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- *International Management Teachers Academy (IMTA), established to develop junior faculty of management development institutions from all over the world*
- *European Leadership Centre (ELC)*
- *Business (AACSB International)*
- *UN Global Compact Slovenia*



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A School with a View

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ICHAK ADIZES

Planning and Managing Executive Succession



If the company is growing, you should have extra capacity in management. Keep some people you do not need today. If you are growing, you do not want to run out of capital. Why do you want to run out of people?

IEDC MASTERCLASSES

On Executive

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MASTERCLASSES

DR. ICHAK ADIZES

Dr. Ichak Adizes is the founder and President of the Adizes Institute, Santa Barbara, California. The Adizes Institute is a leading consulting firm with offices worldwide and was ranked by Executive Excellence as one of the top ten consulting organizations in the USA. Dr. Adizes is the Dean of the Adizes Graduate School for the Study of Leadership and Change, Academic Advisor to the Graduate School of Management of the Academy of National Economy of the Russian Federation, and a Fellow Academician of the International Academy of Management.

During the forty years of his professional career so far Dr. Adizes has achieved world recognition in three fields of management. In the 1960s he was recognized as a leader in the field of workers’ participation in decision-making. In 1969 he established the first graduate program in the management of performing arts organizations (opera, theater, symphonic orchestras, etc.) and since 1975 he has been developing a leading methodology for managing organizational change.

Dr. Adizes is actively involved in consulting with national and business leaders throughout the world. Executive Excellence has ranked him as one of the top 30 leadership consultants in the USA.

He has published numerous articles, videos and audiotapes, and a total of ten books, which have been translated and published in more than 50 editions and thirty-two languages. His Corporate LifeCycles: How Organizations Grow and Die and What to Do About It was selected as one of the ten Best Business Books by The Library Journal.

For his contribution to management theory and practice Dr. Ichak Adizes has been awarded eight Doctor Honoris Causa titles, including one from IEDC-Bled School of Management.



ICHAK ADIZES

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DR. ICHAK ADIZES

Planning and Managing
Executive Succession

Introduction

It is my great pleasure to present to you the second issue of IEDC's new annual publication *IEDC Masterclasses*, which we introduced in 2008. I am delighted that Professor Ichak Adizes, one of the world's leading experts on change management, is our author for 2009.

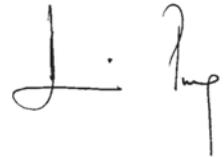
This book focuses on issues of leadership and change. Among many ideas highlighted here, you will find quite a few dedicated to the planning of leadership succession. For many company leaders in our region the time has come to make room for the younger generation. We need to do this smoothly and effectively so as not to destroy what we have achieved so far, but to ensure the further development of our institutions.

Dr. Ichak Adizes has decades of experience in the areas of leadership and change management. He is the founder and president of the Adizes Institute in Santa Barbara, California, a leading consulting firm ranked as one of the top 10 consultancies in the United States. He has a Ph.D. from Columbia University and has been a professor at various schools, including Stanford and Columbia. He is now the dean of the Adizes Graduate School for the Study of Leadership and Change. His book *Corporate Lifecycles; How Organizations Grow and Die and What to Do About It* has been selected as one of the 10 best books in management by the *Library Journal*. Professor Adizes has been an advisor on organizational change to many companies and governments, and has received eight Doctor Honoris Causa awards, one also from IEDC-Bled School of Management.

The ideas presented in this book were originally shared at the IEDC's 2008 Human Resource Forum, where Professor Adizes was accompanied by more than 100 participants from 14 countries. As always, we were delighted to welcome guests from Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Italy, Kazakhstan, Montenegro, Poland, Russia, Serbia, Slovenia, the Netherlands, and Ukraine.

In addition to the wisdom offered by Dr. Adizes, the Forum featured a panel of speakers led by Dr. Nadya Zhexembayeva from IEDC. The panelists, Pauline van der Meer Mohr, founder and President of the Amstelbridge Group, the Netherlands, and human resource directors Jörg Blunder, Coca-Cola HBC Austria, Pavel Shchedrovitsky, IES Holding, Russia, and József Végh, K&H Bank, Hungary, spoke about change management, loyalty, cross-cultural issues, talent development, motivation and international mobility. You will also find their discussion in this book.

I am sure you will be delighted to learn from the rich knowledge and wisdom of Dr. Adizes.

A handwritten signature in black ink, appearing to read 'D. Purg', with a stylized flourish at the end.

Prof. Danica Purg
President

Planning and Managing Executive Succession by **Ichak Adizes**

Founder and President of the Adizes Institute & Dean of the Adizes Graduate School for the Study of Leadership and Change, USA



Here we are today, talking about leadership and how to develop it. If you want an illustration, take a picture of Danica Purg and put it on your wall. She is the only person in the world, apart from my wife, who can tell me to jump and expect me to say “how high?”. I will do anything she says. When she says, “Come to Bled”, I only ask “When?” She has built an unbelievable business school and an exceptional management development association, and is a shining example of highly successful leadership. Thank you, Danica, for inviting me to Bled once again.

I would like to start with some thoughts about the future and the role of human resource management in it. What kind of preparation will be necessary? I would not be saying anything new if I told you that Eastern Europe is changing. And what happens when there is change? A new thing occurs. That new thing can be a problem or an opportunity. Interestingly, in the Chinese language, “problem” and “opportunity” are one and the same word. They do not differentiate between the two. This makes me think that they are smart people, because in reality the two are not different. There are problems that do not kill you. On the contrary: by solving them, you become stronger. It all depends on how you see things. Some people see problems in every opportunity, whereas others see an opportunity in every problem. So what is an opportunity? It is somebody else's problem. And, likewise, your problem is his opportunity.

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Basically, problems and opportunities merge because of change. But what does that mean, exactly? What is the meaning of “solving”, “handling”, or “managing” a problem and an opportunity? You have to decide what to do. You are at a street intersection and you do not know which way to go. The intersection is a new event that you do not know how to handle. You can feel helpless and say that you are simply not going to make a decision about which way to go. In fact, if you do that you have made a decision to stay put. This realization came to me as a big surprise, because I thought that it was possible to avoid making a decision. Life is too complicated; I do not know what to do, so I cannot decide. As a matter of fact, this way of thinking means I have just decided to stay where I am. Thus we constantly make decisions, even when we think we do not.

But deciding is not good enough. Do you know the children's riddle about the three frogs on the lily pad? One of them decides to jump into the water. How many frogs are left on the pad? The kids usually say “two”. That is the wrong answer. The frog decided to jump but that does not mean that it did. It is still sitting on the lily pad. It has not implemented its decision.

It is preferable to implement a mediocre strategy than have an outstanding strategy that will never be implemented. Anything times zero is still zero.

How well do you manage change? It depends on the quality of the decisions made today and the efficiency of their implementation. It is not good to make bad decisions efficiently. But it is also pointless to make an outstanding decision without implementing it. As a matter of fact, it is preferable to implement a mediocre strategy than have an outstanding strategy that will never be implemented. Anything times zero is still zero.

What do we need in order to make a decision? Many years ago I came to a conclusion that made me give up my university tenure. I had taught at Stanford, Columbia, and UCLA, but I left the academic world. I did that because business schools are based on a false premise: that we can train any individual to become an outstanding manager. I have even written a book called *The Ideal Executive; Why You Cannot Be One*. Nobody is ideal and the managerial process requires what no individual can do. Training individuals to be outstanding managers is a waste of time. Do you know anybody who is perfect? If you think you do, it is because you do not know him well. Ask his wife. She will say, “Well, he is not really that good”. The requirements of the managerial process are far too complex for any individual.

Is it possible to raise a child as a single parent? It is difficult, is it not? You need a team of two for that. Look at the person that you married. Why did you choose that person? You married what you do not have because the other person's qualities complement yours. What you really need is a complementary team.

But what does that do? It creates conflict. Show me a marriage without conflict; you will probably be showing me a dead marriage. Why do people get divorced? For the same reason that they get married: because they are different. This creates conflict and it can be destructive. It destroys marriages, companies and countries.

What do we need for good implementation? Let me tell you a joke to help you remember. A pig and a chicken are very good friends. The chicken says to the pig that he has a great idea for making a lot of money. "What is that?", the pig asks. "We have a great complementary capability", the chicken answers. "We have this wonderful window of opportunity: let us open an American breakfast restaurant and serve bacon and eggs."

Naturally, the pig will not be happy with this arrangement. What is a mere contribution for the chicken is a total sacrifice for him. It is a good idea, though. There is a market and an opportunity to make money. However, there is no common interest, and therefore the great idea cannot be implemented. You cannot expect people to be stupid. They will always wonder what is in it for them.

This whole talk about "win-win" and harmony is nonsense. It does not exist. Why? Because of change. Our needs change. Today we do not need what we needed yesterday. It is utopia to believe that you can have common interests for ever and agree on everything. You cannot have a win-win climate in everything for ever.

What am I trying to tell you? That change means conflict. If change is going to stay, so is conflict. Talking about eliminating of conflict and living in harmony for ever sounds nice but it is not reality. The reality is that change is accelerating. Our grandparents made strategic decisions once in a lifetime. Parents today make such decisions every 10 years. You probably have to make strategic decisions every three years. And I am very sorry for our children, who will have to make strategic decisions annually. Life is becoming increasingly

stressful. Go to a poor country and you will see happy people. Go to a developing one and you witness frustration. What is going on? Change is accelerating and conflicts are arising. They are becoming increasingly destructive. In the 20th century, more people were killed by other people than in the whole history of mankind. We are now rushing fast into very difficult times.

You have to know how to manage change. What do I mean by that? Change does not have to be destructive. Conflict can be constructive.

Companies are being born faster and are dying faster. Look at what happened to the dotcoms in the United States. So what is the challenge for the management of the future? You have to know how to manage change. What do I mean by that? Change does not have to be destructive. Conflict can be constructive. In some marriages, partners love each other even more after a fight. They bond more and understand each other better. This does not happen in spite of the fight. It happens because of it.

However, other marriages can be destroyed by a conflict. What is the difference? What makes a conflict constructive and what makes it destructive? The difference is in what you do. If you do nothing, conflict will become destructive. If you do nothing in your garden, it will be full of weeds. If you do not have your car serviced, you will not be able to start it. If you do nothing about your marriage it will end in divorce. A friend of mine once said, "My wife wants a divorce. I don't know why. I did not do anything." That is why she wants a divorce: because you have been doing nothing.

Change is destructive by nature. You do not need to do anything for it to be destructive; you can just sit and wait. Destruction will happen on its own. This means that you must stand up and do something. But what?

In an organization where there is mutual trust and respect, conflict is constructive. You fight with your spouse: if you respect each other conflict is just another learning experience. If there is no respect and trust, things get tough.

The same applies to countries. Which countries have been successful? Look at their cultures. What do the Swiss have? A disastrous combination: French, Italians, and Germans together. But they are still one country. On the other hand, look at former Yugoslavia. How much trust and respect did its inhabitants have for each other?

What is Switzerland strong in? Pharmaceuticals and banking. Would you invest in a bank that you do not trust? Would you buy medicine from a company that you do not trust?

How do you build a culture characterized by trust and respect? The secret of success of any entity - individual, organization, or society - is determined by one factor, which in turn depends on four other factors. They depend on eight more, etc. At the bottom of the pyramid there are a million determinants. I have devoted my professional life to studying how they interact and create cause-and-effect relationships. And I have found that the main factor is the ratio between external integration and internal disintegration.

What is external integration? For a person, it is individual career planning. You look at the market and your capabilities and try to place yourself where you can deliver the best performance. By doing that, you integrate yourself into the world.

What is external integration for a company? It is called marketing. You study the market and the products that it needs, and you look at what capabilities you have. Then you produce the necessary products so that you have the best possible market share.

And for a country? A country should draw up an economic policy. It should decide what to specialize in and how it can place itself in the global economy.

Internal integration is a function of how well opportunities match capabilities. Where there is internal disintegration, time is wasted on internal politics: miscommunication, arguments, fighting, and all sorts of similar nonsense. All the things that make you go home and cry. All this is a function of mutual trust and respect. When trust is missing, you are afraid to turn your back.

What is respect, by the way? It is not about how nicely you talk. Some people shout, but I still respect them. Other people talk nicely, but I hate them. Have you heard professors say, "May I respectfully disagree with my distinguished colleague?"

According to Kant, respect is the recognition of another person's right to think differently. If you do not allow other people to think differently, you do not respect them. You have to recognize the right of another person to be different. You do not have to agree with that person. You can agree to disagree. But you have to respect people's right to express an opinion.

Why does this formula predict success? Because one of the laws of physics stipulates that the amount of energy is fixed at any time. There is no such thing

as perpetuum mobile. Even the most productive and hard-working person has only 24 hours a day. Getting up one hour earlier does not help.

I have discovered that you can predict how energy will be allocated. It is first used to deal with internal disintegration. Only the surplus that is left is used on external integration. If a friend has had a car accident and you go to see him in the hospital, the doctor will give you just five minutes. Why five minutes? He is my best friend! But the poor guy has no energy. That is why you can only stay five minutes.

When you have a cold, what does the doctor tell you? Lie down and sleep and rest. You need your energy to heal yourself.

When you have an internal conflict in your company, you start losing market share. What do you do then? You invite a consultant to draw up a new strategy for you. That is a pure waste of time because that strategy will not get you anywhere. Your real problem is that you do not have enough energy, because you have too much infighting. If you want to fight the market, you have to stop fighting inside. We have only one face and one back. You can face the market only if you turn your back on the company.

I am an organizational healer, not a consultant. Here is what I do to heal organizations. They ask me what to do about the fact that they are losing market share. I tell them to start looking on the inside. Clean the inside first. If you do that, you will free energy to deal with the outside. That is your role as a human resource manager.

Some time ago I was asked if a human resource manager is a leader of change, or a follower. I know you all want to be leaders. But you cannot be that: it is not your job. That is the job of the president or the people in strategic planning. What is your job then? To keep people together. In a traditional family, the father earns the money, whereas the mother keeps the family together.

As a human resource manager, you are the counter-leader. You should be close to the president, eye to eye. This is like in a marriage. It is a mama and papa store, and it does not matter how large the company is. You have to learn how to manage change in such a way that it is constructive and not destructive. You have to help the leader lead the change without destroying the company in the process. I will tell you a little bit about how to do it. You can read the rest in my books and see it in my tapes.

Let us move on to some other issues now. Can sitting leaders lead change? What are the challenges in bringing a chief executive officer in from outside? How can a company founder avoid the founder's trap? How do you go from entrepreneurial management to professional management? How do you measure successful transitions and transformations and what is the difference between them?

Once, as I was writing one of my books, my young child threw himself onto the floor headfirst. He reminded me of one of my clients and the way that he would enter a market. Change has a pattern. It is called a lifecycle. Everything has a lifecycle, not only people or trees. Even stars have lifecycles. Astronomers will tell you that some stars are young, while others are old. Geologists will tell you the same about rocks. It is not surprising, then, that organizations also have lifecycles. They are born, they grow, they age, and they die. All of that is predictable. Let me describe this to you in a nutshell, so that you will understand how change is managed.

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At every stage of a lifecycle there are normal and abnormal problems. You should be able to distinguish between them. If I told you that a certain person drinks a lot of milk, cries all night long and wets its pants, how old would you say that person is? You would say that it is a baby; and all of this would be quite normal. But if this person were a 44-year-old company president, we would have a real problem.

What I am telling you is that every problem can be normal or abnormal. You have to understand where in the lifecycle you are. If you have learned how to diagnose problems, you will stop worrying about "normal" ones and you will know what to spend your energy on. Many people do not manage their problems, but are managed by these problems.

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Let us run quickly through the stages of a company's lifecycle.

I call the first stage "courtship". The company does not exist yet. You are thinking about starting a company. What is normal at this stage? A lot of noise and excitement. The founder is telling everybody how great it is going to be. Whom do you think he is trying to convince?

When a company is born, there is a lot of risk. There is going to be a lot of work. For a company to be launched successfully, you have to be very committed. Commitment is absolutely essential in any initiative - marriage, having

a child, or starting a company. The higher the risk, the more commitment you need. If you want to have a revolution in a country, how big should your commitment be? You should be willing to die. When Khomeini came to power in Iran, all the rich Iranians were marching up and down the streets in the West, shouting “down with the ayatollah!” I asked one of the demonstrators once if he was willing to go back to Iran and fight. He said “No, I am having a barbecue tonight”. You measure commitment by the price a person is willing to pay. Tell me what sacrifices you are willing to make and I will tell you how committed you are. You want to go on a diet? Fine, but are you ready to suffer hunger? If you are not, you should not start a diet in the first place. Forget it.

The higher the risk, the higher the commitment should be. That is why, before venture capitalists invest in your startup, they ask you how much you are investing. If you are not committed, why should they be?

Now, this commitment gets shallow over time. Eventually the founder feels tired. In a marriage, this is called the seven-year itch. When that happens, the founder is caught in a trap. He wants out but he cannot extricate himself. Other people also want him to leave because he is causing trouble, but at the same time they do not want him to be too far away because he is the heart of the organization. This is the adolescence stage of the business. It is like your adolescent children: you simultaneously love them and hate them, and they feel the same about you.

If you do not transfer the commitment from the founder to the organization, then when the founder dies, so does the company. This is your role: you have to maintain commitment beyond the founder.

If you do not transfer the commitment from the founder to the organization, then when the founder dies, so does the company. This is your role: you have to maintain commitment beyond the founder. It is not easy to do. I am also in the founder's trap with my own institute. I know my disease. There is an expression in the Jewish Book of Wisdom: “No prisoner frees himself of his chains on his own.” You need somebody to help you out. Danica can help me and I can help her, but we cannot help ourselves because you cannot see the picture when you are in it. You cannot do surgery on yourself.

In 1982 I reorganized the Bank of America at a time when it was going to the dogs. Now it is one of the best banks in the world. It has just bought Merrill Lynch. I reorganized Royal Dutch Shell, a company with 5 billion USD in profits. I reorganized the government of Vicente Fox in Mexico. But there is one company I cannot reorganize. Mine. No surgeon does surgery on his own

child. No lawyer represents himself in court. They would be too emotional and too attached.

Company founders are narcissists. That is why they set up companies. They are not bureaucrats. Have you ever seen a bureaucrat set up a company? Never. Company founders are people who want to leave their mark on the world.

What many consultants do about the founder's trap is to go in and fire the founder. That is tragic. The founder has invested his whole life in that company. He may have lost his family. He does not know his children. He has spent 24 hours, seven days a week, 365 days a year working for that company. And what is the prize he gets? The boot. Some private equity fund or another company buys the company and the first thing that they do is fire the founder. He walks away with money, but that does not make him happy. He did not set up the company for money. He did it because he wanted to leave a legacy. And now he meets with rejection.

My job is to build a company while preventing the above from happening, because it is not necessary. After the founder is fired, a bureaucrat is often appointed: a financial genius who knows how to manage numbers. The company becomes profitable but its heart is gone. The energy is gone.

I told you that you need complementary skills, in different people, to run a company. If the leader believes that he or she can do everything on his or her own, eventually everything will fall to pieces. The worst thing is that when such people find that they cannot control the situation anymore, they turn on the company and start destroying it. Some parents do that when their adolescent children are uncontrollable. They start destroying them.

In 1991, I was invited by Milosevic to help stop the meltdown of the Yugoslav federation. I met the guy and resigned a week later. It was obvious to me that he was going to destroy Yugoslavia. You can see this in some marriages, too: if I cannot control my partner, I will destroy the marriage.

How do you avoid this situation? You need a complementary element. You certainly need a charismatic leader. What else does it take? Somebody who is organized and efficient. A person who can talk sense to the energetic entrepreneur. They do not necessarily love each other. They may even fight all day long. But as long as they respect each other, that is fine. If you want to find a successful company, look for complementary elements.

Once a company is out of its infancy period, it may start growing. It is like digging for gold. But what will happen if you have not built a solid tunnel? It will collapse on you.

Imagine that you construct a three-story building and it eventually becomes too small for your operations. You cannot move elsewhere because the real estate market is tight. So you start adding floors on top of the same foundation, which was originally designed for three floors. What will happen? The foundation will crack. What do you do then? You have to do something to strengthen the foundation. The problem is that this often seems boring. Many go-go companies prefer to focus on the market. They do not want to deal with internal structures, budgets, communication issues and job descriptions. They think that the money is outside the company: markets, strategic alliances, products. It is only a matter of time before such a company collapses. Something will eventually happen that will bring you down because you did not take proper care of the foundations. Then all hell breaks lose.

This is when an organization is born. Up until then, the founder has been the organization. He runs the show and makes all the decisions. He is the main asset of the organization. But he is also its main liability. And when all hell breaks lose, the genius of yesterday becomes the unguided missile of tomorrow. Nobody can control this guy and he becomes the company's main problem. The result is that the organization must become independent of the founder. This is the beginning of the adolescence period.

Adolescence is a very hard period, both for parents and children. Parents want their children to be independent, without going too far. Children want to be on their own, but they still want their laundry done at home. It is a very difficult time, and involves a love-hate relationship.

The same thing happens in a company. The founder both loves and hates his creation. Once somebody asked me, "Do you know when to stop making love to a gorilla?" I said I did not. "It is not when you want, but when the gorilla does." When you set up your company, it is a lovely little monkey. But then it grows up to become a gorilla. You do not know who is controlling whom. You want to free yourself, but you cannot.

A company is usually organized around people. And the relationships there can become very entangled when it is growing too fast. As a result, you no longer know who is accountable. Everything goes to the top leader and if he or she

is not around or the situation is too complex for him to make a good decision, you will have trouble. It is only a question of time.

What do you do if you want to fix the company at that time? The founder will usually tell you that he knows how to build a company but not how to manage one. This is a classic statement. It is also typical to hear that he wants to hire a professional manager to run the company's operations. When I hear that, my reaction is, "Don't do it". Why? Because this new person will be totally different. He wants to manage the company in an organized, systematic and efficient way, but nobody in the company is used to that. The founder is not used to it either. Actually, he will be the one who constantly violates the company's policies. Then, the professional manager will go to the board and complain. And they will fire the founder.

Let me tell you why this does not work. Until the adolescence stage, the company is organized around its people. Now you have to organize the people around the organization. Your main question is, "How should the organization be structured, independent of its people?" That is why I cannot do this for my own company, by the way. I know the people too closely. To do it right, you have to ignore the people. It is the organization that counts.

Organizations should be organized by a genius in such a way that any idiot can run them. They should not be organized by idiots in such a way that only a genius can run them. When a company is organized around people, everything is the way the founder wants it. It is like a custom-made suit. When somebody else tries to wear it, it turns out to be impossible. You have to make a normal suit that anybody can buy off the shelf. If it is tailor-made it only fits the founder.

I will tell you a Jewish joke. A guy goes to the tailor's to try on his custom-made suit. He says, "Hey, the sleeve is too long." The tailor says, "It does not matter, roll it up a little". "OK, but this one does not fit either". "Never mind, roll it up, too". The guy walks out in his new suit and two women see him. One of them laughs. The other remarks, "The important thing is that the suit fits him".

The founder's organization is organized around him and fits him. It works for him. Bring in a professional manager and there will be no fit; there will be a fight. To avoid this, you have to make a normal suit. There is something called

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“a normal structure”. This is like architecture. It is not true that every house is different; there are some principles. You cannot have your bathroom in the middle of the kitchen. The sewer should not pour into the kitchen sink, but the other way around. There are some rules in architecture, and it is the same in management. What I am doing here is called intellectual striptease. I am showing you some beautiful things, but you have to go out and do the real work.

An organization needs to be effective both in the short run and in the long run. It has to be efficient, too. By the way, it is interesting that the Russian language has no translation for the word “efficient”. And it is not alone in having only one word for what are two in English. Hebrew has “efficient” but not “effective”.

If an organization is to be effective and efficient, it has to be organized appropriately. What does that mean? Marketing deals with the long term, whereas the sales department focuses on the short term. Product development is about the long term, whereas production has a short-term focus. Finance is a long-term job. But what about accounting? People like to lump finance and accounting together but that is a big mistake. Accounting is intermediate. It is neither short nor long term. Let me tell you another joke so that you will remember this. A company interviews three job applicants. One has just graduated from school and has no experience. The second has worked for a large accounting company for many years. The third is a man without any credentials who has just stepped in from the street. The interviewers ask the first one how much two plus two is. “Four”. The second one says, “I have to call headquarters before I answer”. The third one asks, “Are you buying or are you selling?”

A good accountant does not give you data. He gives you information. And when you ask for information, he will ask you what you are trying to do. Are you trying to penetrate a market or get out of it? Too many accountants are in the business of giving you data. They should give you information. They are the intermediaries between the short-term and the long term.

Now let us talk about human resource management. I differentiate between human resource administration and human resource development. Unfortunately, they have merged. Let me tell you the difference.

Many companies make the mistake of putting marketing and sales together. That means that the focus will be on sales and there will be marketing only if there is time left. I do not call that marketing; I call it a transvestite. It is like a person dressed in women's clothes who is actually a man. There are companies with thousands of people in marketing departments who are simply doing sales support. The merger of these two functions results in a short-term orientation.

Do you know what happens if you do not separate engineering and manufacturing? The engineering department will do machine maintenance.

A company is like a boat with engines. Tell me which one is more powerful and I will tell you which way the boat is going. It is a power structure. If sales is more powerful, marketing is dead. If manufacturing is more powerful, engineering is dead. It is the long term that suffers and yields to short-term considerations. You always have to solve the immediate problem first.

Another mistake is to put all operative functions - accounting, human resources, information technologies, etc. - under one chief administrative officer. This is called "bureaucrats of the world, unite!" The company gets paralyzed. If you want to make a change you will hear that there is no money; the unions will strike; the computers will go crazy; and, by the way, it is illegal. There will be no change. The chief administrative office will become extremely powerful and the company will not be able to change.

Then they will bring in a strategic thinker to tell them what to do. But let me tell you this. You cannot make a submarine fly by having a pilot look through the periscope. A submarine is structured like a submarine.

The first thing to do in this case is to split up the merged functions. You should never have finance and accounting together. Finance is creative and risk-taking. Accounting is precise. Do you remember Enron? I told Kenneth Lay that he had a problem because his finance and accounting were together. Every executive must have two different points of view. If you have only one, you are a prisoner. If you have two, you listen to both and you make a decision.

Every executive must have two different points of view. If you have only one, you are a prisoner. If you have two, you listen to both and you make a decision.

By the same token, human resource development and human resource administration must be separate. The former deals with change: changing culture and integrating people. For that you need to have trust. But when you deal

The most important thing in a company is mutual trust and respect. If you want that, split your human resource department. Have one person deal with coaching, culture development, and helping the president implement change without making the company fall apart. Have another person be the bad guy and do the administrative part.

with performance appraisals and firing, you have no trust. You are a bad messenger. Many human resource managers are bad messengers who try to develop people. I have found that in many companies the human resource managers are the least-trusted people. This is because they talk about development, integration, culture, and other nice things, but one day they sack you. The most important thing in a company is mutual trust and respect. If you want that, split your human resource department. Have one person deal with coaching, culture development, and helping the president implement change without making the company fall apart. Have another person be the bad guy and do the administrative part.

I have worked as a consultant for 40 years. I started out in 1967. I have worked in 10 offices in different places around the world. I have seen thousands of organizations of all sizes - from the smallest startups to the largest businesses and national governments. I cannot imagine an industry that I have not been involved in. I have lectured in 52 countries to something like 100,000 executives. But I have never yet gotten a consulting assignment from human resource development. Our biggest enemy when you try to implement change in a company is, in fact, the human resources department. They do not like change. When they do talk to us, they want a small seminar on leadership.

The reason for this is that they are too busy with the administrative part of their job. Administration requires consistency and order. Change is the opposite to that. I am not saying that they do not want change. They do. But there is a big difference between "want" and "do".

Once a structure is right, you can start thinking about changing the style of the executive. Unfortunately, most of the human resource management people that I know are trained in psychology and sociology. That automatically creates a bias: they think they should change the person. They assume that if you change individuals, you will change the company. My experience shows that this does not work. Let me tell you a story to illustrate this.

When my son was seven years old, I bought him a globe. He looked at it and asked me why it was tilted. If it were not tilted we would have polar weather all the time. And who would survive if the winter lasted all year round? The polar bears. Now what would happen if a camel wandered to the North Pole by mistake? Several things could happen. For example, it could die. Or it could get out of there while it

was still alive. The third option is to procure a polar bear skin.

Quite often I see people who look like bureaucrats. In fact, they are entrepreneurs disguised as bureaucrats. Because the company is bureaucratic, you have to survive by acting like a bureaucrat. Some of the leading entrepreneurs in Central and Eastern Europe today are former communists. The reason is that they are intelligent. Intelligent people take off their coats when it is warm and put them back on when it is cold. They know how to adapt.

Sometimes when you want to change the bureaucratic culture of an organization, you take the bureaucrats to a workshop in a hotel and teach them the values and beauty of being entrepreneurial. Then they go back to the company and put on their bearskins. Organizational culture is stronger than an individual. If you want to change the culture, do not focus on individuals. No amount of trying will help. Many company employees go to organizational development seminars and learn how to be flexible and trusting and supportive. Then, they find out that it does not actually work. They even lose hope. If you want to change a culture, tilt the globe. Structure is stronger than an individual. I am a structuralist, not a phenomenologist. Human resource people are phenomenologists. They deal with behavior. I deal with style and structure. If I change the power structure of the company, I will change its behavior.

Organizational culture is stronger than an individual. If you want to change the culture, do not focus on individuals. No amount of trying will help.

If you want to have a diversity of styles, it is not enough to hire different people. You need a diversity of structures. If the structure is not diversified, the styles won't be either. Bring the greatest entrepreneur to a bureaucratic company and a year later he will either turn into a bureaucrat or get fired.

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You also need different reward systems. Different styles require different rewards. The administrative bureaucratic type expects security. Everything must be systematized. You must specify salaries, bonuses, career paths. The entrepreneurial type does not care much about that. He will ask you where you are going and how big the company is going to be. Can he get a piece of the action? What is in it for him?

At one time one of my clients was the biggest restaurant chain in America. The owner, who owned 100 percent of the company, told me that his people were not entrepreneurial and he did not know what to do about it. I asked him if he would work for a salary. He said that he would never do that in his entire

life. Tell me what kind of food you have and I will tell you what kind of animals you can raise. If you have grass, you will raise rabbits. If you want lions, you have to provide meat. But this guy gives his people salaries and wants to have entrepreneurs. Do some profit sharing. Do stock options. You will have entrepreneurs knocking on your door.

Once you are done with the structure, you can start looking at the people, not the other way around. Here is what I do at this stage. It took me years to come up with this idea but now I know that it works.

I set up a company executive committee consisting of the top people. It does not have a chairman. The founder is not part of it. The members choose a person to play the role of an integrator, a first among equals. That person leads the discussion but does not make decisions. All members arrive at a decision together. They also appoint an administrator. He must see to it that everybody arrives on time and that there is an agenda. You must submit support materials for the meeting at least 48 hours ahead of time. It is forbidden to bring materials to the meeting. If you do not observe this rule, people will start reading the materials during the meeting and will get distracted. They have to read everything in advance and come prepared. If they are not prepared, they had better leave because they are not acting in a professional way.

The founder can go to any meeting that he wants. He may also choose not to go to any of them. The administrator must provide the agenda 48 hours before the meeting. It is fixed and cannot be altered. The meetings take place at regular intervals. In this way we have discipline. We do not meet just when we feel like it or when we have a crisis. If this is a company where people travel a lot, we tell them not to be away on that particular day, end of story. If they cannot be there, they must send a replacement. If they miss 30 percent of the meetings or more than three consecutive meetings, they are off the committee and their replacement becomes a permanent member.

Once the agenda is prepared, it is submitted to the founder. He has the right to veto any subjects that he does not want to discuss. The meeting must end in a consensus. If no consensus is reached, it is up to the founder to make a decision. By the way, this never happens. The committee members will sit around that table until dawn looking for a solution rather than have the founder step in. And if they are all agreed, it is a pretty good decision, trust me.

The minutes of the meeting must be submitted to the founder the next day. He has 24 hours to veto any decision that he does not like. If he vetoes more than 30 percent of all decisions, or three decisions in a row, the committee has to call me because something is not working. This has never happened, though.

In this way, the founder does not lose control of the company. It is his baby and it is dear to him, so we must understand him. Many times, when a professional manager takes over, he hijacks the company. It bothers me morally.

With this scenario, at the beginning the founder follows the work of the committee. Then, gradually, he gives up. He is out. And when he is out, I appoint a head of the board. He is the new president and my job is done.

As I told you, I am a structuralist, not a phenomenologist. I fix structures. That does not mean that I would throw out personnel development methods. But first of all, I look at the mission. What does the company want to be? Where does it want to go? Based on that, I look at the structure and ignore the people. I do not want to hear about people. The organization comes first, the people come second. This is not a popular idea with human resource managers. They look at people first. They usually know nothing about organizational structure. They are not trained in management but in sociology and psychology. Once you are done with the mission, strategy and structure, you can turn your attention to the people.

Let me now go back to some of the questions that we put on the agenda yesterday. Can a sitting leader lead change? An excellent question. As a parent, you have to change your parenting style as your children grow. What would you think of a mother who treats her 43-year-old son as if he were a baby? Or the other way around: a mother who treats her infant as if he were a mature 43-year-old man? The right way to treat children depends on their age. First you cuddle them, then you discipline them when you have to, and when they get married, you shut up. Whether you like it or not, you have to keep quiet because you have done your job. If you do not adjust your style appropriately, your kids will run away or go crazy because you are suffocating them.

The same thing is true of a company. Leadership style must change according to the lifecycle period. And what if you cannot change the style? You have to change the president. Sorry.

Leadership style must change according to the lifecycle period. And what if you cannot change the style? You have to change the president. Sorry.

When boys are young, they are often attached to their mothers. The father is a nasty figure who kicks them out of bed in the morning. Later, they get attached to their fathers and finally they are more interested in what is outside the family. It is the same with companies. Making a company grow is like helping children grow. You need complementary leadership styles.

I usually try to create what I call a succession pipe inside the company. This means that I do not try to find a successor outside. How do I do that? Here is my philosophy in a nutshell.

You have a vice-president who is in charge of the long term. You also have a corporate services vice-president who takes care of mid-term issues, and an executive vice-president for the short term.

The elements of the long term are finance, marketing, human resource development, and engineering. For the mid term are strategic planning, accounting, the law department, and information technologies. Finally, the short term is made up of sales, production, human resource administration.

The first question I am asked is, "Where can I find a person who can manage finance, marketing, engineering, and human resource development?" Why not? Actually, this person would be training to become the next president. This is a training ground. If it turns out he cannot do it, thank goodness. We have found out early enough! What you absolutely do not want is somebody who has been in sales for his entire career and then suddenly becomes a president. What does he know about production? He will tell you that these bastards never deliver on time. You do not want somebody who has only been in production, either. What does he know about sales? "These jerks always promise too much." And the worst possible choice for president is a financier. What does he know? Nothing. Just "show me the numbers"! That is a disaster.

My next president is one who has demonstrated that he can integrate production, sales, marketing, and finance. The main test is for a leader to demonstrate that he can change his style. A leader who speaks only one language - for example only long term - is dangerous. This is an arsonist who starts fires and can burn the company down. And somebody who thinks only in the short term charges full speed ahead into disaster. I want a leader who can switch between short term, mid term and long term. That is my president.

What about the human resource development person? I recommend that this should not be a professional human resource manager. The latter would be like somebody advising people on how to raise children even though he never had a child himself. The people under him should be professionals: you need professional recruitment and evaluation and professional labor relations. But the human resource development manager should first and foremost be somebody who knows his people, somebody who can look them in the eye without blinking. By the way, I learned this from the Israeli army. The head of human resource development is always a fighting commander.

I do not like to bring in top managers from outside. Usually they are too disruptive. They try to change everybody. It is drastic surgery that can make the company go into shock and become paralyzed. It is like taking a child away from his parents and putting him in a foster home.

The next question is how to measure successful transformations. We train people in human resource development to do exactly this. At every stage of the company lifecycle you have normal problems. That is OK. Being alive means having problems. The trick is not to get rid of all problems. The trick is not to have abnormal problems. How are abnormal problems created? Here is what Henry Kissinger said: "A problem that is not solved is a crisis in waiting". If you do not solve your teenage problem, you will be a teenager at the age of 40.

The role of human resource management is not to solve all the problems of your company employees. If you solve all your children's problems, they will never grow. They will never become mature. Instead, you have to see to it that your children solve their own problems. The human resource manager has to see to it that other executives solve the company's problems so that they do not become abnormal.

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It is the same with planning. If you have a planning department, the rest of the company will say "Wonderful. We have a planning department that is going to do all the planning for us. We do not need to do anything." The job of the planning department is to see to it that planning is done by other people.

Likewise, the human resource development department does not need to develop people. They have to see to it that they develop. You are like a midwife: you have to make sure the baby is born. But it was not you who conceived it. That is not your job.

So, how do you measure successful transformation? How many problems did you help solve by making sure people do not sit on them like a chicken on eggs? That is your job: go and help them solve the problems. Teach them how to do it. That is why I believe in organizational therapy but not in consulting. Consulting is giving advice. Therapy is helping them come up with their own solutions.

The next question is how to manage a fast-growing company. The faster a company grows, the less the people in it understand each other. Why is that? Fast growth results in the recruitment of a lot of new people. They come with their experience from other companies and cultures. You may have several totally different opinions as to what a budget is. Therefore, when I see a go-go company, I appoint somebody to be responsible for the company's dictionary. Whenever there is miscommunication, you need a definition of the words that you use. Then you put it in the dictionary. For example, what is a module? What is a module for you is a component for another person, or a system or something else. People can almost kill each other simply because they do not know what they are talking about.

When a new person joins a company, I would say: "Look in the dictionary for what we mean when we use such and such a word." Quite often, when you are trying to solve a problem, you discover that it has come up because of differences in definition.

I differentiate between rules, guidelines, and policies. Guidelines are organizational memories. "That is how we do things in our company. If you do not like that, fine. This is just a guideline." A rule is something you have to do, but you can also break it. Sometimes it may not fit the situation and you have to use your judgment. However, there is a clear difference between a guideline and a rule. When you violate a rule, you have to inform whoever set it. Perhaps it should be reanalyzed and downgraded to guideline status. Alternatively, you may hear something like "Oh, you broke this rule but I disagree with you. Now we need some damage control". You see, you need to control flexibility. You do not want a flexible company that is out of control. On the other hand, you do not want a company that has so much control that it is too bureaucratic.

Now, what is a policy? It is something you cannot violate without prior permission. If you do, you had better start packing.

We put guidelines, rules and policies in a binder. Guidelines are written in white. Rules are in light blue. Policies are in pink. What color should most pages be? White. What is the next most common color? Blue. There should be just a little bit of pink.

Bureaucrats often create confusion. They can say they are giving you a guideline while they are actually giving you a policy. You had better stick to it. But when an entrepreneur talks about policies, they do not usually last long. He is usually the first one to violate them. It turns out that his policies are actually guidelines.

The meanings of these terms depend on the people that pronounce them. Once I was listening to my two little sons talking in the kitchen. One of them said "They said 'no'", meaning that we, the parents, had forbidden something. The other one asked, "Which of them said that?" It is the same in a company. "Which vice-president said that?" It makes a difference. But you do not want the whole company to run according to the idiosyncrasy of one individual.

When you hire a new person, you have to do some induction training. Have him read the dictionary. Otherwise, he will spend the first six months wondering what is allowed and what is not, which is a waste of energy.

We mentioned several questions about leaders. What is a good leader? Can you develop one by sending him to school? Is it better to send people abroad or use locals? How much time should a leader spend with his people and what should he do during that time?

Let me start with the last question. A former client was one of the largest manufacturers of semi-conductors. I noticed something very interesting about the president. During meetings he was half asleep. People were talking but he did not seem to be listening. Nor did he say anything. A second characteristic was that when you called him and said, "Dan, can I see you?", he would say, "Sure, come right over". His calendar was empty. I wondered what the heck he did. After all, this was a 10-billion-dollar company.

Here is how he managed it. A good leader does not tell you what to do. A good leader tells you what not to do. He sits in the meeting and listens. If things are going in the right direction, there is no need to intervene. But the moment something goes awry, he wakes up. He will still not tell people what to do,

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though. He will ask, “Have you thought of this?” and “Have you thought of that?” He just sets the boundaries.

There is a difference between an employee and a manager and then between a manager and a leader. An employee tells you the problems. A manager tells you the solutions. He cannot ask somebody else for solutions because it is his job to know the answers. That is what he is paid for.

When you go to Dan with your solution, he never says it is bad. If he likes it, he will tell you to go and implement it. This takes only a couple of minutes. It is much more efficient than telling people what to do and then supervising them. If he does not like your solution, he will ask you if you have considered all sorts of issues. “Why don't you go and do some more thinking and then come back?” So, what is this leader doing? Teaching.

Once somebody had had his idea approved in this way, he is extremely motivated to implement it because it is his own and the president supports it. A leader does not tell you what to do. A leader helps you discover what you have to do. That is why this man had so much time. It is easier to give people boundaries than details.

It takes a lot of training to do that, though. That is because we feel empowered when we tell people what to do. Which is the most important finger? The thumb. Without the thumb you do not have a hand. A chapter in one of my books is called “A leader has to be a thumb”. He makes people work together. Too many people think that the index finger is the leader. Communist countries have statues of leaders pointing with their index fingers. But at the same time all the birds poop on his head. That is not a leader. With this kind of leadership, you can run only a small company. It is like dealing with a baby. You put it to bed when it has to sleep and feed it when it has to eat. That is the whole story. But you do not do that with a 24-year-old son.

In a grown company, you need to change the leadership style. You need a different parenting style. The index finger yields to the thumb. Unfortunately, I have too many clients who have built companies and cannot change their style when it is time. That is too bad, because the distance between thumb and finger is enormous. What is good for one stage of the lifecycle is bad and dysfunctional and destructive for another stage. We are talking about management by contingency.

Should you send people to school to make them leaders? I am not against schooling. Once I had a client who was among the largest and richest companies in Australia. One of their representatives told me that he had three doctorates, even though he had not finished high school. I asked how that was possible. “Very easy”, he said, “I hired them.” You can hire doctorates.

What makes a good leader is not what you know. It is what you are. It is the kind of human being in you. It is better to hire somebody who “is” and teach him knowledge than to hire somebody who “knows” and teach him to “be”. What does “to be” mean? The test is simple. Can you develop and nurture mutual trust and respect? That is the trick.

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I remember the day I got my doctorate from Columbia University. I was carrying that beautiful diploma in my hand and I thought, “My God, I did it!” Then a door opened and a bunch of students came out of a room where they had just sat for a qualifying exam: the kind of exam that you have to pass before you can start writing your dissertation. At that stage they were about two years behind me. I asked to see the exam material. I looked at it and realized that I would have failed. My knowledge had become obsolete the day that I obtained my doctorate. It was a rude awakening. What you know becomes obsolete very fast. What you are is forever. It is important to “know”, but it is indispensable to “be”. This happens only through experience. You do not get experience in a classroom.

I like to put people in situations where they have to manage conflict. Tell me how much heat you can take and I will tell you how big you can be as a leader. I will explain how I can tell if people are qualified to be promoted. It is like looking at a truck. If it is too heavy, it sputters and vibrates and cannot start. You have to take some weight off. It is the same with a person. Some get easily upset and annoyed, and start biting. Others keep smiling. Look at Obama. He is never tense. But McCain is tense as hell. I believe that Obama will win; or at least he should win. When somebody is too tense, that means he carries too much weight. If you allow him to carry on, the situation will only get worse. You want a person who says, “Oh, this was easy. Give me more of it”.

The way to choose people is to put them in a conflict and watch them. Tell me how much heat you can take and I will tell you how far you can go. I have always been scared by so-called “fast-track” people. They have an MBA from Harvard and they make a quick ascent to a company's presidency. But they

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have not been tested. They have not been through the heat. As Harry Truman put it, “Those who cannot take the heat should get out of the kitchen”.

Mary Kay is the founder of a cosmetics empire. Once they asked her about the secret of her success. She said, “The scars on my knees”. When you are building a company, you fall on your knees. Success is not about how rarely you fall. It is about how fast you get up.

When I interview people for jobs, I do not like those who tell me only about their successes. I like a person who says, “I was in big trouble but I dealt with it”. This is the kind of person who has got what it takes to be a leader. It is about how you emerge from crises. Are you still smiling and full of determination? Or are you trembling all over? How do you develop this in a person? Put them through experience.

Now, do you want to enhance leadership qualities in your company? I will tell you what to do. Teach your people how to meditate and do yoga. I hope you do not think I am crazy. I have done it in some large American companies. I have had all top managers do yoga before each of my consulting sessions. A journal once called me “The consultant who made the executives of Bank of America stand on their heads”.

What do you experience when you are meditating? You must not get attached to your thoughts. My friends, Descartes was wrong. He said “Since I think, I am”. Wrong. God forbid if I am everything I think. You have to be above your thoughts. You have to watch your thoughts and control them. Your thoughts can take you the wrong way. Did you know that in some Eastern philosophies your mind is called a “terrorist”? It terrorizes you. Your mind makes you do things you wish you had not done. Your mind can be very dangerous to your body. You have to be above your mind.

As you meditate, you watch your thoughts. They come to you like clouds. You spot them but you let them go. You do not hang on to them. This is called thought management; did you know that? You do not let a thought manage you. You cannot have problems manage you. You observe them and decide which ones you should react to. You do not deal with all of them.

I ask my managers to meditate before any major meeting or discussion. Calm your mind. Build up your energy. This is very powerful. Trust me.

Now, why yoga? Tell me how you manage your body and your pain and I will tell you how you manage your company. Are you telling me that the unions are giving you a problem? They are not. They are telling you that there is a problem. What you learn through yoga is how to handle pain. Breathe. Look at the pain. Accept it. It is not your back that hurts. It is you. It is not you employees that are giving you pain. They are part of the company. Start integrating. It is not your pain or their pain. It is our pain. You are together in this. If you learn how to handle this, you will be a much better manager.

To be a good leader you must, first of all, experience pain. If you cannot take pain, do not talk to me about leadership. And do not become a parent either. Do not even get married. If you cannot take pain, do not live. To wrap this up, as far as I am concerned, leadership capability is the ability to take pain. I wish business schools would start teaching yoga and meditation.

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Leadership capability is the ability to take pain.

Next question. I do not like to send people abroad to another branch of a multinational company. This is called colonialism. I have seen too many companies fail because they send expatriates to manage a branch in a country whose culture and market they do not understand. By the time they learn, they have done a lot of damage. I would rather bring locals to the company's headquarters for a few years and then send them back home. For example, once a Mexican company wanted to open a branch in China. I told them to get some Chinese people from American business schools, have them work a few years at the Mexican company, and then send them to China. Naturally, this requires long-term planning but that is what you should do.

What is planning, by the way? Our minds are like computers. Computers cannot take a joke. They process information literally. So do our minds. If you decide to go on a diet tomorrow, you will wake up and your mind will ask, "Is today tomorrow?" "No, it is today". "OK, I don't have to be on a diet then." Arnold Walravens, Danica Purg's husband, told me about a bar in Amsterdam that has a sign on the wall which says "Free drinks tomorrow". They never have to deliver them, because it is always today.

Going on a diet does not make sense if you do not start it today. Planning does not make sense if it is not about today. If you postpone it, it is not planning. It is dreaming or talking.

People say, "as soon as I get done with this, I will take a course". They think that the more problems they solve, the fewer problems they will have. It is actually the other way around. The more effective you are, the less effective you feel.

How do you deal with the pressure to perform when there is a need to develop? You will never have time for that. People say, "as soon as I get done with this, I will take a course". They think that the more problems they solve, the fewer problems they will have. It is actually the other way around. The more effective you are, the less effective you feel. After you have solved a problem, you discover another one. It is a very utopian idea to think that once you have solved your problems, you will have time.

Apart from the official holidays, I suggest that you take one long weekend a month. Leave work on Thursday and do not come back to work till Tuesday morning. Take your family somewhere. Rest your mind. This is the best way to help it generate new ideas. Also, take one week off every three months and three weeks off once a year.

Unfortunately, we usually get this upside down. First, we work, then - if we find time - we rest. If you do it this way, you will never have the time.

How many company founders have divorced their wives and married their secretaries? Are you familiar with this scenario? Why does it happen? Because those people spend more time with their secretaries than with their wives.

When I lecture to chief executive officers of young companies, I ask them to bring their wives. Then I talk about lifecycles. I ask the ladies how it was when they gave birth and afterwards. It was tough, was it not? The baby cries and needs constant attention. The mother gets exhausted and sometimes even goes into depression. However, the husband comes home and wants to have fun. He is frustrated, and says that since the baby came along his wife has not been interested in him.

Now let us consider an analogical situation. A man has been dreaming for more than nine months about starting a company. Finally he conceives and gives birth to it. The company is not a lover. It is a baby. And, just like a baby, it constantly creates problems. The man is exhausted. When he returns home, he is bushed. But his wife complains: "When you set up this company, you forgot that you have a wife. You do not care about me anymore."

What should a smart wife do when her husband complains that she prefers the baby to him? Ask him to help out with the baby, because it is not just hers but also his. What should a smart entrepreneur do when his wife accuses him of preferring the company? Tell her that they share the company. Otherwise,

the husband will leave the nagging wife and marry the supportive secretary that is always there to provide support.

How do you deal with people who feel threatened by those who are being developed? An excellent question. I recommend that you always have some top managers out of the company on a sabbatical, such as a one-year program at a business school. I borrowed this idea from the Israeli military. They always have a few generals studying at an American university. If somebody gets killed in action, somebody else is available.

Suppose your business is growing and you need to build a new factory. Will you build it big enough for current requirements or will you add extra capacity? The same is true of people. If the company is growing, you should have extra capacity in management. Keep some people you do not need today. If you are growing, you do not want to run out of capital. Why do you want to run out of people? Because it is not efficient? You are right. Effectiveness and efficiency are competitors. If you are extremely efficient you cannot be very effective. If you want to be effective you have to give up some of your efficiency. To some people, especially those in communist governments, sacrificing efficiency is sacrilegious. But effectiveness has a price.

If the company is growing, you should have extra capacity in management. Keep some people you do not need today. If you are growing, you do not want to run out of capital. Why do you want to run out of people?

How do you motivate leaders to develop leaders? I recommend to my clients that they give a bonus when three conditions are met. The first one is when personal goals are achieved. The second is when the company achieves its goals. I do not want to have rich people in a poor country. It happens too often, unfortunately. People get bonuses when the company is going bankrupt. What kind of nonsense is that?

Here is the third condition. Can you tell me who will take over from you if you get hit by a truck? Nobody? Forget your bonus; you are too dangerous. "But I worked hard." I don't care. "But the company achieved its goal." I do not care. How much does it cost me to replace you? Probably half of your annual salary. Managers do not often get hit by trucks, but they do leave of their own volition, and six months before leaving a manager is no longer very productive. He has already retired on the job. When the new guy steps in, it takes him six months to find out where the bathroom is. Therefore, if you cannot show me somebody who can take your place tomorrow morning, you do not get a bonus.

Do you know what the most sensitive part of the human body is? It is the pocket. You touch that and people immediately understand what you are talking about.

Let us now talk about the difference between human resource development and human resource administration. For a labor administration department, I like people who are efficient and systematic, even bureaucratic. Labor administration needs to be consistent. For human resource development, I prefer executives. And I strongly recommend that you do not stay there all your life. It is a dead end.

How can human resource managers change a culture? Alter the structure first. That means you have to rethink responsibilities, authority and rewards. If you modify these three components, people will change, too.

How can human resource managers change a culture? Alter the structure first. That means you have to rethink responsibilities, authority and rewards. If you modify these three components, people will change, too. Those that are not camels in a polar bear's skin, but real polar bears, will find a job at the North Pole. If they have to go to the Sahara, they usually quit. What you want in the organization is multiple climates, not just one. A diversity of styles is necessary in order to match the diversity of people.

How do you measure the success of human resource development? Too many people take surveys of workers' satisfaction. They even survey countries, and Denmark often comes out on top. I will tell you how you get satisfied people. Stop change. Do you want to see frustrated people? Go to a country with a high rate of change. Bureaucrats are very happy because they do not experience change.

Show me a country with a high rate of change and I will show you that they have a high divorce rate. If they have a low rate of change, the opposite is true. Change is very stressful. It causes disintegration.

Why does change produce problems? Everything in this world is a system. By definition, a system is composed of sub-systems. But when a system changes, the sub-systems do not follow at the same speed. Some are faster than others. Let us take an example. People consist of different components: physical, emotional, intellectual. These do not develop together. A person can be 45 years old physically because he was born 45 years ago, while simultaneously being 70 years old intellectually. People will say that this person is wise for his age. At the same time it is possible to be a teenager emotionally. And spiritually a person may not have been born yet.

It is the same in an organization. In a young one, sales and marketing are very flexible. They will chase clients and do anything for them. But finance and accounting are in the Stone Age at the same time. What about human resource development? It does not exist.

Founders of fast-growing companies will tell you that their biggest problem is that the bigger they get the less information they have. They understand less and less what is going on. As sub-systems change and development speeds, you get gaps and cracks.

I am now going to make a very strong statement. There are all kinds of problems. You can have a problem with your company, your marriage or your car. Or with your country, if you are in government. But all problems stem from one source: disintegration. Something is falling apart because of change.

Whenever I hear of a problem, I ask what has changed. What has fallen apart? When you take your car to a garage, the first thing that they will do is try to diagnose the problem and find out what has fallen apart. Then they have to figure out how to put it together again. That is what a good psychotherapist does: he puts you together. They even say “oneness or illness”. Integration is a sign of health. Disintegration is a sign of illness. That is how you diagnose problems: you find out what has fallen apart.

You cannot stop change. That is what radical Muslims and Christians are trying to do. So are radical Jews. But they cannot be successful. If you try to stop change you are committing suicide, because the rest of the world is moving forward. Muslim extremists are literally doing that.

If the cause of problems is disintegration, the cure for all problems is integration. That is the job of human resource development. Because change causes disintegration, somebody has to produce the antidote: integration. The trick is for all of us to change together, rather than have only some of us change and all of us fall apart.

If the cause of problems is disintegration, the cure for all problems is integration. That is the job of human resource development. Because change causes disintegration, somebody has to produce the antidote: integration.

What is the most important asset that a company has? What is the most important secret of success? I told you already: mutual trust and respect. There are many companies that have good people, but their systems are lousy. They destroy people. Look at Soviet Russia. It had very good people, but the system was bad. With a bad system, it does not matter how much you train people or what other efforts you make to develop them.

If you are a mechanical engineer, they teach you that you should maximize pressure and minimize friction. Too much friction is indicative of a bad design which would result in a high rate of consumables such as repair parts. Similarly, if you design a company badly, you will have a lot of friction. That destroys people.

You should keep track of what good people do: do they come to the company and leave after a while, or do they stay? That is what you should measure.

You should keep track of what good people do: do they come to the company and leave after a while, or do they stay? That is what you should measure. It is not easy to define and measure trust, but we have a methodology for it.

You do not need to measure employee satisfaction. You can do it but you should not take that as an indication of success. You can increase satisfaction by reducing change.

On the other hand, too much dissatisfaction means that the pace of change is too fast. You should slow down. You are on thin ice and are beginning to get destructive. The trick is to move fast but without losing the main asset.

I am afraid for Russia. That country is moving too fast. Look at the mutual trust and respect that they have. I always tell the prime ministers that I talk to that they have to be careful not to destroy the culture of their country, because that can have devastating consequences. A lot of material success can be coupled with spiritual destruction.

Let me finish by saying a few words about rewards. I have a somewhat different view on that than most people. There are two types of rewards: extrinsic and intrinsic. The difference is that you can get an extrinsic reward without doing anything. The son of the founder gets a Ferrari and a credit card just because he is that son. He does not have to do a job to earn them.

There are two types of extrinsic rewards: pecuniary and non-pecuniary. Money requires external validation. You have to know what you can buy with it. During the hyperinflation period in Serbia, people got billions of dinars but could not buy a cup of coffee. The non-pecuniary rewards can include status: you are made vice-president, you have a large office, there is a secretary outside, etc. In Turkey, if there is a glass plate on your table, that indicates higher status. There are other indicators as well, such as where you park, how close your office is to the president's, whether it is by the bathroom, etc. This has nothing to do with the job. It is all about status. And status requires vali-

dition. Suppose I tell you that I am making you vice-president but nobody should know about it. How much is the title worth now?

As for intrinsic rewards, you get them only if you do the job. They do not require any external validation. They fall into three categories. The first is to like the task: you simply enjoy what you do. The second can be found in highly bureaucratic countries like Turkey. I once saw a man who had 15 seals and he used them with a lot of satisfaction. This stemmed from the fact that he had power. You can also call it potency: I am so potent that I can make you stand in line for two days and I derive satisfaction from that.

Years ago I lectured in Peru. At that time they were very interested in self-management and industrial democracy, and I was advisor to the President. After I gave my lecture, somebody said, "Doctor Adizes, I do not understand this. Are the people of Vietnam fighting the Americans because they get paid a lot? Are they fighting because they like to parade on one leg on Independence Day, covered in medals? Are they fighting because they enjoy fighting? Are they doing it because they feel great about beating the United States?" No, they were not. "So why are they fighting?" I thought about that, and had a revelation. Mission! When you have a mission in life, you are ready to die for it.

There are five sources of motivation. Let us look at each of them separately. There is research evidence that extrinsic rewards result in a very short period of motivation. You get a salary increase and you are motivated for two weeks. After that, your motivation is gone. Another interesting thing is that your satisfaction does not stem from what you have been given but from the rate of the increase. If you negotiate a five percent salary increase for the next five years, your motivation will last for two weeks. To be motivated people want constant increases because that gives them a feeling that they are moving forward.

Now take a person to whom money does not matter much. They can work in terrible conditions in the jungle or in the desert and even risk their lives. They are ready to do this because they have a mission.

There are also people who do not necessarily make much money and do not get much recognition. They do not have a sense of mission, either. Their only reward is power. These are the bureaucrats. They feel tremendous satisfac-

tion when they tell you that you have not filled out the right form and have to stand in line once again. They get sexual satisfaction out of this.

Some people simply like what they do. What do you call them? Artists: painters, composers, and dancers. They may starve, but they love what they do.

Another source of motivation is sheer recognition. You do not make a lot of money, your mission is generic, your power is not great, but you are in the spotlight. This is the case of some cheap politicians.

Finally, there are jobs that provide only one thing: money. They are boring and repetitive, there is no recognition, no mission, and absolutely no power. We are talking about prostitutes and workers. They constantly want more money because that is the only thing that they get. Why are Japanese workers more productive? Because they have a sense of mission. They get more recognition and respect. And Japanese management is participative.

A friend of mine asked me this funny question, "How do you de-motivate a person who likes to play golf?" Golfers are real addicts, you know. They will sell their children to play golf. What can you do to kill their motivation? You wake them up at three o'clock in the morning and order them to play golf. Then, once you are on the golf course, you do not let them see where their ball goes. That is how you can de-motivate them. That is what we do to our workers, my friends. They do not have a sense of mission. They do not know what happens to the balls that they send out. And we expect them to be motivated because we pay them three dollars an hour. That is the problem of the Western way of thinking.

QUESTION FROM THE AUDIENCE

What does it take for a person to be a good human resource manager?

Ichak Adizes

You have to know more than psychology and sociology. You have to understand business. As Margaret Mead put it, you do not have to be a horse to be a veterinarian. But you have to understand the horse. Too many human resource managers do not understand business. You do not have to be an accountant, but you should know the

difference between accounts receivable and accounts payable. You have to know what market share means. To be a good human resource developer, you have to be a good general manager.

All of us have a limited amount of trust. It is like a bank account. The more you use it, the less you have. You want something that makes your bank account grow, not something that depletes it. Therefore, you have to be careful how far you stick your neck out.

There are people who have something to say and people who have to say something. Do not be in the second group. Those who are listening will know immediately that you are just trying to say something. If you do not have anything substantial to say, be quiet. Do not waste your trust.

I would like to recommend a book called *Leading the Leaders*. Different people have different managerial styles and there is a whole typology of these. The first archetype is the producer. He is a task-oriented doer. He does not like talking too much. He hates meetings. He wants results. He charges full speed ahead and breaks down walls. He is also a workaholic. He is the first one to come to work and the last one to leave. First one in, last one out, as accountants would put it. And he takes work home. For this person, long-term planning is next week.

If the previous type, the P, was concerned mostly about the “what” of the business, the A type is concerned about the “how”. This is an organized linear thinker, a prototypical bureaucrat. Everything must follow a sequence. These people come to work on time and leave on time. They are mostly concerned with form, not with function. They call regular meetings. The company may be collapsing, but it should collapse on time. Everything must be organized. This type of person would rather be precisely wrong than approximately right.

Accountants are usually A types. I was once flying over Brazil, sitting next to an accountant. He saw the Amazon from the plane and asked me whether I knew how old the river was. I said I did not. “One billion years and seven months”, he said. “How did you get that number?”, I asked. “Seven months ago somebody told me that it was one billion years old.”

The third type, the E, is not usually interested in “what” issues, much less so in “how”. He is interested in the big picture. Why should we do that? What are we planning to achieve? And quite often it is “Why not? Let us try it out and see what will happen”. This character is most dangerous on Monday mornings after a vacation and more than three hours on the plane. He comes back with new ideas, new priorities and new directions. He is always full of excitement. Do these people have staff meetings? Yes, but nobody knows when. They either have no agenda or, if they do, they disregard it because it is not important. When a meeting does take place, it is always this person who talks.

This type is like the Italian Army. Italians are famous for their food, music, and love stories. They are not known for military accomplishments. Their military feats can be described in three pages. During the First World War, their commander would stand up in his beautiful uniform with epaulettes and feathers and order the troops to attack. They would shout “Bravo!!!” and nobody would get up.

Likewise, this type of leader is very enthusiastic about his ideas. He likes to lead his people into an attack, but who follows him? The new recruits, because they do not know him well yet. Those who do sit down, because they know that he will change his mind.

This type of person, the E type, is an arsonist. He likes to start fires. If your boss is an A type, when he asks you how things are going, you should say that everything is under control. If he is a P, you had better answer that you are working very hard. But if he is the arsonist E type, you should say that you are divorcing your wife, you have no time for your children, and you work 24 hours, seven days a week. He will be disappointed if your answer to his question is “everything is fine”. He wants to hear about a fire. There must be a crisis.

The I type, in contrast to the others, is not interested in “what”, “how”, or “why”. He is interested in people. Here is an example. Four people are sitting in a room. One of them looks out the window and sees mountains, lakes, clouds, and birds. The other one does not see anything of that kind. He sees that the frame is dirty. The

third one does not even see that. He wonders how that window can be opened. How can it be cleaned? Why is it precisely there? He is interested in its functionality. The fourth one is not looking at the window at all. He is looking at the three other guys, wondering what the heck they are looking at.

Who sees the whole world outside the window? The E type. Who has spotted the dirty frame? The A. That is why E and A do not like each other. When an E gives a report to an A boss, the boss returns it with grammatical corrections. "You forgot a comma here and the figure is not 70.52 but 70.51". The A will say that the E is full of hot air, running around aimlessly. The E will say that the A is stupid and undermines everything that he launches.

As for the P, he muses upon the functionality of the window. He wants it to serve a purpose. Finally, the I type is mostly interested in the people around him.

You should always know what kind of person you are talking to. Usually we talk to other people as if they were the same as us. As a result, we get very angry because they do not understand us. For example, E starts talking to A. He bursts into his office like a kamikaze and tells him that he has a great idea. The A does not like to be disturbed. When you disturb his day, you disturb his life. He gets paralyzed.

When an E does not agree, he is very noisy. He interprets silence as an agreement. A is just the opposite. When he disagrees, he locks his jaws and looks at you silently. He thinks you are crazy and he does not say a word.

This creates miscommunication. The E thinks that his idea has been accepted. The A, however, will tell you that this man is a maniac and will burn down the company.

If the E is the A's boss, the A may get fired for his silence if the idea does not work out. According to the E, it is the A's fault that he did not speak up. The A goes home and does not understand what has happened. Why did I get fired?

Now consider the opposite situation. The A goes to the E's office. He starts his presentation from Adam and Eve and narrates the history of the world. The E gets exasperated with all those details and cannot understand why they are necessary.

As for the P, he will throw you out of his office if you give him details. He wants you to start from the end. What is the solution? What are we going to do?

As hate this style but so do Es. They do not want you to formulate a problem and a solution. They expect you to say something like, "I think that the problem appears to be this. And this is what we probably have to do. What do you think?" The E will like that because it has to be his solution. If you give him a finished product and he cannot make a contribution, he will tell you that he does not like it and you must forget it.

How do you communicate with an I? He is interested in people. Before you talk to him, you go see all the important people. Then you tell him that you have discussed the situation with everybody and you have reached an agreement. "OK", he would say, "but did you talk to Boris?" "Yes, I did". "Fine. Did you talk to Helena?" "Yes, I did". "Excellent. Then I guess we can go ahead and do it."

Try this style with an E. Tell him that the rest of you have met and discussed the situation. You have reached a consensus and now you just need his blessing. How would he feel? He would think that you have started a revolution behind his back. He thinks: You are all in on this and I am in a corner. There is nothing I can do about it. OK, do it, but I will not forget this. And I will get you back.

You have to know who you are talking to and adjust your communication style. There is a whole book about that. If you want to be trusted, you have to be careful to whom you are talking. You cannot have an A-type communication with a P. You cannot talk to an E as if he were an I.

Imagine that you have to go to an A and suggest some change. There is some uncertainty, though, because you do not have all the necessary information. What kind of answer do you think you will

get? A “no”. He wants complete clarity. Only then will he say “yes”.

Now go to type E and say you want to make some changes. He looks interested. He starts with “Yes, yes”. Suddenly he says, “Oh, is that what you mean? No!”

Now, this E is married to an A. He comes home. He says, “Honey, I am so tired. We need to go on vacation”. “Do you really mean it?” “Yes, I do”. The A thinks that “yes” really means yes. She starts planning the trip. Then, the E husband asks her what she is doing. “I am getting ready for the vacation”. “What vacation are you talking about? Don't you know how busy I am?” You have to know that when an E says “yes” he does not mean it; he means “maybe”.

Because we are different, we often create miscommunication. If you want to be trusted, you have to be aware of the communication style of your interlocutor. A good manager speaks four languages: A, P, E, and I. That is how you gain trust. You should not force your style on other people, because that is colonialism.

QUESTION FROM THE AUDIENCE

In Eastern Europe there are a lot of angry young people in many companies. How do you manage them?

Ichak Adizes

There is one more style that I did not tell you about: the 0. This is the deadwood style. The first characteristic of this style is a lack of resistance to change. The other types will show at least some form of resistance. Talk to the P about change and he will say “Sure, as soon as I have time”. This means never. Talk to an A. He will ask you for details. Then, he will always think of a reason why you should not do anything. It is too risky, or too expensive, or too difficult. An E will put up resistance unless it is his idea. An I will resist because it creates turbulence. He will tell you that this is a very good idea and he is very proud of you but people are not ready yet.

Now, talk to the deadwood. He will tell you that your idea is great even if you have told him that you have thought of moving Ljubljana to the middle of the Sahara. Then, a year later, if you ask him about

the idea's implementation, he will tell you that all sorts of analyses have shown that it cannot work. Nothing has happened.

Do you know how you can recognize this type? Give them a task that cannot or should not be executed. If they say "OK", they are deadwood. By the way, we love the deadwood. They are the most pleasant people we have because they never give us a hard time. They are like your right hand: they do exactly what you want. The left hand is disobedient and gives you trouble.

Another characteristic of the deadwood is that when you ask them how it is going they will tell you everything is fine. Ask a person this question and you will know his style. The P will complain that he has been working hard and he has not achieved enough. The A will tell you that there is not enough control in the company. The E thinks that things are going in all sorts of wrong directions because people are not following priorities. Of course, those people do not know what the priorities are because he is constantly changing his mind. He is the type of person who says that it is too late for you to disagree with him. As for the I, he will tell you that the problem is the lack of communication in the company. People do not understand each other correctly.

Now ask the deadwood how it is going. "No problems". Everything is OK. The reason is that he does not want you to check what is going on.

How is deadwood created? Consider a P who does not train his subordinates. He is so busy that he does not train himself either. He is not a person who has 20 years of experience. He has one year of experience repeated 20 times, which makes him obsolete. He becomes deadwood.

How does an A become deadwood? He manages by the book. He needs policies. Now change the company practices. Computerize its operations. He will feel lost. He cannot figure out what is going on.

The E starts too many fires. He loses control, respect and trust. When he tells people to move, they do not budge.

How does an I become deadwood? He is constantly maneuvering. He is never ready. In the meantime, there is a crisis and the Young

Turks launch a revolution and take him out because the situation calls for action and he is not action-oriented.

What is the common denominator for all these situations? Change. Change to which these people have not adapted. The higher the rate of change, the more deadwood you will have in you company.

What happens when an agricultural society turns into an industrial society? You get a lot of beggars. What about the United States? Why are there so many homeless people? Because the country is becoming a post-industrial society. Many people cannot adapt and fall through the cracks. Deadwood is the result of change.

So what should we do? Fire them? That is what I thought when I was younger. But then I discovered something very interesting. They are not quite dead. They are playing possum. A possum, or opossum, is an animal that pretends it is dead when it is threatened. People will behave like opossums when they have lost their bearings. And that happens quite often nowadays because there is so much change that they do not know what is going on any more.

The Young Turks are full of zest but they have no experience. They do not know anything. If you put them together with older, experienced employees and create a secure environment, you will see that the deadwood will come back to life. They will start sharing their experience and the young people will be able to learn from them.

Planning and Managing Executive Succession

A Roundtable Discussion



Nadya Zhexembayeva

We have invited four very interesting panelists from four different countries to share their views and differing experience of executive succession. First I suggest that they briefly introduce their companies, so that we can have a better idea of their business environment and backgrounds.

Jörg Blunder

I am happy to be here for at least three reasons. The first one is that we are going to talk about one of the most interesting topics in management today: succession planning and people development in general. The second is that I have really been looking forward to meeting Danica Purg again. The third is that I was born only 50 km away from Bled but have never had an opportunity to come here, so I am very excited about this visit.

I think everybody knows what my company produces. Coca Cola products are known worldwide. My branch of this huge organization is active mostly in Central and Eastern Europe. A few years ago we employed 36,000 people, but at the moment we have 48,000. This growth was not achieved by upsizing the business but by means of acquisition. We are not focused only on our core business but on other initiatives as well. The main challenge for us now is to expand according to the original blueprint of the company, while exploring new fields in what I would call an ambidextrous organization.

Another area that we are emphasizing at the moment is talent development. We are also focusing on numbers. Over the past four years we have slashed our Austrian personnel from about 1650 people to 1150. This means that as we extend our business and expand our employee numbers in some regions, we are downsizing elsewhere. This requires detailed and precise measurement, reporting of performance, and identification of high and low performers.

Thus, there is a focus on change, culture, talent development, and finding the right organizational size for now and for the future.

Pauline van der Meer Mohr

I think that if there were an award for the most customer-centered school on the planet, it would surely go to the IEDC. I was here two years ago and I was strongly impressed by the school's effort to integrate a liberal arts element into its management education and MBA curricula. Two years later, we see a new center for innovative learning. Talk about being customer-centered and responsive to clients' needs!

My background is in a number of different businesses. I spent my formative years with Royal Dutch Shell. After some 15 years with them, I became head of human resources for two large multinational corporations: TNT and ABN-AMRO bank. The latter organization was a global conglomerate with headquarters in the Netherlands. If you have followed the news, you are aware of the fact that ABN-AMRO was the first European bank to be taken over in a hostile acquisition bid in 2007 by a consortium of three banks. They effectively dissected it: part of it went to Banco Santander, while other parts were snapped up by the Royal Bank of Scotland and Fortis. Professionally speaking, this is a very interesting challenge. On the other hand, when something like this happens, it feels like a pack of wolves tearing at different parts of your anatomy and it is not a very pleasant experience.

After a hostile takeover, normally three things happen. The first one is that the chief executive officer gets fired. The second person who loses his job is the chief financial officer. And the third one is the human resource manager. That was indeed what happened at ABN-AMRO.

As a consequence I decided that great companies need great human resource management and that I should devote the rest of my career to help-

ing companies develop a great human resource management function. That is what I am doing currently, running Amstelbridge. It is a newly-established consulting boutique and a rapidly-growing global network of very dedicated and passionate human resource management professionals. Among other things we are also trying to be social innovators, and I hope that we will have an opportunity to talk about that. Basically, in addition to helping companies, we are also trying to be a force for good in this world. Otherwise, I sit on the boards of a few companies and do academic work: research and teaching. This is good, because when you are in executive roles life is so hectic that you do not have time to sit back and think, but academic endeavors give you an opportunity for that.

Pavel Shchedrovitsky

I work for Integrated Energy Systems (IES) with headquarters in Moscow. It is a relatively new company, founded only five years ago. Nevertheless, nowadays it is one of the biggest in the power sector in Russia, with approximately 60,000 employees.

We produce, transport and sell electricity, heat, and gas. The biggest personal challenge for me at the moment is the transformation of the company. We have to build a new business model and implement it. I have been in charge of human resource management for only one year. That means that I am not as experienced as my colleagues on this panel, but I will try to share some thoughts concerning the huge company transformation that I am concerned with.

József Végh

I have been in human resource management for 18 years. Because I have spent so much time in this function, I may have lost touch with the rest of the world. I had a job with Unilever and had the opportunity to work in different locations and with different nationalities in the Netherlands, the United Kingdom, and Hungary. Later, I moved into telecommunication and information technologies. The company that I worked for was Telenor, the Norwegian telecommunication operator. They realized that they were no longer a Norwegian state-owned company because the majority of their employees were from outside Norway and the bulk of their revenues also came from

overseas operations. I spent some time in the Oslo office where we focused on a challenging task: how to change a purely Norwegian company into an international one.

For family reasons, I returned to Hungary and took a job in the financial sector. I now work for KBC, which is one of the largest bank groups in Central and Eastern Europe. Some of the tasks that we are currently dealing with consist of finding, training, and retaining the best people that we can get.

Nadya Zhexembayeva

From these introductions, it becomes clear that there is communality in the challenges that all of you face, involving transition and transformation. Whether it be merger and acquisition, market pressure, or value change, there is always a transition. The question that I would like to ask of you now is: what makes transition successful? Think about your experience and try to give us some examples of what caused a successful transformation.

Pauline van der Meer Mohr

I guess it depends on what level you are looking at. You can ask this question at the individual level: what makes a transition successful for a person? You can look at it at the organizational level, too, or at even higher, more abstract levels, such as the societal level. The latest industry that I have worked with is finance. Those of you who have followed the news know that nobody could have predicted the transition that this industry is going through right now and the impact that this is having on the economy of the world. Thus, there are different answers to your question.

My simple answer for the individual level is that it takes a willingness to embrace change and take risks. If you shy away from all risks, including calculated ones, it becomes hard to manage a transition. Let me give you an example. When ABN-AMRO was acquired, it was probably the largest change process that we went through. The bank had been known for taking over other banks but not the other way around. Acquiring and being acquired are fundamentally different processes. We in the human resource management development had to prepare 120,000 people around the world for what it means to be acquired. Some of those employees had been on the bank's payroll for 30 years or longer and were totally loyal and completely committed to their

employer. Suddenly, they had been bought and now had to shift their loyalty to the new owners. Now, they do not teach you at business schools how to shift loyalty. How do you prepare an organization of 120,000 people to shift their loyalty and not to become destructive? That was a massive human resource management challenge. I think we rose to it but if we had to do it again, we would probably spend even more time just on that particular topic.

József Végh

I have been thinking about all the organizations that I have worked for. If I had to give you a recipe for a successful transition, it would probably get so complex that there would be enough material in it for a Ph.D.

At Unilever, it was the center that told us what the new processes and requirements would be, and we had to implement them. This uniformity was considered beneficial because it avoided duplication of effort: instead of reinventing everything in each country, there was a blueprint for everybody.

The Norwegian approach was quite different. The Telenor headquarters pleaded with the local management to implement what was required. Both approaches had advantages and downsides and it is hard to tell which one is better. For example, the Norwegians gave us a lot of time to prepare implementation. If they had been a US company, we would have been asked for results much earlier. The Norwegians carried on with endless meetings that appeared to be a waste of time. Yet, once everybody had backed the plan, things progressed very quickly. Thus, their approach involved a slow first phase and quick implementation.

At Unilever, it was the first phase that was very short. After six months they reported that 65 percent of employees had achieved various targets. However, there had been no real cultural change. This means that top managers had to return and fix what had not been done properly.

My conclusion is that you should not expect big changes to take place in a relatively short time.

What is the role of the human resource management function in all that? For me the main question is: how can I bring it about that my supervisor, who is not a human resource manager, feels that I have been successful in the transition? You may have heard this comparison: they are from Mars, whereas we are from Venus.

Early on we decided that the main role in the transition process would not be played by the human resource management department, but by the line managers. We thought we should provide them with procedures and leave them alone so that they could implement them. This gave them an opportunity to feel like leaders. We also told them that somewhere down the road we would ask their employees to answer some questions, and that if the answers were positive we would assume that they were indeed good leaders.

Pavel Shchedrovitsky

Unfortunately I cannot share a success story yet, because our transition is only halfway through. To put it simply, what transition means to me is rebuilding the company from ground zero. We have a lot of assets and we have to build a business from that basis. The plants were built in the early 1920s and the late 1960s. We are in a crucially important business because central heating is vital in Russia. If something goes wrong in the plant, the consequences can be scary.

We have a lot of personnel working for us, not necessarily because that is what they have chosen of their own volition. In some cases we are the only employer around. Some of those people have spent their lives working in the same company and cannot imagine changing jobs. We are also operating in a very unstable situation. The electricity market is being liberalized, but we do not know how fast that is going to happen.

In Russia, large businesses are in a very tricky position. They have to remember the social responsibilities that they carry on their shoulders, and the government keeps reminding them of that in a very straightforward way.

In my view, a successful transition requires a very clear idea. You need to be enthusiastic about it. If top management does not have much enthusiasm, it will be hard to spread the idea throughout the company. So the main thing is to believe and to communicate. You may think that everybody voted for a particular decision during a meeting because you saw their hands go up, but it is really not as simple as that. You need to discuss seemingly simple things over and over again. If you do not manage to persuade everybody that the change is for the better and everybody will profit from it, it will not work.

Jörg Blunder

We have heard interesting remarks about individual and organizational transitions. We have also heard a lot about culture: Norwegian, Central European, etc. As far as I am concerned, the most important thing in a transition is to create a sense of urgency. Without it, you will not have a vision of a clear direction. Once you have the vision, you can start communicating it.

You can create a sense of urgency by means of a directive approach or a participative approach. You can either tell people what to do or get them involved in decision-making.

I partly disagree with Jozsef. I think that speed is probably the key to success. It does not mean speed from the original idea to its execution. It means that once you start to communicate, you have to implement fast.

Nadya Zhexembayeva

As I listened to you, I thought of the topic of this forum and more specifically of the idea of succession. All the types of transition that you talked about were very clear and visible. On the other hand, succession, which can involve movement from one company level to another, is often less visible. It is a kind of transition that goes almost unnoticed. I would now like you to share your ideas about succession in the broad sense of talent development. What are the issues that you are struggling with, and what are the solutions that you have come up with?

Jörg Blunder

No matter how large an organization is, it is absolutely essential for it to have a solid succession pipeline in place. A lot of line managers think that succession planning is a core competence of human resource management. But it is not. We should provide tools, processes and support so that the right people can be developed, but ultimately succession planning is the core responsibility of the general manager.

Pauline van der Meer Mohr

Our human resource management books tell us that if you want to have a healthy succession plan, you need three people who are ready for every key role. Having worked in a number of organizations, I have not seen any that can

say that they have a talent bench with at least three people who are ready, or can be prepared at a later stage, for every role. Even Shell, a company that is well known for its talent management, does not have a good pipeline for that. This means that there is probably something wrong with the way that we identify talent, the way we develop it, or the way we retain it. We have not got it right yet.

Pavel Shchedrovitsky

In my case, we do not have enough people for the currently available positions. We do not have enough managers to lead the companies and we do not have enough workers to man the plants. In view of this situation, succession sounds to me like a topic from outer space. However, the challenge is similar: it is about finding the right people. This is a tough task for a human resource manager. We have to rebuild our educational system, which was destroyed in a dramatic shift in the political and economic system of the organization. We do not have a professional education system. The average age of the people who work in our plants is 53. They are not going to stay with us much longer and there are no new people coming in. This is a serious issue but our top management is not fully aware of it yet. For the moment, the government is not quite clear about it either. Not only are our facilities quite old, but there is going to be a severe shortage of personnel as well. The situation is similar in other sectors.

On the other hand, there are almost limitless opportunities for young people who are willing to make an effort and become managers. There is such a lack of qualified personnel that it is cheaper to import experts from Western countries than to hire people from Moscow. The average graduate from a good Russian university who is a good speaker and presenter and has good arithmetic and reading and writing skills would sneer at any job that pays less than 2000 USD a month.

József Végh

Let me share some practical views concerning talent management and succession. At KBC during the past 10 years we have hired only six outsiders to fill vacant top positions. We have used some pretty sophisticated analysis tools in that process. For example, we calculated the probability that a particular manager would leave his position within a particular period. We also tried

to calculate the percentage of successful successions in the company. We have this scientific approach -- but reality is sometimes different.

It is understandable that when you have good people working for you, you are reluctant to let them go. For that reason, we have continuity agreements. These are gentlemen's agreements stipulating that an employee will stay with us for a couple of years but is free to leave after that. This reduces the stress usually associated with job-hopping.

We have a very serious problem with so-called knowledge workers. They are sometimes pushed to take leadership positions because the company wants to give them recognition, but it turns out that they are not good leaders at all. Nevertheless, we need to keep them because of their expert skills.

Nadya Zhexembayeva

This is quite a long list of challenges and solutions. I want to ask you one last question. From what you said, it seems that succession planning is not often a success story and there is no silver bullet for it. Yet the companies are somehow still running. That means that even if things are not perfect, they are acceptable. Something is obviously going right in the field of talent development. Can you think of at least one example of what is happening here, either in your company or somewhere else?

József Végh

At Telenor, we had a very good list of people of high potential who could fill top positions. Then, the company opened branches in Pakistan, Bangladesh, Singapore and other similar places. We approached some of the people on our list and told them that we could offer them leadership positions in those countries that would match their managerial potential better than the jobs that they had at the moment. However, they turned us down. They told us they would rather go to Europe or North America. Thus we learned that our fancy-looking talent management system was useless.

Pavel Shchedrovitsky

Let me tell you a joke. The situation is the same as the problem of a vain woman: she has nothing to wear and no room to store her clothes. We do not have the right people and we do not know what to do with those that we have.

In my view, the answer lies in the right balance between hardware and software. By hardware I mean all the structures, rules and regulations that are precisely spelled out, usually in writing. By software, I mean people's emotions and motivations - everything that makes up the human element of an organization. The balance between the two is tricky. In the West, the development of the hardware has gone a long way. The processes are there and the rules and regulations have been in place for a long time. Everybody understands the system and accepts it. In our company, however, this phenomenon is quite new. We have had job descriptions for only a few years now because they were not needed before. It is very hard to find the right balance between the hardware and the software. It is an especially great challenge for me because I come from strategy and organization development and I like things to be very organized.

Pauline van der Meer Mohr

To answer this question, companies that get their succession right start with a passionate belief in the development of their people. In other words, it starts with a talent development mindset. If you work for such a company, you will get the best possible development opportunity in your life. That is a value system that you have to embrace or else you will be overstretched all the time. There will always be some pressure for efficiency, but on the other hand you have to believe in your people and invest in their development all the time. Eighty percent of that development happens on the job. You develop people by giving them challenging assignments just before they are quite ready for them. That is 80 percent of the story. The remaining 20 percent is formal training, for example through leaders teaching other leaders. Leaders must be held accountable for this, otherwise they will conveniently forget this function. Another option is sending your personnel to schools like this one.

Jörg Blunder

Is there anything we are doing right? Some time ago we learned by means of a survey that employees perceive a lack of transparency in the job promotion decision-making process. Also, they did not see clear career opportunities in the organization. As a result, we realized that we should draw up a career map for each function. Also, we shared our perceptions of who was a high performer, which is easy to measure. However, it is more difficult to measure high potential. In addition, we explained clearly why a particular person was

given an opportunity to move up the company hierarchy. The tools that we use are assessment centers, job interviews, and on-the-job analysis.

We also developed a plan called “career outlook” for about 140 of our 1170 employees in Austria. It was based on their current positions and a target position in five to seven years. There is no certainty that a person will get there, but at least everybody knows that the organization has a commitment and will do anything possible to make the goal happen. The main role of the leader is to make his followers successful.

Nadya Zhexembayeva

I hope that this has provided the audience with enough food for thought. Would you like to address any questions to the panelists?

Beata Kaszewska

I agree with the view that human resource managers are not fully responsible for succession issues, because that is the job of line managers. But how do you motivate the latter to do that? If they develop their subordinates too much, one day they might lose their jobs to them.

Jörg Blunder

I see two questions here. The first one is how to motivate people to work on succession planning. The second is what happens to those people who climb up in the hierarchy. As you know, the higher you climb, the thinner the air gets.

We have a tool called the “leadership pipeline”. One of its elements is people development. All of our senior leaders, and even those below them, have succession planning as an objective and it is linked to their performance assessment and remuneration package. They have to think about finding and preparing a successor who can take over from them in maximum one or two years.

How do you manage the actual succession planning? It is a tricky issue because there are many dimensions to it: politics, connections, alliances. Therefore, we try to give our high-potential employees international assignments that can prepare them for the issues that they will be facing.

QUESTION FROM THE AUDIENCE

How do you identify potential?

Jörg Blunder

This is a very good question. Indeed, there is a chance that a mistake will be made. The second risk is that you raise expectations that something will happen although it is not fully guaranteed. We minimize these risks by means of training and international assignments.

QUESTION FROM THE AUDIENCE

We heard various succession management stories. However, the world is changing fast. The existing succession management techniques were designed for calm waters but the current period is much more turbulent. In your view, how will the new reality affect talent retention and succession planning? How will the new world look?

Pauline van der Meer Mohr

This is one of the key questions that we are facing. Clearly, career paths no longer last for an entire lifetime. The new generations are not loyal to any particular business. They prefer to build a portfolio of skills and hop around between jobs, without being ashamed of it. If a recruiter remarks that an applicant has been in three jobs in two years, the answer may be "And in what way is that a problem?"

At Shell, there used to be simple career planning rules. You would be asked to take an assignment in Nigeria and if you did not want to go, you would shorten your career. If you did go, however, you would get a hardship allowance and your next posting would be a treat. Nowadays, this type of career planning is over. Companies have to rethink their value propositions radically. In my view, it starts with a total opening of the internal labor market. You must have complete transparency as to what you are offering, how you segment your employee population, and how you cater to the needs of generations X and Y. Human resource professionals cannot afford to think like dinosaurs and be intellectually lazy. They must really think about the needs and desires of the new generations. These are youngsters that grew with technology at their fingertips. They are totally mobile global citizens and have very high expecta-

tions concerning the value that you can offer. If you do not respond to that, you will lose the talent that you are seeking to attract and no amount of corporate rhetoric will help you get it and retain it.

József Végh

I have also observed that in Western Europe people have advanced expectations, whereas those in Eastern Europe are more money-oriented; there, the primary concern is how to achieve a life of material comfort.

Pavel Shchedrovitsky

I have to warn you; I am always very pessimistic. I do not have a picture of the future and I do not think that everybody has a clear vision of it. However, I expect a change in values and hence in the propositions that we can make to our employees. I think that the financial and political crises that we are experiencing as we speak will change the world quite dramatically. I believe that the advance of globalization and transparency will be reversed. Governments will become more cynical and isolationist. People will descend to the lower levels of Maslow's pyramid. The values that people will need in the future will be quite simple: food, heat, and security, as well as some other basic needs. I do not know how this will affect companies and whether corporations will still exist in this new world, but I believe that this change is quite likely.

What will the role of human resource management be in this new world? For one thing, we will have to explain to people what is going on. For that purpose, we will need a strong understanding of the world as it is.

Nadya Zhexembayeva

I think that it is now time to reverse the roles. Let us have the panelists formulate one question each. Then, the rest of us will try to provide answers to it. Pavel, would you like to lead off?

Pavel Shchedrovitsky

I already broached this subject briefly. I spoke about organizational hardware and software: functions, rules, and regulations versus the human element. My question is: should these two be treated as distinct and dealt with by different departments? Or should they be merged, and why? And what is the role of human resource management in all this?

Pauline van der Meer Mohr

We talked a lot about the new realities that are facing our businesses: what sort of human resource management we need, what skills that implies, etc. We understand that just being good administrators is not good enough. We need skills that we did not have in the past. When I joined ABN-AMRO, one of the first things that the chief executive officer told me was that if you do not do numbers, you do not belong in a bank. I did do numbers, but there is an assumption here that human resource people do not do numbers and are illiterate in a sense. My question is: What do you do in your organizations to find out what those future-related skills are that you need in your human resource management functions? I also have another question. Once you have discovered that you have those skills, what do you do with them? And what do you do if you do not have them? How do you close the gaps? In human resource management, we are usually very good at serving our clients, but we sometimes forget about our own development.

Jörg Blunder

My question has to do with value added. How will your boss know that you have undergone a successful transformation and are adding value to your organization?

József Végh

It is said that great leaders should spend 30 to 40 percent of their time with their people, talking about their individual issues. It would be nice if this was so in reality, but we are probably far from that goal. On the other hand, whenever the word "culture" is mentioned in an organization, all eyes turn in the direction of the human resource managers. They are the ones that are expected to do something about that. My question is: how do you change some aspects of organizational culture? More precisely, how do you get leaders to spend more time with their people?

Nadya Zhexembayeva

Now I suggest that we discuss these issues in small groups around your tables. When you are done with the group work, please share your thoughts with the rest of us.

ANSWER FROM THE AUDIENCE

Concerning the hardware and software issue raised by Pavel, we think that hardware and software go together quite well. They should synergize and complement each other. We believe that human resource managers should participate in any organizational development activity because of their knowledge about people.

As for the skills that are needed now and in the future, the human resource managers need to know the business in order to play a positive role in the organization. They need to be multidisciplinary experts. They have to have strong influencing skills, which implies having personal skills and communication skills. Good negotiation skills are also necessary.

We also thought that human resource managers must be change agents and possess a positive orientation to change. This is so because what we do and the way we speak influences others and helps create organizational culture.

QUESTION FROM THE AUDIENCE

Are human resource managers leaders of change or followers?

Jörg Blunder

I think that we are both. We can be drivers, or we can simply be engines. Personally, I prefer the driver's seat. I am a leader more than I am a follower. This is my understanding of human resource management: you have to find the right area for change and then do something about it.

Pauline van der Meer Mohr

There was a large survey of human resource managers in the United States recently that asked them about the extent to which they see themselves as change leaders. Interestingly, the vast majority did not see themselves like that. They saw themselves as followers. This generates interesting questions. There are areas where only human resource managers can initiate change, but if they see themselves just as followers, who will do perform that task for them?

József Végh

I find the idea of human resource managers as change leaders a bit dangerous. I think that it is up to the business leaders to define change for the business as a whole, whereas the human resource managers have to figure out what that means for human resources.

Nadya Zhexembayeva

I would like to thank all the panelists and participants for their contributions. You have shared some very interesting experiences and reflections. Now I would like to invite Dr. Ichak Adizes to make some comments on this discussion.

Ichak Adizes

I heard so many interesting things during this discussion that I feel extremely energized and, instead of lecturing about my theories, I would prefer to answer the questions that have been raised by this audience. I have worked in some 50 countries with a huge number of companies, and I have a lot of experience concerning these questions. I would like to share that experience with you.

Here are some of the questions that I would like to discuss.

Should we first develop talent in an organization or start with something else?

How do you manage an organization that has grown from a few thousand people to a hundred thousand people?

How do you develop human capability for a fast-growing company?

What are the challenges for human resource management posed by mergers and acquisitions?

What does transformation really mean? Is there a difference between transformation and transition?

How do you change the values of a company?

How do you measure a transition? And how do you know if it is working or not?

How do you measure the success of human resources?

You talked about leadership. But what is a leader?

How fast should a transition happen?

How do you deal with the conflict between the pressure to perform and to develop people?

How do you make leaders accountable for the development of other leaders?

Do you develop people by sending them to schools?

How do you develop people when they threaten those who are entrenched in their positions?

How do you manage expectations so that they do not backfire?

How do you manage high-potential people?

What will the new world look like? I am pessimistic about it, but pessimism is always an opportunity for improvement and hence for optimism.

Is it better to be pessimistic or optimistic as we look at the future?

How effective is it to bring in people from abroad rather than train locals?

What is the difference between human resource development and human resource administration? What are the differences in roles, structures, positions, and power? What should you watch for?

How do you free the founder of a company from the founder's trap? This is in fact the title of this conference. What is actually the trap?

How do you make the transition from entrepreneurial management to professional management?

How do you manage the difference between human development and organizational development in terms of people, structures, and processes? What do you do and in what sequence? Note that the sequence is essential. You must first sneeze and then wipe your nose, not the other way around, although too many people make that mistake. They wonder why they have snotty faces. The answer is that they got the sequence wrong.

What kind of skills will human resource managers need in the future? How do you close the gap between the skills that they have and those that they need?

If you do not do numbers, can you be a human resource manager? How will you add value to the company if you do not do numbers?

I heard that great leaders spend time with their people. What does that mean? What exactly do you do when you spend time with them?

How can the human resource managers change the culture of an organization?

How do you make a transition correctly? What is a systematic approach to change?

Are human resource managers leaders or followers of change? There is an interesting difference here between different modalities. There is no doubt that many human resource managers would like to lead change. But the question is not only what they wish, or can do, or should do. The question is also what they do in reality. And how do you bridge the gap between doing and wishing.

I could talk about each of these questions for a whole day. But I will think about them and try to come up with brief answers to them.

BIOGRAPHIES

MR. JÖRG BLUNDER, *Human Resources Director, Coca-Cola HBC Austria*

Mr. Jörg Blunder joined Coca-Cola HBC Austria in May 2005 and became Human Resources Director in September 2007 after spending two years as HR manager in the same company. Mr. Blunder completed a Master's in Business Administration at Wirtschaftsuniversität Vienna with a specialisation in HR management, and started his career at Vienna Chamber of Commerce in January 1999, working mainly in the field of training and development.

MRS. PAULINE VAN DER MEER MOHR, *Founder and President, Amstelbridge Group, the Netherlands*

Mrs. Pauline van der Meer Mohr is founder and president of the Amstelbridge Group, a rapidly-growing global network of human capital professionals. Prior to her current entrepreneurial and academic pursuits, Mrs. Van der Meer Mohr was Senior Executive Vice President at ABN AMRO Bank, Head of Group Human Resources at TNT, and held several senior executive roles at the Royal/Dutch Shell Group of Companies. She started her career as a lawyer in private practice and on the Shell mergers and acquisitions team.

MR. PAVEL SHCHEDROVITSKY, *Vice President for Organizational Development, IES Holding, Russia*

Mr. Pavel Shchedrovitsky was appointed Vice President for Organizational Development at IES Holding in October 2006. From October 2003 to July 2004 he was head of the project in Moscow-based LLC Orpika. From July 2004 to October 2005 Pavel Shchedrovitsky was director of the centre and later head of the department for implementation of projects in Business Unit No. 2 of RAO UES, Russia. From October 2005 to October 2006 he was Deputy Director General of the open-joint-stock company TGC-6 in charge of strategy and corporate management.

MR. JÓZSEF VÉGH, SENIOR MANAGING DIRECTOR, *Senior Managing Director, Human Resources, KBC Group, Hungary*

On January 1, 2008, Mr. József Végh joined the team of K&H as the leader of the human resources area. Previously Mr. Végh acquired diverse HR management experience at multinational companies operating in various industries in Hungary (Telenor, Pannon, Unilever, Fisher-Rosemount), and also in Germany, the Netherlands, Great Britain, and Norway. He was involved in all areas of human resources management, successfully directing the development and implementation of HR strategies and corporate culture changes.

DR. NADYA ZHEXEMBAYEVA, *Director of the One-year Executive MBA at IEDC-Bled School of Management (moderator)*

Dr. Nadya Zhexembayeva's teaching, research, and consulting work focuses on organizational design, change management, and sustainability as business advantage. In addition to her role at the IEDC, she is also an Associate Director for International Networks at the Center for Business as an Agent of World Benefit of the Weatherhead School of Management, Case Western Reserve University, USA.

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