design, Inc., in 1984. In the ensuing years, he's consulted with a veritable *Who's Who* of major U.S. corporations. His expertise in the area of business strategy, organizational design, knowledge management, team development, and change management is unchallenged. Today, I'd describe him as a true workplace visionary.

But I certainly wasn't prepared to concede that point as we arrived for lunch at a crummy diner in Paramus, New Jersey. There I sat with my two young stalwarts, leaning over that grilled cheese sandwich and a diet Coke and wondering what the hell I was doing there. For 90 minutes, Gustavson described in detail his vision of the socio-technical organization. That's what he called it, Socio-Tech, and it was quite a departure. He went on about how it was a "customer-in" approach, minimizing handoffs, controlling variances at the source, and linking key systems. These included information systems, targeted incentive compensation, new measurements of performance, even the office seating chart. Most importantly, it was about driving the behaviors and feelings among the employees so that they would and could better serve the customer and produce optimal results. His model looked like Figure 1.1.

The essence of his message was this: Organizations are perfectly designed to get the results they get. In other words, you get

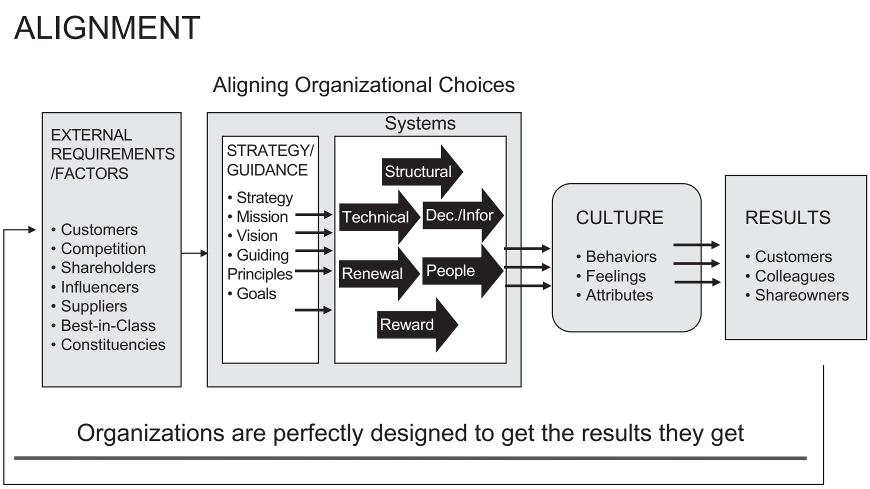

Figure 1.1 Aligning Organizational Choices

what you design for, whether that be a positive or negative outcome. Organize people in teams, equip them with the right tools, and they will manage themselves, he said. Employees would need to be cross-trained so that if credit and collections were off one month, you could ship everybody over there. If contracts and bookings were low, you would move employees to that group.

People cross-trained and multi-disciplined, organized to be ultra responsive and with those closest to the customer actually making daily decisions—what a concept! I'd long held the belief that people want to come to work every day and do a good job. Forget hierarchy. That was the kind of model I had witnessed at Chase, and look what a disaster hierarchical management there had turned out to be. Their command-and-control approach to management didn't reflect the needs of the marketplace. It had to go. Not just at Chase, of course, but across U.S. companies at the highest leadership levels.

We couldn't continue with the standard business philosophy of senior executives sitting in a conference room, dictating policy. Yet when we started out on our mission to remake the work experience more than 25 years ago, command and control was as embedded in our business culture and psyche as any system. To me, command and control was a rigidly top-down model. Rather than lifting employees to their highest potential in an environment that offered exciting work for maximum compensation based on merit, the system instilled fear and forced fealty from employees.

For years now, that's been the common and correct perception, I believe, about the value of such a management style. There have been no shortages of academic and organizational studies over the years that have more or less reinforced the notion that it does not work. A few years ago, Harvard Business School surveyed more than a million employees, most of them employed by Fortune 500 companies, about a wide range of workplace experiences and issues.

What did they like and not like about their jobs? How were they treated by managers? If they had been there for a long time, did they still maintain their initial energy and interest in the job? What was morale like throughout the organization? The Harvard researchers reached one key conclusion—in order to be successful, management had to stop demotivating workers, because motivation was dangerously low in too many places.

Employees are usually quite enthusiastic when they begin a new job. The Harvard study found, however, that in about 85 percent of companies, morale tends to drop like a stone in a pond after only six months, sinking steadily deeper with the passage of time until production is at minimum.

The solution? Here are a few that leap out:

- Instill an inspiring purpose.
- Recognize the high achievers in ways that tend to raise their game even more.
- Expedite career growth and company contribution.
- Provide proper, effective training.
- Communicate fully.
- Promote teamwork.
- Listen to what your employees have to say.

Beware of the conventional command-and-control structure. It can become a de facto killer of morale, enthusiasm, and, ultimately, productivity.

The concept of making our company more inclusive for all our people—even democratic, in a manner of speaking—was paramount as we pieced together our operating model. As we pushed forward in those foundational AT&T Credit days, we figured that groups should be designed by a cross-section of personnel across the business. Sales employees, the IT department, contracts administration, the financial group—the broadest possible mix of the AT&T Credit team—needed to be involved.

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Today, those assumptions have been more than fully affirmed. But that day in Paramus, I wondered whether the Gustavson model was too simplistic. I listened intently to him talking passionately about all of this. I don't think Gerri and Jim breathed the entire hour and a half. I was 38 years old at that point, and I'd already had leadership responsibilities for quite some time. I thought I knew a little something about how to run a business.

"This guy's a bleeping communist," I thought. (Never a compliment under the best of circumstances, and this was a year before President Reagan issued his "tear down this wall" ultimatum to Mr. Gorbachev.) But Gustavson began striking a responsive chord as I reflected on the maddening inefficiency of the current Chase approach—27 handoffs, pieces of paper floating to the floor, critical tasks undone, customers neglected. We needed to streamline that to far fewer steps, a more reasonably managed number of tasks, better customer service. Here was Gustavson, writing a blueprint for me to do that. What he was talking about was suddenly so clear it was as though a light bulb was going on above my head.

Employees having ownership of the business is an important concept. When companies grow, they inevitably get bigger, more complicated, and maybe unwieldy. People can feel lost and directionless, unmotivated. Business history books are littered with stories of damaged morale and enterprise failure. You need to figure out how to keep a big company small. All the people who work for you, from the most junior salesperson to the senior vice president, must enjoy an environment in which they come to work every day feeling a genuine sense of ownership of the business, by recognizing their contribution to its success. That's hardly possible in large bureaucracies.

By the time we'd paid the bill and were walking out the diner door, I knew this was the way to go. If we adopted this style, our employees would have that sense of ownership of the business; they would understand its principles.

"This is the craziest idea I've ever heard," I told my team. "Let's do it."

Like most out-of-the-box thinking, it was followed by mixed results as we installed the new, innovative, and potentially risky operating plan. Some months we did well; some months we experienced challenges. Every time we had a bad month and things didn't go swimmingly, everybody else at the AT&T Credit senior leadership level was ready to trash the experiment.

I was fiercely protective, however, of the idea and of my team. I used to virtually put Gerri and Jim behind me and say, "You can't touch them. Over time, this is going to work; we just have to iron out the kinks." There were lots of knockdown, drag-out battles around our conference table and with the people cutting the checks at AT&T headquarters. But in the end, we prevailed. Our plan was vindicated. Eventually, that mess turned into a business with a 35 percent return on investment.

Today, that operating philosophy continues to guide the way we manage our company and interact with our customers. We've installed it along the way at Compaq Financial Services, and you can see it to this day in the management of Hewlett-Packard Financial Services.

Its key operating principles are built around having the employees own the business, with those closest to the customer making decisions. Autonomy, measurement aligned with business objectives, compensation—each of these is a vital element in putting this principle into practice. Sharing the wealth with those who create it is a highly motivational approach.

Word of our practices filtered through the financial services community. We began to see recognition for the model we'd developed based on Gustavson's concepts. A few years later, *New York Times* reporter Claudia Deutsch stopped by to profile our operation for an article on how to build a winning workplace environment. We spent time with her explaining in detail how we'd come up with this idea, how it was implemented, and why it was so successful.

Even in 1991, five years after my propitious meeting with Gustavson, the concept hadn't yet taken root across the American business landscape. At one point, Ms. Deutsch asked me: "Doesn't it make you nervous, delegating so much of the work to others?" A fair question, I thought, but the answer was easy. How many tens of thousands of customers do we have? I couldn't make every single decision.

Leadership is about finding a plan you're confident will work—even if it's fraught with risk, even if it scares your corporate bosses to death. It's about building and entrusting a management team that shares your vision, then letting them develop teams of dedicated people to embrace these business principles and make them their own.

Perhaps above all, it's about trusting your own instincts to set an operation into motion. Has that always worked for me? More times than not it has, though there are a few cautionary notes in my personal diary. Does it make you nervous, wondered the *Times* writer during our interview? Not if the risk is built on a foundation of good, reasoned, business calculation, a strategy that makes basic sense, and reliance on the right people with similar strategic thinking to execute it.

Those leadership faculties accrue over the years. If you're fortunate, they steer you toward becoming the CEO of a company you love, where you are responsible for the productivity and well-being of a large and dedicated group of employees. For me, this work in progress was born of a childhood on the banks of the Hudson River.