

# On the Importance of Being Earnest about Business: Overcoming Students' Misconceptions about Leadership in Corporate Change Processes

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**Abstract.** Unfortunately, most students leave university with little knowledge about decision-making in the private sector, unless they study business. As a consequence, student perceptions of the business world are largely shaped by the fads and stereotypes propagated in ubiquitous business journals and bestsellers. Business plays an integral role in society, so unfamiliarity with business may have global social consequences. This article illustrates how an area studies course in a liberal arts program employs a case study about a corporate transformation process to provide students with insights into corporate leadership and strategic decision-making. The article describes how, by using the case study in conjunction with articles about organizational learning theory, students learn to challenge myths about heroic leadership and the newest management fads. The course also draws out the role organizational politics plays in developing and implementing new visions, organizational structures, and global strategies.

**Key words:** case study, leadership, change management, organizational learning, organizational politics, corporate culture, corporate visions, multinational management.

## 1. Introduction

Students, especially those who are not pursuing business degrees, tend to think they know about how business works because they read the headlines of magazines touting the newest fads in management thinking. They have seen the fashionable labels like Re-engineering, Quality Circles, Benchmarking, and Shareholder Value succeeding each other from year to year. These students rarely get any closer to the reality of what happens inside the private sector than the titles of popular business books sold in every airport and general bookstore. Their idea of business leadership has been formed largely by the best-selling biographies of chief executive officers like Jack Welch and

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1. The authors thank two anonymous reviewers for their suggestions and Kate Nattrass for her work on an earlier draft of this article.

Lee Iacocca in the United States. Such captains of industry have attained heroic proportions with the help of business magazines that have repeatedly displayed their faces on the covers and devoted banner headlines to their feats and their equally dramatic defeats. Hollywood blockbuster movies, with their portrayals of scheming, egomaniac managers, also shape students' expectations of how leaders behave in business.

Few liberal arts curricula contain units that provide an inside look into business organizations. Books like *Built to Last* (Collins & Porras 1994) or *From Good to Great* (Collins 2001), which present the results of major longitudinal studies on the factors behind companies that achieve sustainable success and challenge commonly held misconceptions about heroic leadership, are not on reading lists of courses taught outside business schools. As a result, too many students graduate from university with misconceptions of how business works and little or no understanding of how decisions are made in the private sector. Considering the significant role that business plays in societies today, this deficit constitutes a serious problem. An understanding of business is too important a matter to be left only to MBA students. The topic of how business responds to and also shapes socioeconomic, political, and technological changes at the national, regional, and global level should be embedded into various courses in the liberal arts curriculum. In order to illustrate the rich possibilities for learning, this article describes how an area studies course used a business case study to explode myths about leadership in achieving a complex transformation.

## **2. Embedding an Understanding of Business into an Area Studies Course**

Over the past ten years one of us (Meinolf Dierkes) has taught an undergraduate course on the social, political, and economic dimensions of European integration at the University of California at Berkeley. The students, who are in their third or fourth year of study, come from a range of academic programs. Some major in English, others in political science, economics, even engineering. Many of the students major in the interdisciplinary program, the Political Economy of Industrial Societies (PEIS). They are a special group in the sense that almost all have spent a year of study abroad or have lived outside the United States for family reasons, and many of them often speak and read several languages. They are clearly interested in learning more about Europe and how its political institutions function. These students are also curious about how European companies are meeting the challenge of the large internal market and the implications of globalization for that market. They come to the course with some knowledge about the European Union and with quite mixed feelings about the business sector in Europe. To them, Europe appears to be not particularly innovative; it lags behind the United States, and has low

growth rates. Yet in their daily experience they see the Mercedes Benz cars they would like to drive and the newest Nokia phones they would like to own. As L'Oréal and Bertelsmann take over their U.S. competitors and dominate their respective markets on a global scale, the students cannot deny the influence of European business worldwide.

The course on "Europe In Transition: Are Its Institutions Able to Adapt?" draws on integration theories from political science (e.g., federalism, neo-institutionalism, and realism) as well as organizational behavior literature (e.g., change management and organizational learning) to analyze the development and impact of the European Union on the public and the private sector. The readings<sup>2</sup> cover the historical processes and current policy issues, showing how nearly every aspect of public life - from governance, policy-making, citizenship, and notions of statehood to market-making and social justice - is subjected to review, or even renewal, by the integration process. After grasping the concepts and theories as well as the role and functioning of the different institutions of the European Union, the students spend the second half of the course looking at the practical implications of these developments. They first investigate public sector organizations responsible for policy-making and discuss how well these institutions have learned (or not) to grapple with the expansion and integration of Europe. They then examine how the private sector deals with the challenges posed by European integration. In this section of the course, the students work in groups on different industries, such as the automotive industry, the financial sector, and the media, and focus on specific corporations within those industries to explore how the organizations have dealt with the opportunities and threats created through the changes in the European business environment.

A policy-oriented course of this type must be solidly grounded in theory and historical perspective while also keeping up with relevant recent developments, so the syllabus and reader are updated regularly to reflect new ideas, issues, and examples. The course has also undergone redesign as a result of our<sup>3</sup> own learning over time. One of the elements added to the course three years ago draws on a research project we had just completed with colleagues in Germany and Japan about the transformation of a multinational company in the chemical-pharmaceutical industry.<sup>4</sup> The purpose of adding a comprehensive case for all the students to examine was to enrich the business-

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2. The course uses a comprehensive 500-page reader with articles from academic publications, newspapers, the business press, and the Internet. Meinolf Dierkes, *Europe in Transition: Are Its Institutions Able to Adapt?*, UC Berkeley, 2002.
  3. Although only one of us is teaching this particular course, we work closely together on many projects and "shadow consult" often on our separate assignments, so we have regularly discussed the design and the experience of this course over the years.
  4. *The Transformation of Hoechst to Aventis – From German Chemicals Giant to Life Sciences Multinational*. By Ariane Berthoin Antal, in collaboration with Meinolf Dierkes, Camilla Krebsbach-Gnath, and Ikujiro Nonaka, 2001.

related part of the course by providing insights into real organizational issues and processes involving managers from different cultural backgrounds. The case consists of two parts. Case A outlines the historical and cultural background, revealing the situation faced by the new chief executive officer when he took on the responsibility in 1994. Case B then describes the dynamics of the transformation process from 1994 to 2000.

At the end of the semester, all the students work on this case, which brings them together after their group work on different industries. It serves as a capstone for the business section of the course and creates a platform for the students to discover and discuss multiple dimensions of organizational change processes. Instead of confirming fashionable management recipes - or, worse yet, generating dazzling new ones - the case illustrates the importance of applying existing business practices in parallel to accomplish a comprehensive transformation. Rather than satisfying the students' fad-led thirst for a heroic leader to master the huge challenge, the case "stars" normal, very competent, but non heroic business people who exercise varied leadership styles to design and achieve change. It has proved to be a useful vehicle for correcting the misconceptions many students have about organizational change processes and the skills of leaders.

### **3. Putting Students into the Picture (Case A)**

Up to 1994, as the students discover when they read case A, Hoechst AG was a successful international corporation based in Germany, with a history dating back to the late 1800s. It had internationalized very quickly in the early 1900s and had weathered the politically and economically turbulent 20<sup>th</sup> century to become a diversified conglomerate that was not only one of Germany's top companies but also the third largest chemical company in the world and the second largest pharmaceutical company in the last decade of the century. Hoechst AG pursued research in 19 countries, and in 1991, a year marked by worldwide economic difficulties, it had posted record sales of over DM 47 billion (i.e., \$31 billion at the 1991 exchange rate). Despite this glowing image, however, it faced a number of challenges and some organizational growing pains not unlike those of many older companies. Some attempts had already been made to address problems in the previous decade, but the new CEO, Jürgen Dormann, believed that much more had to be done, and it had to be done immediately.

Among the issues of high concern for Hoechst management during that time were globalization and new technological options, namely, biotechnology, which was increasing the pace of the already quite competitive pharmaceutical industry. Hoechst was thereby under pressure to rapidly respond, learn, and expand its technological base. The increasing financial

investments required to remain on the technological cutting edge had pushed many pharmaceutical firms into mergers and acquisitions to achieve the requisite size. Bigger and stronger competitors were changing the industry landscape. Additionally, discussions of new management philosophies such as core competence and shareholder value spread throughout the corporate world, especially among the increasingly influential group of institutional investors, adding concerns to executives leading their companies through a business environment in continual flux.

The culture and processes Hoechst had developed had stood it in good stead for a hundred years. Hoechst's care of its employees and the company's German roots were highly valued. The organizational structure reflected the corporate culture, a structure based on hierarchy and a large central planning unit, through which all information worldwide was processed. Some managers, particularly those based in foreign markets, felt that this structure slowed decision-making and responsiveness to local markets. The hierarchy and strongly academically oriented values that drove the company had already caused recognizable problems in the pharmaceutical division, which spent more than the industry average on R&D but which had an admittedly weak pipeline to show for it. Although the highest ever profits for Hoechst were within recent history, a slip in performance prior to 1994 had some managers concerned that Hoechst would slowly fall from its top position as one of the most successful and respected international corporations. Jürgen Dormann, the new CEO, described the situation succinctly: "Hoechst was German-rooted, strongly science based, not very market-oriented, very academic. We had to change that."

After reading case A, the students tend to have a variety of responses. Some are impressed by the successful track record and wonder why the new CEO is so adamant that a major effort has to be undertaken to change the company. Others are surprised that such a hierarchically structured and centralized bureaucracy could have been successful at all. A few students challenge the very notion of Hoechst being successful, for they are surprised that shareholders were satisfied with so little for so long, compared to the short-term high returns expected by shareholders in the United States. The students' task is to assess the situation and to decide what the CEO should do if he wants to launch a high-impact change process. Typical responses include hiring a consulting company to come up with a modern structure and strategy and replacing the senior management with people who have experience in other companies and who can make unpopular decisions and see them through so as to really change the culture. Those students who have absorbed some of the business-book headlines speak of reengineering the corporation, bringing in tough turnaround managers, and getting the CEO to lead with an exciting new vision. They say that it is time for Hoechst to focus on its core competence and "stick to the knitting" instead of continuing its strategy of balancing risks

through diversification. Whichever position the students take, and no matter which level of business terminology they use, they usually all share a sense that the situation can be managed with a few dramatic strokes of modern management and strong visionary leadership.

#### **4. Showing Students How Life-Size Managers Make Change Happen (Case B)**

Case B reveals to the students that a mere six years later, in 2000, Hoechst no longer existed as such - it had become Aventis SA, a global life-science corporation headquartered in France. It bore very little resemblance to the former diversified conglomerate with investments in industries from cosmetics, fibers, plastics, and petrochemicals to dyes and pharmaceuticals. Hoechst's management had divested itself of almost all these activities, focusing only on the business area promising the highest profit margins, life sciences. To compete with the world's biggest and best life-science companies, it had merged with Rhône Poulenc of France. An enormous transformation had been achieved, but quite differently than the students tend to expect from their exposure to management fads. It was done not by leaders of heroic proportions brought in from the outside, but rather by life-size managers, most of whom had been with Hoechst for many years. These people knew the weaknesses of the company and brought in management practices they had observed working well elsewhere in different parts of the world - nothing particularly spectacular or terrifically new, at least as compared with the popular business literature.

##### **4.1. Triggering Sustainable Change**

He sent clear signals about how he intended to transform the organization even before Dormann took over as CEO in the spring of 1994. In speeches and publications after his nomination by the supervisory board in the summer of 1993, Dormann made no secret of the fact that he expected change to be a continual process. He wanted to challenge established ways of thinking in Hoechst and shake up long-standing power bases. Having seen how recent attempts to achieve change in the company had become stuck because they did not have the buy-in from enough key players, Dormann officially kicked off the transformation process by giving a major speech ("Aufbruch 1994") to the top 120 senior executives of Hoechst and the general managers of the associated companies in Europe and by setting up a task force with hand-picked senior managers. The speech set out his intention to position Hoechst as one of the world's top three suppliers in each of its business areas, a goal

that unleashed a great deal of excitement in the company. He communicated a sense of urgency for making change happen and announced that he had already taken steps in this direction by assigning a task force to come up in six months' time with recommendations for the best possible new strategies, structures, and processes needed to attain the desired market position.

During the introduction to organizational theories at the outset of the course, the students read quite a bit about the importance of crises as triggers for organizational learning, so they discuss the implications of the fact that Hoechst did not appear to be in a crisis when Dormann launched the transformation process. Did the management perceive a looming crisis earlier than its competitors in Germany? The discussion usually leads to the conclusion that a key leadership skill in organizational transformation is to create a sense of urgency before the onset of a crisis so as to maximize the leeway for preparing and implementing decisions.

Dormann did not fill the task force with consultants, nor did he draw on his management board. Instead, he selected second- and third-level managers from different Hoechst businesses all around the world - a diverse mix of individuals he had come to know and respect. One of the members later commented: "If you look at the combination that was in the group, the interesting part was that many people were from the periphery." For example, Claudio Sonder was a Brazilian responsible for Hoechst's Latin American operations, Ernie Drew was President and CEO of the Hoechst Celanese Corporation, and Bob Harris was head of the fibres business in the U.S. Dormann modeled the leadership style he would continue to exercise in the coming years. He gave the task force a free reign - he did not chair nor even attend the meetings, but was always available for informal conversations, as were some other members of the management board. The team worked together for six months, reviewing the company from the inside and getting an external perspective by benchmarking Hoechst with respected companies in different industries. The students are usually struck by how fast the task force had to deliver such a comprehensive review, considering that the members each still had to fulfill their normal management responsibilities during the six-month assignment. Another topic that the students discuss avidly is the informal mode of communication with the Board members. Shouldn't a Board keep close control of such a strategic task force? The discussion leads to the recognition of the effectiveness of the informal approach - the Board gave the task force leeway to work independently while also keeping close enough to the development of the group's ideas that the final report was easily accepted.

Speeches and task forces abound in corporations, but their messages and ideas are lost without follow-up. All too often reorganizations don't work because those responsible for implementing them lose their courage half-way through. Dormann and other managers had experienced blocked change processes in Hoechst's recent past, so they were determined that this would not

be allowed to happen in the new Hoechst. The three most important steps they took to ensure that change would be sustained were:

1. To change the power structure in the organization. This was done at numerous levels. Dormann altered the composition of his management board, taking advantage of the fact that several members reached retirement to reduce the size of the Board and to bring in new members with whom he could work well, including Horst Waesche (President of Hoechst Japan) and Ernie Drew (President and CEO of Hoechst Celanese Corporation). Dormann is also credited with having orchestrated the decision to break with tradition at the Supervisory Board level<sup>5</sup>. Instead of moving the former CEO of Hoechst (Professor Wolfgang Hilger) into the chair of the supervisory board, as had always been done in the past, a recently retired member of the management board with experience in labor relations (Eberhard Bouillon) was selected for this role. Dormann knew that he would find more support for implementing large-scale change from the latter than from the former. In addition to the changes in the power structure at both board levels, the distribution of power within the organization shifted away from the headquarters and from country heads to the business unit directors as a result of the recommendations of the task force. Headquarters staff were radically trimmed down, and their roles changed from a control to a service function in order to support the new business unit structure.
2. To assign task force members the responsibility for implementing their recommendations. Dormann assigned to the very people who had generated the task force ideas, the responsibility for implementing them. After the recommendations received official approval from the management board, this was the best way to ensure that the ideas would not slip into the oblivion of office files. In some cases this decision entailed giving their colleagues, who were country heads, the unwelcome news that their jobs would carry less power than in the past. The task force members had had the joys of designing a new organization together, and they then had to carry through with implementing the tough decisions and dealing with the consequences.

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5. The German corporate governance structure entails a two-tier board: the management board consisting of line managers, and the supervisory board on which shareholders and employees are represented. (See Appendix to Case A for more detail.)

3. To introduce a disciplined approach to assessing performance across the businesses. Possibly one of the most surprising aspects of the case (for us as researchers, for our students, as well as for some of the American Hoechst managers at the time) is that Hoechst had no standardized and rigorous process in place yet to assess the strategic position of each business area. The country managers had regularly produced marketing plans and budgets based on their past performance and their sense for the future period. But they had not been asked to deliver strategic plans according to which the performance of their units could be evaluated. Despite the volumes of information that the large central staff had been collecting and the quite close involvement of Management Board members in the operations under their control around the world, Hoechst had little knowledge about the value and condition of its businesses. To correct the problem, the management board agreed with the recommendation of the task force to introduce a technique that Ernie Drew and Bob Harris had brought from Hoechst Celanese, the Strategic Management Process. It was a quite straightforward process, not the newest fad. Students tend to expect the management to choose a more current and “modern” strategy to solve what appear to be the current and “modern” problems of operating in a global environment. Yet they learn from this instance that the most popular business fad is not necessarily the most effective, since time-proven methods often generate better results.

Dormann and other senior Hoechst managers had seen the Strategic Management Process working well for Hoechst Celanese in the United States so they believed it would be a useful tool for the whole corporation. A team of managers drawn from different parts of the organization coached their peers in the 35 major business units through the first run in 1994, using three categories to assess the strategic positioning of each unit:<sup>6</sup>

- *Invest* (show potential for growth, driven by technology);
- *Reinvest* (good earnings producers worth reinvesting in to maintain position);

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6. Although the evaluation criteria at Celanese had included a fourth category, *Sell* (business to be divested), Hoechst was not looking for specific divestment candidates when it launched the Strategic Management Process in 1994, so it did not apply the Sell category in the analysis.

- *Cash-generators* (businesses that made money with little further investment).

The results of the first assessment process were far worse than expected and shocked top managers. Over 80% of the businesses did not meet the performance criteria for their category. They were required to develop a plan for meeting the criteria within three years, or would be forced to change to a different category. Another learning process for Hoechst managers was the requirement to include benchmark data in their analysis and planning process as of 1995/96, in order to compare their business with that of key competitors worldwide. The benchmarking exercise penetrated the domestic focus of Hoechst managers, who had traditionally compared the company's performance only with that of the traditional German competition, Bayer and BASF.

#### 4.2. Clarifying the Vision: an Ongoing Process

A key insight that students gain from the reading the case and discussing the transformation process relates to the nature and role of vision in organizational change. The common expectation students come to class with is that visions are born fully-fledged from the mind of a heroic and visionary leader (possibly helped behind the scenes by expert consultants). What they discover in this case is that a corporate vision starts off as a "misty"<sup>7</sup> indication of general direction and that the leadership's challenge is to get others to engage with it, clarify its contours, and adapt it to changing circumstances.

Dormann energized people throughout the company when he expressed his vision of making Hoechst first, second, or third in the world in each business area. In the past, Hoechst relied on its diversified portfolio to compensate for weak returns in one business area with strong profits in another. Bulk chemicals, for example, are a cyclical business, and in strong years it contributed to covering for gaps in other business areas, but in other periods it was a drain on profits. When Dormann announced his competitive leadership vision for Hoechst, he signaled that he would no longer run the company according to the old strategy of compensation through diversification. Each member of the Hoechst group would have to pull its own weight. That speech reverberated around the Hoechst world, but it was just the first cut at outlining a vision, and the contours had yet to be delineated.

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7. We are grateful to Piers Ibbotson, of the Royal Shakespeare Company, for sharing with us his concept of "misty vision." See Berthoin Antal and Krebsbach-Gnath 2002.

The findings generated by the Strategic Management Process had serious, and unexpected, implications for the vision. Dormann and his management board had intended to optimize the performance of the Hoechst businesses. Instead, the data they had received forced them to recognize that it would not be feasible to upgrade all areas to become among the top three suppliers. Hoechst could not afford to make all the necessary investments. Dormann informed the shareholders in 1995 that “We are pulling out of those fields in which we have no chance of becoming a lead supplier.” Hoechst would have to learn how to divest itself of the businesses it could not develop.

Having spent the first weeks of the semester reading about various integration theories, including federalism, the students enjoy debating the options Hoechst could have pursued. For example, would it not have been more attractive to create a federation of fairly independent divisions instead? They find at least part of the answer in Wall Street, an institution not included in their political science theory texts. The decision to list Hoechst on the New York Stock Exchange meant that the management had to answer tough questions from the financial analysts in Wall Street. These analysts exerted enormous pressure on companies to generate high shareholder value in the 1990s, whereas Hoechst had satisfied its shareholders in Germany for decades with moderate returns. The diversified scope of Hoechst did not fit well with the valuation procedures of the 1990s in Wall Street, where analysts tended to specialize on one industry or another. As a result, the next step in the development of the vision resulted from the pressure to deliver high shareholder value and to choose a focus.

The senior Hoechst managers previously exposed to the U.S. market agreed with the analysts that the company had to choose a focus. To them it appeared obvious that the focus should be on the area with the highest potential for profitability and low cyclical dependence. These criteria pointed toward pharmaceuticals. By contrast, the other business areas had lower multiples, and bulk chemicals carried the regular risk associated with a cyclical business. The decision to focus on pharmaceuticals and divest all other areas, including the bulk chemicals and dyes that Hoechst had produced since its founding, was a tough one for long-standing Hoechst managers to make. This was the point at which the clarification of the vision from its “misty” beginnings entailed the most dramatic and painful break from the past.

Looking carefully at the various processes in which the Hoechst managers were engaged, the students often empathize with them because the company was pursuing two apparently contradictory strategies at the same time. Board members who had lived and breathed with their business areas for decades had to turn their attention to creating and negotiating new futures for the business outside the Hoechst umbrella. During the same period, Hoechst was acquiring other companies in order to strengthen the position of the pharmaceutical business. The largest acquisition was in the United States, the world’s biggest

and most profitable market. Hoechst bought Marion Merrell Dow (MMD) in 1995. With it, Hoechst acquired a sales force knowledgeable about the American market; an additional, albeit unimpressive, pipeline; and some very competent managers.

As in previous acquisitions, Dormann looked for key assets in the new subsidiary's human resources. He brought Dick Markham and Dr. Frank Douglas, two senior MMD executives he saw as world-class managers in the pharmaceutical industry, over to headquarters in Germany and gave them global responsibilities.<sup>8</sup> This decision tends to surprise the students as much as it did the German employees at the time, for there is often an underlying assumption that the acquiring company has to remove the managers and replace them with its own. It was not easy for German employees to watch the reverse happening under Dormann's leadership. They still perceived their organization as German at heart, despite the long-standing international spread of its operations. Many resented the arrival of non-German managers in senior leadership positions; the introduction of management techniques that they perceived to be American; and the removal of key functions, such as research, to other parts of the world. The students find it hard to imagine a U.S. company initiating changes by bringing in foreign management ideas and non-American managers to shape the company's strategy and change its culture. But they could imagine experiencing similar frustrations and anger as those of the German employees if the American company's top management were to try such an approach.

The process of specifying Hoechst's vision continued, and in 1997 Dormann announced that the company would pursue its vision as a life science company. A major competitor, Novartis, had recently taken this route, a move well received in the financial community. The nature of pharmaceutical research had changed significantly over the past decade, with biotechnology assuming an ever-greater role. There were high expectations at the time that synergies could be generated from building on biotechnology and genetic engineering research for human health and for agriculture.<sup>9</sup>

In order for Hoechst to achieve its vision of being one of the top three companies in its field, it had to have a large enough research and development budget to generate innovative products and bring them to the global market, particularly the dominant and profitable U.S. market. Hoechst's pipeline of

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8. Dick Markham had been President and Chief Operating Officer of Marion Merrell Dow (MMD), and after the acquisition he first became the Chief Operating Officer of Hoechst Marion Roussel (HMR), then in 1997 he became the Chief Executive Officer of HMR. Dr. Frank Douglas had been Executive Vice President of Global Research and Development at MMD and took the position of Worldwide Responsibility for Research and Head of Drug Innovation and Approval at HMR.

9. The promised synergies did not materialize. Novartis sold its agricultural division in 2000 and Aventis followed suit in 2001. The vision was focused once more on pharmaceuticals.

new products was improving, but was still relatively unimpressive in the late 1990s. Despite the acquisition of MMD, its presence in the United States remained too small. It needed to acquire new competencies and strengthen its innovative potential. The other pressure at the time was the continuing wave of mergers and acquisitions in the industry. There were rumors that Hoechst might be taken over because the mood was one of “eat or be eaten.” Hoechst sought a partner for a merger and on December 1, 1998, announced that it had chosen a European solution, avoiding the risk of being treated as a junior partner in an American merger. The French-based multinational Rhône Poulenc was a good fit for the life science vision, and it also had operations in the U.S. market that would complement those owned by Hoechst.

The vision of becoming a global company rather than a German-based multinational was achieved when the merger was launched in 2000 under a new name, Aventis, in a new location, Strasbourg, France, headed by a multinational management team under the leadership of Dormann and Jean-René Fourtou, the CEO of Rhône Poulenc. The choice of a new location was a very important symbolic act. Company headquarters serve as primary representations of a company’s vision and culture. When students read about the merger of equals with a French partner and Aventis’s subsequent move to new headquarters in Strasbourg, they really see how Hoechst had taken the final symbolic step away from its past, leaving its German roots behind in Frankfurt and becoming a transnational organization at the crossroads of Europe.

Looking at how the whole course of events brought Hoechst to its new identity at the crossroads of Europe, the students often come up with the interesting analogy to the transformation process of the European Union over the past two decades. The European Community was not in a crisis in the 1980s but rather were suffering from stagnation. “Eurosclerosis” was the term coined to describe the perceived ailment. A White Paper shook up many key actors in different member states, very much like the “Aufbruch 94” speech reverberated throughout the Hoechst world. The close cooperation among statesmen such as Delors, Mitterand, and Kohl played a role in facilitating significant strategic decisions and actions for a new and stronger European Union similar to the close cooperation among the managers who worked together to achieve the change from Hoechst to Aventis. The students get a lot out of debating the analogy (and discovering its limits) between learning processes in high politics and this kind of paradigm shift in a multinational company.

## **5. Making Organizational Politics Discussable**

Achieving change does not require larger than life heroes or the application of the newest management fads. It does, however, require political savvy. Unfortunately, the topic of organizational politics raises eyebrows among students and many managers. The concept is immediately associated with the disreputable, scheming behavior of film characters like J. R. Ewing in the Dallas television series, and it is assumed to be irreconcilable with the completely rational behavior management that it is supposed to be based on. It is crucial that students explore and understand the role of organizational politics, especially in change processes, where people's interests, hopes, and fears are at stake. Leaders cannot be effective without bringing the right people together to design and implement change and without managing diverging views and conflicting interests. The case study provides useful examples of how life-sized managers used organizational savvy to transform Hoechst into Aventis.

### **5.1. Bringing the Right People Together**

The topic of "managing diversity" has been on the front pages of U.S. business magazines for some years, but it is rarely used there in reference to international diversity at the senior management level. The Hoechst case shows the students how managing diversity as a process of creating constellations of people with different backgrounds is a key dimension of political savvy. The skill most frequently mentioned about Dormann is his ability to identify the people with the right skills and credibility and to excite them about the task at hand - then to let them get on with it. What makes this skill particularly effective politically is that he looks not only for individuals, he looks for constellations of people. His first task force was effective because it contained a diverse mix of managers from around the organization and some from headquarters, all men he knew and trusted to think differently within the Hoechst world. Dormann then brought into Hoechst Dick Markham and Frank Douglas from MMD as a strong tandem, one man had the business knowledge of the pharmaceuticals market, and the other had the capacity to generate a pipeline of products to bring to the market. Dormann's decision to bring Ernie Drew from Hoechst Celanese onto the Hoechst management board was described by his colleagues as masterful because Drew brought the American management methods Dormann felt Hoechst badly needed, and he challenged many traditional ways of seeing and doing things in headquarters. Drew was characterized by some of his colleagues as a very useful "bull in a china shop," shaking up an organization that needed to undergo radical change. The resulting leadership constellation was very effective: Dormann supported

Drew's power base while retaining for himself the image of change agent, not conflict-maker.

## 5.2. Managing Conflicting Interests and Diverging Views

No matter how well change processes are managed, they always cause some internal conflict. Managers have to contend with the confusion, anger, and sadness that people feel when the goals and values on which they have built their careers are suddenly swept out from under them. A change in organizational vision and strategy usually engenders strong disagreement and the formation of factions that lobby for competing visions and alternative strategies. However, a striking feature of the transformation process in Hoechst is the low level of conflict it entailed. There was definitely confusion and there was resentment, particularly of the "American" management principles that employees felt the new management had imposed upon them. To the amazement of many observers, however, no major labor disputes occurred. Some management board members strongly disagreed with the divestments of key business areas on which Hoechst had been built. But they did not succeed in building support for vision and strategy that could serve as an alternative to Dormann's focus on pharmaceuticals and life sciences. One of the key learning points the students take out of their discussions of the case is the significant impact of extensive investment in communication by Hoechst managers like Dormann, Bouillon, and Douglas. It reminded them of similar situations in the public sector where a broad range of key competencies and actors had to be brought together to achieve change in one of the policy fields of the European Union. The low level of conflict in the case of Hoechst is attributable to the enormous amount of effort and attention that went into the political process of managing diverging views and competing interests at all levels of the organization. Students energetically discuss and reflect on how each of the key managers, in his own way, undertook with employees and employee representatives as well as with external stakeholders. The concept of organizational politics took on a new and constructive meaning for them with these examples.

- From the outset, Dormann demonstrated an ability to use influence, persuasion, and foresight to avert power struggles. For example, observers commented that his selection of members for the task force in 1994 served a dual purpose. It ensured that he had a rich mix of views in the team. And, by bringing on board some of the strongest country heads (such as Sonder and Drew) for the planning process, he took them away from the field of potential resistance when the time came to implement the new organizational structure.

Later, the different views on the need to focus versus the need to maintain a diversified strategy created tensions in the management board. The managers responsible for the chemicals business wanted to turn the division around. They also feared that narrowing the range of activities would make Hoechst vulnerable because there would be no way of compensating for problems that might emerge in the remaining business. They argued that, despite recent deficits in European industrial businesses, Hoechst had generally been very successful with its past strategy of diversification and that it should therefore continue as its traditional German competitor Bayer was doing, namely, as a diversified chemical-pharmaceutical company. Not surprisingly, a power struggle underlay the policy debate. The tensions were probably heightened by the fact that the future careers at Hoechst of several longstanding board members were closely associated with specific business areas. It was characteristic of neither Dormann's style nor of the Hoechst culture for differences to be resolved through outright conflict. Ernie Drew, who was accustomed to working in American boards, tried to bring a more confrontational mode of discussion to the management board of Hoechst and even recommended to Dormann that he grapple with opponents in as aggressive a way as Jack Welch was reputed to do. But Dormann refused. He continued to talk with dissenters and either obtained their support or "moved them to the sidelines," as one Board member put it.

- The election of Eberhard Bouillon (rather than the previous CEO of Hoechst) to chair the supervisory board was a break with tradition that Dormann is credited with having influenced behind the scenes. It was a politically savvy move because it removed the potential for an adversarial relationship with Dormann's prior boss and added an ally with high credibility in negotiations with labor to the leadership team. Bouillon played a significant role in securing the low level of conflict that Hoechst experienced with employee representatives and the trade unions during the transformation process. Bouillon had years of experience in working with these stakeholders, and he not only engaged with them himself but also ensured that the senior management took the time needed to communicate with them about plans and processes.
- Frank Douglas encountered resistance as an American manager imported to head the research function of the whole pharmaceutical division, particularly since his role was to transform the function to become market-focused rather than academically oriented. He dealt

with the resistance in several complementary ways. He caused an uproar by renaming the traditional research and development function to “Drug Innovation and Approval,” a politically very symbolic action, and he used this change as a platform for getting individuals to redefine their professional identity. The new term underscored the cultural shift Douglas wanted to achieve in the function. Under the traditional label of “Research and Development,” the researchers had oriented themselves to academic criteria and had benchmarked their work primarily with colleagues in university labs. The new label served to communicate the importance of focusing on the development of products destined for approval on the world’s markets. He spent a great deal of time talking with and listening to the people in his function in order to understand concerns while also getting his views across. In addition, he gave his people the responsibility of developing procedures and criteria to select the projects that would continue to be pursued and identify those that would be discontinued. They took ownership of the otherwise potentially divisive process, and he did not need to intervene. Equally important, he gained trust by modeling change behavior himself. Because he was asking his staff to change, he learned to speak German fluently within the first year of his tenure in Frankfurt.

## **6. Conclusion: The Importance of Learning from the Unspectacular**

There is a strange discrepancy in the popular business literature, whose titles are featured in the airport bookstores that students see. On the one hand, there is the tendency to look for heroes and remarkable exploits, which by definition are unique. On the other hand, this literature is driven by the search for simple recipes that are easily replicated. The Hoechst case is a powerful learning tool specifically because it does not do any of these things. Instead of showcasing heroic leaders, it portrays life-sized leaders who use existing management approaches well, with political savvy, to achieve significant change. If a company that was as tradition-bound as Hoechst could find within its ranks enough managers who could conceive of better ways of organizing and running their business, then similar capacities lie dormant and ready to be mobilized in many other companies. If Dormann, a quiet man who is not a gifted dramatic public speaker, can generate and sustain the level of commitment to achieve change that was required throughout the six-year transformation process around the world, then so can other leaders, by constructively using political savvy to put the right people together and actively manage diverging views and conflicting interests.

The Hoechst case only begins to scratch the surface of the topic of organizational politics. But it enables the students to discover that organizational politics is an integral part of organizational life and that organizational savvy is a key leadership competence. Having finally taken the topic out of the closet, students are sometimes tempted to formulate “one best way” to pursue organizational politics effectively and legitimately. Fortunately, an additional insight they gain from the case is that there are various ways of exercising political savvy constructively, not just one. Individuals have their preferred styles, and cultures, both national and organizational, differ according to the type of behavior considered appropriate and legitimate. Ideally, the students leave the Hoechst case with a sense of having started an intellectual exploration well worth continuing.

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