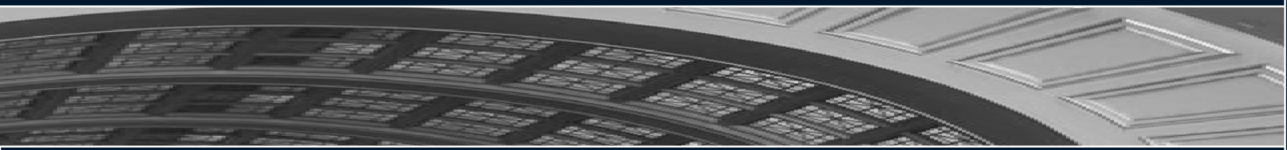

Leading to Change

Lessons from 'still Active CEO's:
JP Morgan's Jamie Dimon, P&G's AG Lafley & GE's Jeff Immelt

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… who adapt to change may survive but not lead;
… who shape change will lead and win.

LEADERSHIP, CULTURE AND CHANGE

In constantly changing business world, no company is immune to change. Company is forced to transform the way of doing business to new landscape of competition and business models. This force is being driven by rapidly changing technological transformations. As phrased by AG Lafley: those who resist change will not survive; those who adapt to change may survive but they will not lead; and those who shape change will lead and win.

A successful change requires 80% leadership and 20% management; yet some companies point to opposite direction. Leadership is different from management. Management tends to maintain the system, leadership sets and overhaul the system. Management does planning, organizing and controlling; leadership is about setting direction, aligning, motivating and inspiring people. Excessive managerial mindsets lead to little risk-taking, time-consuming on making tough decisions and planning everything to details. People with the mindset will be in comfort in following predictable patterns, which should be avoidable for riding the change effectively.

Effective leader is not the sole factor of producing successful change. We need to have a collection of people formed in a cohesive team to drive the change. No matter how charismatic a leader, one person won't be sufficient to drive up the change. A leader should incubate other leaders that can fuel hundreds of little engines. Cultures that empower multiple players in producing better future for the company are powerful tool to anchor and communicate changes by acting on same vision and values. Culture also needs to recognize visible signs of complacency. The self-satisfaction of company's past performances leads to undermine urgency of change. People are slept over to historical standards and lacks to see current realities. As culture is an invisible concept, people with excessive managerial mindsets will not consider it as a priority, rather ignore it. When culture is not well connected to change programs, pressure to move all levels of people to new direction will fail to take effect.

JP MORGAN

Jamie Dimon became CEO of JP Morgan Chase, the third-largest financial corporation in the U.S. (2005 revenues: $55 billion) behind Citigroup and Bank of America, in 2004 when it acquired Bank One. In Bank One, Dimon was the CEO. Dimon is one of the most watched banker figures in the Wall Street and the world today. He is known as a cost cutter with colorful personality. His blunt personality has become his highly effective management tools. For Dimon, cutting costs isn't just about saving money; it means freeing capital to seed new growth.

Before landing to current post, he worked alongside with prior boss and mentor Sandy Weill. Dimon helped Weill for several corporate mergers, of which turned Baltimore Loan Company called Commercial Credit into Citigroup. Citigroup is the world's largest financial services company at the moment. In another story of his colorful journey, he was ousted by Weill and had to leave Citigroup. Before deciding Bank One to be his continuing career path, Dimon received some offers from other financial services to take the lead.

Dimon leverages his controversial style to transform slow-pace of JP Morgan culture. The giant bank is burdened with an underperforming culture and mediocrity. While it ranks at top in many key categories: second in retail deposits, credit card balances, and investment-banking fees; and first in U.S. private-banking assets and cash-management revenues, overall growth and profitability have been moderate. JP Morgan's return on equity, a crucial parameter for financial firms, is just 10%. With the ROI figure, which is well below its top rivals, makes the company stock has barely moved in five years.

Within period of post-acquisition to Bank One, Dimon realized cultural and financial compensation gaps between Bank One and JP Morgan.

Transforming the bank's technology is a change pillar that Dimon does. JP Morgan was encountered with mismatched computer systems inherited from Chase, Chemical, and Texas Commerce. Lots of expensive software and supporting interfaced connections were integrated for the different systems to talk to one another, making JP Morgan's costs per transaction among the highest in the industry. The computer mismatch also downgrades the bank's ability to market more products to existing customers. When sitting with a client, a branch banker couldn't perform much more than checking historical records. The result of whether the customer qualified for a mortgage or credit card can't be produced. A month after the Bank One deal was announced, Dimon brought together the top IT people. He questioned and challenged them with some IT protocols and software costs. The managers were asked to choose a single platform in any area where multiple systems were in place. Dimon stringently set to have it completed within six weeks. Now, JP Morgan has only one system for credit card and mortgage transactions. The new platform, called TSYS, has helped reduce the bank's annual cost of processing statements from $80 to $52 per customer. It makes JP Morgan one of the most efficient financial services. In the branches, computers are strategically functioned as sales tools. The screens prompt bankers to offer customers every product they qualify but not currently have, from home-equity loans to financial planning. One example of the new culture at work, JP Morgan has increased the number of credit card accounts opened in the branches by 55% in 2005.

Further on restructuring IT side, Dimon keeps a tough grasp on changing the past models. He canceled IBM's seven-year contract to manage JP Morgan's computer systems. He believes IT is not a sideline, but rather an essential system the company should totally control. He doesn't believe on outsourcing to do IT integration, since people will not take care much.

Dimon continued quests for cost cuttings by shutting down the gyms and stopping fresh flowers supply at JP Morgan headquarter office. He stops any conducts of wasting monies having any no relations with enhancing customer values. He found himself a limo parked in front of headquarter and chased to find out who had ordered the Lincoln limo service. Compensation gaps take him to another target. Regional bank managers at JP Morgan earned $2 million, five times compared to people with same level in Bank One. Human resource chief of JP Morgan earned more than $5 million. Leveling down the injustice standard, Dimon announced significant slash in compensation for hundreds of positions by 20% to 50% over two years. Most of the managers stayed on despite the cuts. He imposes rigorous performance metrics and requires managers to present in-depth monthly reviews.

Inside JP Morgan's retail branch, Dimon encourages greater selling of mortgages, credit cards, and other products. Old JP Morgan employed five people and spent $750,000 per branch in back-office costs, compared with two employees and $250,000 at Bank One. Branch personnel received the same pay for selling any amount of products. 50% of branch managers received bonuses between $8,000 and $18,000. Today, the company pays big incentives to the stars and fires the underperformers. Branch managers are ranked based on how much they raise both profit and revenues. The top group is awarded bonuses of $65,000, and the lowest get nothing. Last year the best star pocketed a $145,000 bonus.

In breaking up more focuses of decentralizations, Dimon split JP Morgan into six major profit centers, in which investment banking, retail, and cards are the three biggest with all units must report like separate companies. Each month, each division head reports Dimon 50-page books packed with data containing various ratios of overhead costs, sales on every product, to Black Berry bills per employee. At an occasion, Dimon goes over the reports questioning why having three times as many HR people in Europe as in Asia. As the result, communication and marketing departments replace expatriates with local hires in its overseas offices, saving more than $100,000 per post.

Dimon has turned the slow-pace operation around by combining and imposing culture, operational systems and performance standard makes market capitalization of JP Morgan almost doubling to $58 billion. Dimon's strategy to lead the revolutionary change in JP Morgan is by boosting revenues at a healthy pace while keeping the costs. He has done it by convincing market that company will do both to keep the cost flat and raise revenues faster than competitors, in consequent to stock price rise in double digits. In creating portfolio balance of commercial banking and investment banking sectors, Dimon thinks a financial supermarket should work. He believes that having a mix of businesses has two advantages: increasing stability to earnings (by consistent profits from branch banking can smooth fluctuations in trading) and lifting sales by ensuring that different divisions feed one another.

JP Morgan, apparently, still continues to play its role for industry consolidation. Given Dimon's history on intensive acquisitions, there is constant speculation on his next target to be integrated into JP Morgan. Some names are frequently associated for the deal. JP Morgan is by speculative a potential purchaser of Standard Chartered, which has an attractive business in Asia. It is supported by Dimon's expression on the gap owned by JP Morgan in the group's portfolio is consumer banking outside the US, particularly in Asia. There is also one particular deal that some Wall Street observers believe may happen: a merger of JP Morgan and Morgan Stanley to recreate the House of Morgan, forced apart by legislation in 1933.

P&G

When AG Lafley was appointed to become the CEO, market expressed disappointment. The stock price had plunged that day because he was totally unknown. The P&G stock felt $4 and another $3.85 after Lafley's 15 days on the job. Now the markets look P&G, this 163-year-old company, favorably. From fiscal years 2000 to 2005, profits jumped almost 70 percent and revenues increased by almost 30 percent. Investors also embraced the $54 billion acquisition of Gillette in January 2005. The success of Lafley to take some strategic changes inside P&G has proven that a long-term insider can lead a company to new levels of performance through a more subtle form of leadership. The biggest crisis at P&G in 2000 was not the loss of $85 billion in market capitalization. The far bigger crisis was the crisis in confidence, particularly leadership confidence.

Lafley stresses out the need for change. It is obvious from a company's competitive position. When he headed P&G's Asian operations, it was the last entrant into Asia and a small player. The company had to boost performances just to become a serious player. But in other parts of the company, such as beauty care, the performance though lagging was still thought to be respectable. He set out to change that view.

Being a role model is vital when a leader makes tough demands on managers. People expect their leader to make the same kind of strategic choices that the leader requires of them and to act consistently on those choices. Lafley knows that he must be ready for moments of truth that alert the organization to his commitment. He made an example, early in his tenure as CEO, he had to decide whether to supply strong marketing support for the launch of several new brands. Profit pressure was severe. P&G had just missed earnings two quarters in a row. Believing on innovation is the lifeblood, Lafley locked arms and went ahead. When he look back now, Lafley had to make such choices to convince P&G managers on going to go for winning. He also made points that his approach to leadership is to raise aspirations and then achieve great execution. In the end, it's all about executing with excellence. But to get excellent execution, there has to be disciplined strategic choices, a structure that supports the strategy, systems that enable teams to work together, a winning culture, and inspirational leadership. By having all that will result to excellent execution. Lafley became interested in transforming players into winners. Once being a mere player is acceptable, the culture must be transformed. Improving the numbers isn't enough. Deeper change is required.

Lafley keeps balance on aspirations and goal stretch. He believes that it is counterproductive to over-promise and under-deliver. He took P&G company goals down to 4 to 6 percent top-line growth, which still required company to innovate to creating new sales and market share growth over the years. He committed to achievable double-digit earnings-per-share growth. When Lafley set that realistic target, the share price went down again because of lower set and more realistic goals. This is what he called on keeping balance on aspirations and goal stretch and still made publicly commitment that the company can grow faster than it had in recent years. In second way of keeping company's aspirations, he defined the core markets, categories, brands, technologies, capabilities and focusing short-term efforts on the top 10 priorities. He considers markets and operations were too vast and diverse to be turned around all at once. This decision made Lafley to focus and provide significant attention initially only a fraction of the more than 100 countries where P&G operates.

Beyond defining aspirations, goal stretch and core business, Lafley communicated priorities clearly, simply, and frequently. He made simply and considerably understandable communication, saying that the core businesses are fabric care, baby care, feminine care, and hair care. When people in home care asked: "I'm in home care. Is that a core business?" "No." "What do we need to do to become a core business?" "You have to be global leader in your industry, have the best structural economics in the industry, grow consistently at a certain rate, and deliver a certain cash flow ROI." People then understand what it takes to become a core business. Repetition and clarity are required, even when working with the best and brightest people, because of the diversity of P&G workforce with 100,000 people come from more than 100 cultures. Another reason is the need to clarify the thinking of employees so they can focus on problem-solving.

For Lafley, change is inevitable and increasingly unpredictable. He keeps motivating his people to embrace changes and consistently conveys the message as to change: Those who resist change will not survive; Those who adapt to change may survive, but they will not lead; Those who shape change, who turn it to their advantage and grow as a result of it, not in spite of it, win. Leading change is the only way to play. It is the single biggest driver of sustainable growth. Lafley looks at himself as a serial change agent, not a radical change agent. He believes in a series of small, interlocking changes. Lafley follows 4 main rules to cope with the change:

1. Face up to the reality of situation, by seeing things as they are - not as company wants them to be.

2. Accept change and stop trying to ignore or resist it. Embrace change and committed to lead change.

3. Make choices: clear choices and tough choices. Choice-making is the essence of strategy.

4. Put together a strong, cohesive team to lead the business. Put the right players in the right seats on the same bus headed in the same direction. Share a compelling vision of what to achieve and work as a team on strategies and action plans.

GE

Jeffrey Immelt, the CEO of GE, continues to see continuous trends on constantly changing. When joined GE 20 years ago, he studied Japan because conventional wisdom said they were going to conquer American economy and GE. So GE changed and became competitive. Now the competition comes from China, India, and Eastern Europe. It is competition based on intellect. He foresees that the economic tide won't raise every boat universally in the next 10 or 20 years, as it did in the 1990s. Some will win, some will lose and some will grow. GE plans to win and grow.

To grow and win in the continuously changing tides, Immelt leverages innovation is the key driver to support strategy. He summarized the 5 innovation pillars into: 1. Focus on people and processes. 2. Place the right bets. 3. Use size to an advantage, while making sure it never becomes a disadvantage. 4. Build an ability to make money. 5. Build people and culture.

1. Focus on people and processes. When became Chairman of GE three years ago, Immelt observed that the 175 officers of the company, seven were engineering leaders and 17 were lawyers. That ratio is not indicative of a company’s well positioned for the future. He made changes by increasing number of engineering to be 15 officers in engineering leadership posts. In GE, the people who will run the company in the next 10 years will have commercial and technical backgrounds, because that's how GE drives growth. Implementing to process, strategic plan meeting conducted annually used to start financial figures and end with a brief discussion of products and markets. Now, they don't talk about numbers, in the beginning. Immelt dissects GE competitor's products. It follows by discussing customer base, technology and trends in the market. Numbers are then talked 30 days later.

Immelt believes on the word creating innovations by inspiring. He has so many good leaders telling that if they only had another $2 million, they could fund new projects. Immelt asked them to go for it and find the way. He now has 40 projects that he calls "Imagination Projects." He tracks the projects by himself. It gives him a clear sense of how hard it is to create growth in a big company and ideas what to do to clear the way.

2. Place the right bets. Innovation in recent decades has mostly been about IT. Immelt is making room for other critical areas. One is energy. So GE is spending time and effort on renewable energy, which is critical to sustainable growth. Another area is healthcare. There will be lots of effort making healthcare more effective. GE has made big investments in molecular medicine and making healthcare more available. Immelts also gears company to nanotechnology, one of the most important facilitating technologies of the next decade. It will make products with less weight and less material. It will revolutionize the way products are engineered.

3. Use size to an advantage. GE wants to take a variety level of business from $1 million to $1 billion and intends to excel at that. Using their distribution and ability to fund risks, they strive to reach to take small ideas to big places. Immelt ensures that

bureaucracy doesn't kill entire teams on the way. They reach outside GE and collaborate with universities and start-up companies.

4. Build ability to make money. Innovation without a customer is nothing. So GE is always thinking about how to build innovation for the long term. Immelt ensures to have a pipeline of products and services that can constantly fund innovation. For example, GE just invested more than $10 billion in molecular medicine and obtains a 15-year pipeline of technology.

5. Develop people and culture. Immelt asked every people to rethink what it means to work at a company and what it means to be a manager. GE is known for professional management, a term that he hates because it sounds like people who don't grow anything. He can be a professional manager, but he doesn't want to be one. His fear is that GE will embark on having a generation of people going to school and growing up in companies who think that's what they want to be.

Immelt said that he works at GE because he wants to grow things, not manage things. So he wants people to join GE because they want to grow things. That is the only way GE can succeed in the future.

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