



CHAPTER THIRTY-ONE

THE STANLEY INTERNATIONAL- LATIN AMERICAN DIVISION CASE STUDY

Robert M. Fulmer

The Stanley International Case presents an opportunity for readers to look at a coaching opportunity from a unique perspective—actually, from three perspectives. The author of this chapter was involved as a consultant on leadership development and corporate transformation at the firm. At an international senior management seminar in Geneva, Ron McIntyre, president of Stanley International, called him aside and explained some of the basic information described below. McIntyre indicated that coaching might be an appropriate approach in this case of executive conflict, but suggested that Fulmer talk to the principals involved to form the foundation for an assessment and recommendation. As you read the following account, you may find it useful to think about the conclusions you would draw from these three accounts of the situation and what approach you might have recommended had you been the coach.

EXHIBIT 31.1. STANLEY INTERNATIONAL- LATIN AMERICAN DIVISION

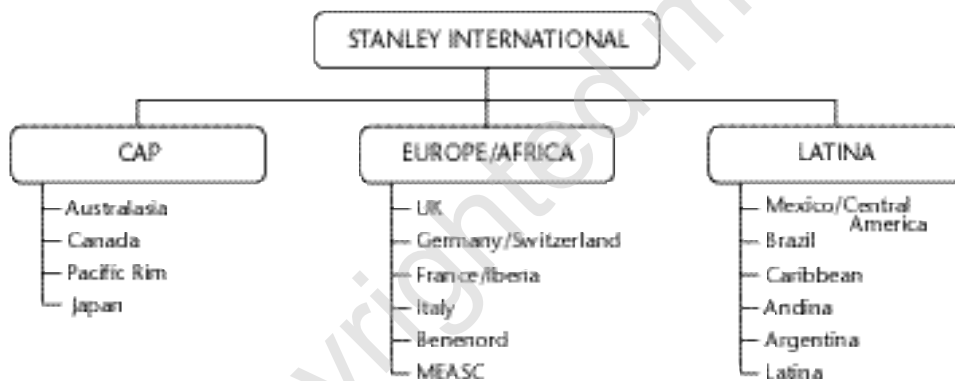
Stanley International is a \$2 billion division of Stanley Health Products, which was acquired by Cantex, Inc., a Fortune 100 conglomerate, in the mid-1990s. Cantex paid \$11 billion (thirty times earnings) for Stanley. After five years of healthy growth, Stanley's operating profits flattened in 1999 to about \$400 million. Stanley's R&D

facilities are being consolidated with Cantex's, and unprofitable international operations have been downsized or closed. Employment in the division is down 20 percent from three years ago.

Stanley sales are divided between its three consumer health businesses, including several well-known, over-the-counter products. Analysts expressed concern that Stanley-related debt would exceed the unit's operating earnings.

As part of the major cultural shift within the Stanley organization, Kirby Matthews was moved from head of Stanley International to run Stanley Health in 1998, and Ron McIntyre assumed the presidency of Stanley International from the firm's LA/CAP (Canada, Asia, Pacific, and Latin American) operation. (See Figures 31.1 and 31.2.) Considerable effort has been made to rally the entire organization behind the theme, "Becoming better than the best." Task force groups have looked at each of the key mission areas to determine specific goals for revenue enhancement and cost reductions. Four core values have been stressed as guides for action and decision making. (See Exhibit 31.2, the Stanley International Values Statement on page 347.)

FIGURE 31.1. STANLEY INTERNATIONAL DIVISIONS



As a result of the strategic framework process, 1999 saw a restructuring and streamlining of operations in nineteen plants. A total of \$50 million in savings were achieved through this activity, as well as \$28 million being cut from administrative expense. At the same time, their R&D budget doubled from \$100 million to \$200 million per year, and the advertising budget was significantly increased. As part of the rejuvenation effort, Carlos Guerra was recruited to head up the Latin American Division (Latina), which had responsibilities for all of Central and South America with sales of approximately \$200 million. (See Figure 31.3.)

Early in 1999, Carlos Guerra's boss, Gavin O'Reiley, president, LA/CAP, told Ron McIntyre that he was concerned about Carlos' ability to handle the expanded role that

FIGURE 31.2. STANLEY INTERNATIONAL EXECUTIVE ORGANIZATION CHART

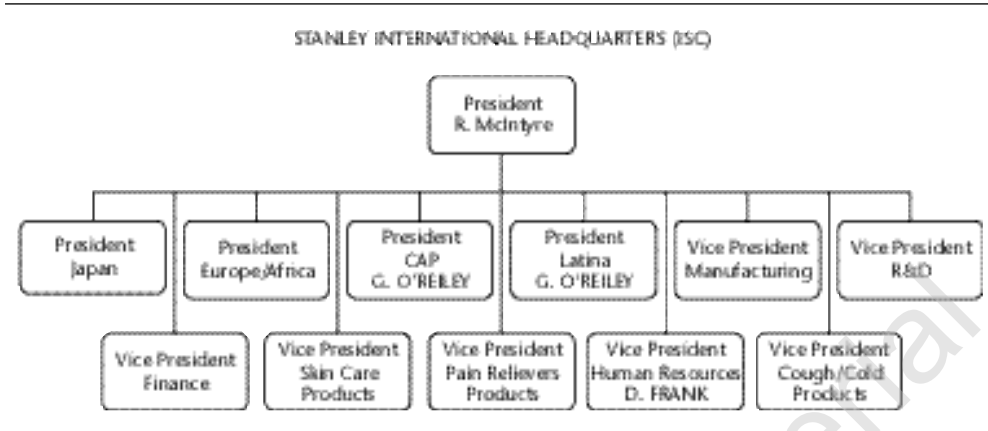
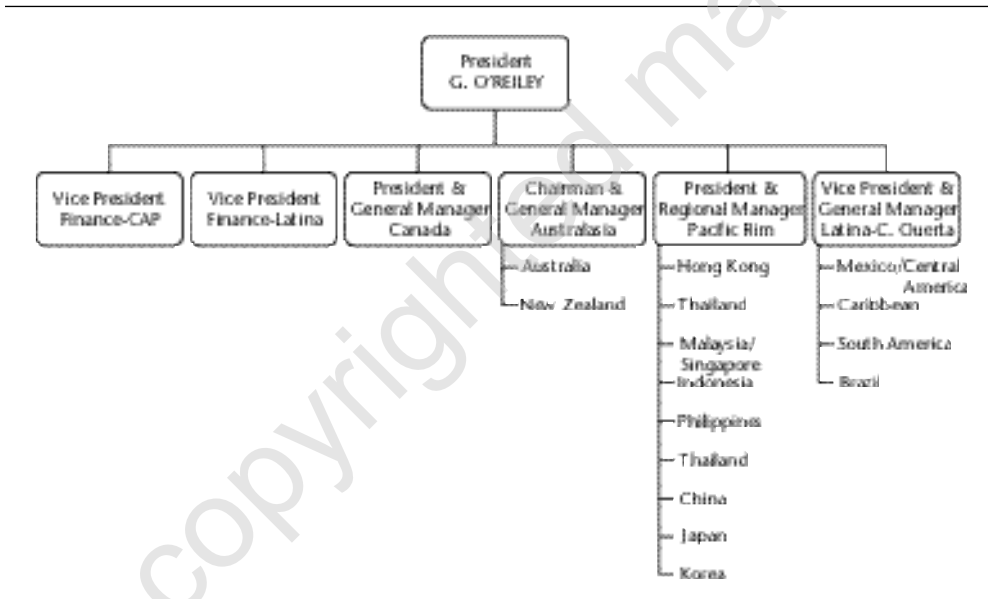


FIGURE 31.3. CAPLA ORGANIZATION CHART



they had envisioned for him. He recommended that Carlos be placed on notice and terminated in six months, unless the situation improved. Gavin planned to meet with Carlos when he returned from a two-week trip to the Pacific Rim, but wanted McIntyre’s approval and advice before proceeding.

Three of the key executives are described here, along with their comments about the situation.

Gavin O'Reiley, President, LA/CAP. "In my opinion, Carlos' job is in danger. I am certain that he is not ready to assume direct responsibility for the Latin American operations. Ron has also expressed his concern both about his ability to perform at a higher level of the organization, as well as some stylistic issues that may be hampering his effectiveness now.

"Perhaps the most serious concern is that Carlos appears to be losing his objectivity about the Brazilian operation. Despite high inflation and the requirement for \$200,000 of corporate funds to keep it operating right now, Carlos insists that we need to keep it alive. It is not that I disagree with that assessment just yet; it is the emotional commitment to the concept that disturbs both Ron and myself. I am afraid that Carlos may not be able to adjust to the culture we are trying to build.

"When Carlos first came into the company, he discovered a real mess in Brazil. We had sent a very high-potential young executive from the U.S. down to run the operation as a part of his developmental experience. He is an excellent executive, but his lack of familiarity with Brazilian operations and the language handicap allowed five key Brazilian employees to pull the wool over his eyes. They set up a separate company that was contracting with Stanley Brazil for \$1,400,000 of products and services each year. It's common practice in Brazil, and actually saved us time and delivered products at fair prices. As soon as Carlos arrived on the scene, he saw what was taking place and moved decisively to get rid of the people and to straighten out the situation. He takes some justifiable pride in his accomplishments, but I fear this is distorting his judgment about the future prospects for that operation. I also worry that he has turned it into too much of an heroic accomplishment. He talks about it very frequently, and is, in my opinion, overly critical of the Brazilian manager who has been brought back to the U.S. and given other responsibilities. I have told him, 'You are not going to build a reputation in this company on the corpse of Andy Edwards.' He seems much more insecure than when I interviewed him for the job. In fact, he spends a lot of time telling me and other people how good he is.

"About two weeks ago, Carlos made a presentation to the ISC (International Strategic Committee) about Brazil. Ron kept having to interrupt the presentation to ask specific factual questions, because Carlos was too caught up in the long-term importance of keeping Brazil alive. It has, after all, the largest economy in South America. After the meeting, I told Carlos that we were going to have to dramatically reduce costs in Brazil, but not to do anything until we have had a chance to talk further about it. I have concerns that Carlos, whose office is just down the hall, doesn't keep me as well informed as my other reports who are located in Canada or Asia.

"The following week, Carlos told me that he had laid off 250 people in Brazil. I really flew off the handle and reminded him that I had specifically asked that he not do anything until he had let me know. Carlos was extremely apologetic and said that he simply misunderstood me. This, unfortunately, is not the first time this kind of misunderstanding has taken place. As a result of this and a few other things that bothered me, I had a real 'heart-to-heart' with him. I talked about his insecurity, his

unwillingness to keep me informed, his overly emotional commitment to Brazil, his over-dramatizing his accomplishments in Brazil, some personal mannerisms I think distract from his executive leadership potential, and the fact that his preoccupation with Brazil was keeping him from sitting on top of some important challenges in Costa Rica and Mexico. Now, he is terribly demoralized. I don't think that my conversation has helped at all. He's clearly not ready to move into a direct reporting relationship to Ron, and I am not sure he's going to make it. My experience is that when a person doesn't fit in an organization, it's better to admit that you've made a hiring mistake and move on rather than waste lots of time trying to 'make a silk purse out of a sow's ear.'"

David Frank, Vice President, Human Resources. "Carlos and I are among five or six of the company's top ten executives who have been with the company for less than a year. Carlos was hired about the same time I was—September of last year. He has a very impressive background. The son of a diplomat from Mexico, he has an MBA from a leading Eastern business school, and was a vice president of International Operations of Acme Pharmaceutical before he was recruited by our executive search to take over the Latin American division. Because Gavin O'Reiley is stretched with current responsibility for about half the world, the game plan, which was discussed with Carlos, was that in a year he would become vice president in charge of Latin America and report directly to McIntyre. This would give him full status as a member of the ISC (International Strategic Committee).

"Immediately after taking on responsibility, Carlos discovered a major problem at our Brazilian operation. A young, highly capable, American general manager had been blind-sided by local corruption. Carlos moved in and fired seven or eight key people, received threatening telephone calls, and subsequently hired a bodyguard for protection. He brought in a CFO (number two person) for Brazil who has excellent experience in the U.S. and Brazil. In addition to his other responsibilities, Carlos remains the general manager of Brazil. I think he has done a good job in remotivating the people in Brazil, but is a bit obsessed about keeping it afloat.

"Ron McIntyre has talked to me about some concerns he has about Carlos' tendency to be overly informal or to make 'disgustingly filthy jokes' at inappropriate times. He also reports that Carlos' tendency to talk about 'my' decisions or 'my' operation makes him think that Carlos may not be much of a team player, which is one of our corporate values. Because of this and continuing emphasis on downsizing, Ron has some reservations about changing the reporting relationship. At the same time, Ron worries a bit that Gavin has changed all of his direct reports within the past year.

"Gavin O'Reiley (Carlos' current boss) shares these concerns and is beginning to question his business judgment as well. I really don't think that Gavin is beginning to have second thoughts about reducing his own area of responsibility, as he has more

than enough on his plate with other sections of the world. We have invested a lot of money in the search and relocation efforts for Carlos. We really want him to succeed. We have to help him get over the trauma of this recent confrontation with Gavin and to help a potentially outstanding Latin executive cope with the challenge of reporting to talented but very 'WASPy' bosses.

"I have recommended that we move Latin American headquarters to Mexico City. This would get Carlos out of New York and closer to his problem operations. Hopefully, this would allow him to have more warning before meetings with Gavin and reduce the interpersonal conflict."

Carlos Guerra, Vice President, Latin American Division. "The last few months have been a roller coaster. I knew that this was going to be a challenging assignment, but I didn't have any idea how bad some things were.

"The situation in Brazil was the most corrupt I have ever seen in twenty years of business experience. The most positive thing that I can say about it is that the general manager there may have been incompetent. They never should have sent someone from here with only a three-weeks' Berlitz course to run a Brazilian operation. As soon as I was there, I could tell that something was wrong. I began to ask some tough questions and got a lot of superficial answers. It took me less than a week to determine who the culprits were. Even before that, I think people could see the handwriting on the wall. I started getting threatening telephone calls at my hotel that suggested that 'You need to be careful or something bad might happen to you.' Finally, one night, I asked the SOB on the phone if he carried a gun. When he hesitated, I said, 'You damn well better, because I carry one and I am a damn good shot.' After that I didn't receive any more telephone calls.

"I am a little concerned that Stanley International is overly political and not open to non-U.S. values. It is not that I am unaccustomed to dealing with people in high levels of responsibility. My parents were diplomats, and as a result, I lived in several Latin American capitals. In my previous job, I had total international responsibility and experienced no difficulties at all. To my knowledge, no one in top management at Stanley International has an MBA from one of the top five business schools.

"I can't figure out what it would take to please Gavin. Not long ago, he told me I was beginning to lose my objectivity in trying to salvage the Brazilian operation. At his request, I developed a downsizing plan, and even though it hurt me to do this, I went ahead and laid off 250 people, which I thought would really please him. Instead, he came down on me for not having talked this over with him again.

"I think I am building a good esprit de corp throughout the Latin American operations. My problems seem to be with Gavin and Ron. Morale is up, and performance (except for the economic instability in Brazil) is better. I feel like I am doing what I was hired to do.

"Except for results, everything seems to be in a downward spiral. I am operating without any staff, except for a secretary. New positions are difficult to come by. I gained

authorization for a Vice President Finance-Latina, but I just found out he is going to report directly to Gavin instead of to me. That doesn't make any sense. It also doesn't make any sense for me to be based in New York. I am spending 70 percent of my time in Latin America, which is appropriate. That's my job. I don't see any need for being based in New York. Frankly, I think that is a part of the problem. I am a 'hands-on' type manager. I could save a tremendous amount of time and generate savings for the company by basing our Latin American operations in Rio, where I would have good flights to all of my other reporting units. Dave has suggested moving to Mexico City, but that has little appeal for me. I would be viewed as a 'Local Boy.' Besides, it is very expensive to live there, we have a relatively small Mexican operation, and I'd have to change planes in Miami every time I went to Latin America.

"I realize that there was a need to get better coordination of international operations. From what I hear, Stanley International used to operate as a series of fiefdoms. The strategic framework process has helped give us a sense of direction. I think it is time to move things back to the field for better execution. Europe has just moved its headquarters from New York to Geneva. Pacific is based in Singapore. I could do much better if I were where I could get the job done instead of working on pleasing my boss. I was hired to run Latin American operations, and I would like a chance to do just that."

What Actually Happened

My first challenge was simply to listen. I needed to hear what the various parties had to say, but they also needed to be heard. With Carlos, I listened for almost two hours. He needed to vent his frustrations, and this turned out to be part of the solution.

Kirby Warren, a Columbia colleague, had been doing research for over a decade on various forms of conflict between high-level bosses and their executive subordinates. In looking at almost two hundred businesses that have experienced this type of conflict, the responses seem to be divided into five major categories: *Benign Neglect*, *Managerial Darwinism*, *Termination*, *Separation*, and *Redirect and Redevelop*.

Benign Neglect. Some people in the same position as Herb McIntyre choose to deal with the situation by employing a strategy that could be called "benign neglect." This strategy may be utilized to buy time to prepare for another approach or it may be used rather than planning a

different strategy. With this approach, eventually the situation will resolve itself, although perhaps not in the most thoughtful manner. This approach actually evolves into what Warren calls “managerial Darwinism.”

Managerial Darwinism. This approach is usually negative in that it allows for the “survival of the fittest” without ever considering what the survivor may be “fit” for. If the result is provocative or totally competitive, the impact is unlikely to be positive. Should the Darwinism be planned in a constructive manner, with clearly defined rules for engagement, the result may be more positive. The well-publicized competitions for the CEO’s position at GE are examples of this approach. Six key executives were given responsibility for specific areas of the business, with the best performer getting the job. After Jack Welch won this competition, he was asked if he would use the same approach to choose his own successor. After pointing out that he liked the outcome of the process, Welch admitted that the approach had left scars in the organization, because various factions were disappointed when their champion did not come out on top. Yet, many firms use alternatives of this approach to select top executives or resolve conflict between senior people. In fact, as this book goes to press, there is another “CEO sweepstakes,” as GE gets ready to choose Welch’s successor. Herb McIntyre didn’t want to have a winner and a loser in this situation, so it was necessary to look for other approaches.

Termination. In the Stanley case, Ray O’Reiley suggests that the solution may be simply to terminate Carlos. Technically, he has the power to do this, but this would bring significant costs to the organization. While there are the obvious severance and executive search costs, there are more important considerations, such as lost momentum and opportunities, as well as the growing danger that O’Reiley will be seen as a “hatchet man” or someone who is “impossible to work for.” When MBA students discuss this case, they often suggest that O’Reiley should be the one to be fired. While there are good arguments that can be made for this decision, the odds are against it happening. In eighteen of twenty-one instances in the Columbia study in which “termination” was the solution utilized, it

was the junior executive who left the organization. Loyalty, position power, and corporate leverage are difficult to overcome.

Separation. Carlos argues that “separation” may be enough to resolve the problem. He seems to feel that if he can just be moved to Rio, his problems will be over. (Of course, he doesn’t discuss the fact that he has just gone through a painful, expensive divorce and is now engaged to someone from Brazil.) Sometimes a transfer or reorganization can help the symptoms of a conflict disappear, but it may not address the underlying issues.

In this case, if the separation were seen as a win or loss for either of the protagonists, the organization would suffer. The executive coach knew that it was necessary for O’Reiley’s concerns to be addressed and for Carlos’s diminished self-confidence to be re-established. It was also clear that any solution had to “save face” for the players without significant costs for the organization, given the financial pressure they were operating under.

Redirect and Redevelop. A strategy of “redirect and redevelop” was developed after answering three critical questions:

1. *Is there enough “raw material” to justify this effort?* McIntyre believed that both O’Reiley and Guerra had significant potential to build the team he wanted to put together for Stanley.
2. *Does the most senior person have the time to devote to this effort?* Unfortunately, McIntyre did not think he had adequate time to handle the redevelopment effort. Because of his travel schedule and the demands of trying to keep the restructuring and cost-cutting efforts on track, he decided to bring in an executive coach who knew the organization and was trusted by the major players.
3. *Can we develop a careful plan that will minimize the risks in the situation?*

After listening to the views of the major protagonists, the coach recognized that O’Reiley was not likely to approve any plan that would put Guerra in Brazil, where he felt that Carlos was already overly preoccupied.

He also knew that Carlos needed to build on some of his strengths to re-establish his credentials and self-confidence. Finally, the coach realized that McIntyre and the other executives would positively receive a plan that built on the firm's emerging mission and values statement. Consequently, he began encouraging Guerra to use his MBA skills to develop a series of recommendations that would reduce the overhead and management reporting units (MRUs) in his region as part of the effort to win acceptance for his move out of New York. Carlos was encouraged to use expressions like "build a winning team," "stay close to my Latin American customers," and so forth. He was also told that he could ask that his office be based in Rio, but should be prepared to accept a compromise position that might put him in another location with ready access to his team and customers, but without the costs of an "expatriate" package.

Ultimately, Carlos won acceptance for a plan that eliminated three MRUs in his region. He was able to utilize about one-third of these savings for an office and two staff people in Miami. His personal style, which was much more appropriate for a Latin American operation than for a Park Avenue corporate headquarters, was so effective that two years later Latina produced almost half of the total profits for Stanley International. O'Reiley found more productive areas on which to focus his attention, and Carlos was talking more about the successes of his team rather than his personal success in Brazil.

EXHIBIT 31.2. STANLEY INTERNATIONAL VALUES STATEMENT

Our Values*We Are a Winning Team*

We believe that we will succeed only as a team and that the full participation of all is essential to the fulfillment of our mission. It is imperative that we create an environment of mutual respect, candor, and trust; where all can reach their highest potential; where individual initiative and performance are recognized and rewarded; where all identify with the success of the company; and where a winning attitude prevails.

We Are Customer Driven

We believe that the success of our business depends on understanding and satisfying the needs of the consumer. Market needs must drive our choice of products and services and the way we deliver them. At the same time, success in delivering those products and services requires that the recipients of internal services and staff work deserve the same consideration so that all our activities create value.

We Are Dedicated to Continuous Improvement

We believe that sustained success depends on the maintenance of superior quality, which we will only achieve through continuous improvement in everything we do. In a dynamic, competitive world to stand still is to be left behind. We encourage a healthy dissatisfaction with the status quo and the creativity and initiative to do something about it. Openness to change, to experimentation, and to the search for a better way characterizes our attitude to every aspect of our work.

We Have a Sense of Urgency

We believe that being first, speed of action, hard work, and an aggressive determination to get things done are characteristics of every winning team. In our business they are a condition for survival. The first to market has an often insurmountable advantage. The quickest to move keeps everyone else off balance. The will to succeed very often wins the day through sheer determination.

We Act Responsibly

We believe that integrity is an essential asset. Our success is worth having, and ultimately will occur only if our every action is characterized by staying true to our values, and the best of each of the societies in which we live and work. We will always do the right thing.

About the Contributor

Robert M. Fulmer is the W. Brooks George professor of management at the College of William and Mary. Previously, he was a visiting scholar at the Center for Organizational Learning at MIT and taught organization and management at Columbia University's Graduate School of Business. For six years, he was director of executive education at Emory University, where he directed the executive MBA program, as well as public and customized programs for general and functional managers. Bob received his first endowed chair at Trinity University and has served as director of corporate management development for Allied Signal, Inc., with worldwide responsibility for management development. He has also served as president of two management consulting firms specializing in human resource issues.

Bob's writings have been widely read in both academic and professional circles. He is author of four editions of *The New Management* and co-author of *A Practical Introduction to Business*, *Crafting Competitiveness*, *Executive Development and Organizational Learning for Global Business*, and *Leadership by Design*. His research and writing have focused on future challenges of management, implementation of strategy, and leadership development as a lever for change efforts.

Bob received an MBA from the University of Florida and a Ph.D. from UCLA. He currently serves on the International Research Advisory Committee of the Strategos Institute and is a senior fellow and special advisor to the president of the EastWest Institute. He served as a subject-matter expert for a 1998 global benchmarking study of leadership development conducted in collaboration with the American Productivity and Quality Center and the American Society for Training and Development.