BUSINESS STRATEGIES FOR THE DIGITAL AGE

CONTEXT

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Hard times spawn superlative leaders, says the author, who nominates a list of Business All-Stars.

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# HANGING TOUGH

If the toughest jobs command the highest rewards, then today's chief executives really are earning their pay. The very best ones are earning something more: the commitment of their employees, the admiration of shareholders, and the respect of students of leadership.

Whether these leaders will ultimately succeed in moving their companies to greater profits in this time of economic slowdown is still unclear. Nevertheless, what they are doing deserves to be lauded. So I have put together a list of those I think rank among the all-stars of business leadership in tough times.

**DEFYING TRADITIONAL WISDOM**: With growth in personal-computer sales slowing worldwide and with a decline in sales expected in the U.S., Michael Dell decided that it was a great time to launch a price war. Say what? Reacting to the strategy of Dell Computer Corp. (www.dell.com), Lou Gerstner, chief executive of International Business Machines Corp. (www.ibm.com), said: "Price wars in a commodity business are really dumb."

But while Gerstner may think there's madness to Dell's method, Dell Computer is moving to increase market share with little financial pain. This is because

Dell is the low-cost producer, builds a computer only once it receives an order, and gets paid in advance. It thus has an unusual competitive advantage—the ability to stay cash-flow positive even as prices decline. With this kind of advantage, a price war actually makes a lot of sense.

**BUCKING THE CONSENSUS**: Since he became president of NEC Corp. in 1999 (www.nec.com), Koji Nishigaki has been perhaps the most iconoclastic Japanese senior executive of recent times. Japanese corporations are notorious for following consensus in their industries. Their product lines, their production, their sales systems, even their number of board seats tend to match those of their competitors. But with the prolonged Japanese slowdown, Nishigaki—a nonconformist who started Tokyo University's first U.S.-style football team while he was an undergraduate—continues to break the mold.

He has slashed $5.7 billion in corporate debt, closed NEC's U.S. personal-computer operation, cut the number of board members by half to 16, and joined with archrival Hitachi Ltd. (www.hitachi.com) to develop memory chips—all unheard-of steps in Japanese corporate life.

Nishigaki has been able to do this by committing NEC—unlike traditional Japanese companies—to profits rather than market share.

**LEARNING FROM HISTORY**: Carly Fiorina, CEO of Hewlett-Packard Co. (www.hp.com), well remembers what happened in the most recent U.S. recession. Companies cut payrolls ruthlessly to try to maintain profitability. The immediate result was to demoralize the workers who remained, making it all the harder for firms to navigate through the downturn. The longer-term effect was to make it difficult (and expensive) to recruit needed workers when the economy inevitably turned around.

Many companies have since recognized that their principal source of competitive advantage is their people and today are struggling to keep personnel cuts to a minimum while reducing costs in other ways. Fiorina, for example, is asking H-P's U.S. employees to sign up for one of the following options: agreeing to a 10% pay cut over a four-month period; accepting a combination of a 5% pay cut for those months plus taking four vacation days; or taking eight vacation days, because vacation days are a liability for the company.

She and H-P still face plenty of challenges. With the high-tech world in a severe slump, she hasn't been able to meet earnings forecasts, and the stock-market reaction to her proposed purchase of Compaq Computer Corp. (www.compaq.com) has been vicious, but, at least where her employees are concerned, Fiorina is clearly doing the right thing.

**STICKING TO YOUR GUNS**: Jorma Ollila, the head of Nokia Corp. (www.nokia.com), the Finnish telephone company, appears to exemplify one necessity for getting through the collapse in the telecom industry. The Finns admire most a character trait they call *sisu*, a combination of guts, persistence, and stubbornness. Ollila personifies *sisu*. After his company's earnings dipped and its stock tumbled, he told a news conference, "In spite of the skeptics and pundits, we will bring to the world a mobile Internet totally different from today's Internet." Was he just blowing smoke? The leader who transformed a tire and rubber-boot company into a technology marvel probably has the toughness to transform his company—and the world—again.

**CONTINUING TO INNOVATE**: Eric Schmidt, the chairman of Novell Inc. and Google (www.novell.com, www.google.com), may not always have enjoyed the best financial track record, but he has consistently been an articulate proponent of innovation in hard times. Schmidt, who counsels against cutting on research and development, keeps products coming out to sustain the interest of customers and the press.

**FOCUSING ON THE HUMAN ISSUES**: Twenty years ago, when he was CEO of PepsiCo Inc. (www.pepsico.com), Andy Pearson was known as one of the toughest bosses in the U.S. Now he's a leader of a different type. As founding chairman and former CEO of Tricon Global Restaurants Inc. (www.triconglobal.com), the largest owner of restaurants in the world, Pearson says that he saw "how the human heart drives a company's success—one person at a time—and how this kind of success can't be imposed from the top but must be kindled through attention, awareness, recognition, and reward." His belated conclusion was that "if the need for recognition and approval is a fundamental human drive, then the willingness to give it is not a sign of weakness."

**COMMUNICATING MEMORABLY**: My nominee here actually goes back more than 40 years. But as someone whom Fortune magazine once hailed as creating more shareholder wealth than anyone else in history, Thomas Watson Jr.'s leadership methods as CEO at IBM are worth remembering.

Back in the early '60s, Watson's top executives didn't want to use transistors to build a new generation of computers. They moaned that they had just introduced a new vacuum-tube system, replacing mechanical punch-card systems, and that the new transistor technology was unproven. Watson had a ready answer. He would pull out a tiny Japanese transistor radio and turn it on. He handed out dozens of them, creating the believers who developed a breakthrough line of big computers and defined an architecture, called 370, that is still at the heart of IBM's mainframes.

The point is that Watson acted the role of a leader by communicating with panache.

In the end, there are no leadership formulas. But certainly today's times are ideal for creating new business heroes. Will you be another Tom Watson or the next John Akers, who was replaced as IBM's CEO by the board in 1993 as the company floundered? The challenges can be excruciating. But that's why they pay you the big bucks.

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