



HBR CASE STUDY

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Stephanie do:
institute a basic
reorganization, or
re-create the Jack
Donally model of
strong leadership?

Big Shoes to Fill

by Michael Beer

A larger-than-life CEO left Innostat with larger-than-life problems. The new boss knows the company needs fundamental change, but the image of her predecessor hovers.

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The memorial service was a **sellout**. Jack Donally had been a **colossal** figure who commanded a lot of respect, if not affection. He'll be a hard act to follow, Stephanie Fortas thought as she strained to make sense of the eulogy, delivered in a thick Irish accent by the same priest who had **married Jack and Moira Donally 40 years ago**. Moira must be feeling especially lost, Stephanie thought. A deferring, uncomplaining woman, Moira had apparently taken second place to Innostat all her married life, and just when it seemed that she would soon have Jack all to herself, he up and died.

But it wasn't just Moira and her five children who looked lost, Stephanie thought. Everyone seemed bewildered. As the CEO appointed by the board to succeed Jack just before his untimely death, Stephanie knew that a lot of people would be looking to her for answers. She edged forward to pay her respects to Moira, aware that a lot of curious eyes were fixed on her.

"I've heard so much about Jack," Stephanie said, offering her condolences to Moira. "I'm going to do my best to protect his legacy."

A One-Man Show

That legacy was formidable. Boston-based Innostat was very much Jack Donally's creation. He had transformed the company from a small local manufacturer of **scalpels** and other surgical equipment into the world's best-known maker of prosthetic limbs and surgical implants. **Sales had reached more than \$2 billion, with the company employing more than 5,000 people at locations in Boston, Los Angeles, and Dublin, Ireland.** Innostat also had sales and marketing country organizations around the world. A pharmacist's son from the rough-and-tumble Irish American stronghold of South Boston—Southie to the locals—Jack had joined Innostat as a salesman right after completing a tour of duty in Vietnam as a medical

HBR's cases, which are fictional, present common managerial dilemmas.

orderly. His unit had been in the thick of some of the worst action, and he always said afterward that his passion for the company and its products came from that experience.

Under Jack's leadership, Innostat built a reputation for technological innovation and manufacturing quality. That was, on the face of it, surprising, since Jack had majored in history at the University of Massachusetts and liked to say that he had no head for "science talk." But the truth was, he loved to spend time talking to surgeons and researchers. He had that special skill that merged an interest in technology with an understanding of what customers needed and wanted. He typically came back from his travels full of ideas for new products. He would go straight to the head of R&D and get him started on a project, rarely engaging Innostat's senior team in discussions of these ideas and how they fit in to the company's broader strategy. Consequently, marketing never developed as a strong function, and R&D, though technologically sophisticated, never developed marketing savvy.

Despite his primary focus on new product ideas, Jack was also acutely conscious that health care products had to be error free, and he had always kept a close eye on manufacturing. Frank Timoshotsky, the self-effacing head of production recruited from Toyota, had introduced many of the car company's quality practices, which had helped the firm win a Baldrige prize.

But in the three years before Jack's retirement, Innostat's performance had declined dramatically, and the company was facing strong competitive challenges in its key markets. The firm's once generous margins had narrowed as other companies found ways to engineer around Innostat's patents and develop competitive products of their own. Worse, the company seemed to have lost its innovating edge. After a string of new offerings in the 1990s, which delivered annual growth in revenues and profits of more than 15% a year, Innostat had not launched any major new products for the past four years, yet they were essential for profitable growth.

Stephanie had not been Jack's choice for a successor. He had strongly pleaded the case for Frank to the board. But three years of falling results and growing pressure from Wall Street had prompted the board to look for an outsider. The directors settled on Stephanie because of

her technical background. A 1989 PhD from Stanford, she had also received an MBA from MIT's Sloan School in the early 1990s, and then headed back West to join the marketing department of Phasar, a medical technology company. Stephanie's combination of technological skills and business savvy had marked her as a high-flier, and within ten years she had become the company's chief operating officer. In that role, she worked closely with Phasar's chief science officer to ensure that the company's R&D efforts were focused on commercially viable products.

The headhunter had caught Stephanie at the perfect moment—right after a messy divorce. She was eager to put California behind her, and a professional challenge offered just the kind of distraction she needed. There was no doubt that Innostat would present that challenge. It seemed to have completely lost the ability to innovate, and investors were starting to question whether the company actually had a strategy. Long term, Stephanie knew that she would have to radically alter the way the firm innovated. But she wasn't sure that Innostat was in any shape to survive a major change initiative.

The Walk by the River

Stephanie believed in tackling big challenges head-on. Her first priority was to figure out how Frank felt about her and whether she could work with him. They had met at her hotel in Harvard Square the day after her appointment was announced, and Frank had proposed a stroll along the Charles. It was a warm, early October day, and the university crew teams were out on the river practicing for the Head of the Charles regatta later in the month. As they walked, Stephanie and Frank struggled to find common ground.

"Where do you plan on living?" Frank asked.

"Back Bay, probably," Stephanie said. "I don't have kids, so I don't need a big house. Anyway, I like the buzz of city life."

"I know what you mean," Frank agreed. "I miss Back Bay. Cathy and I had a place there until the kids came along. Now we're in the suburbs. The schools are good, and the commute is fairly short. But I miss the edge of city life sometimes."

Frank shuffled his feet. "Look, Stephanie," he said. "You have a lot of problems in this company, and I'm not one of them. I know every-

Michael Beer (mbeer@hbs.edu) is the Cahners-Rabb Professor of Business Administration Emeritus at Harvard Business School in Boston.

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one thinks of me as Jack’s boy, and I was. But I’m not such a fool that I can’t see that the company needs to change.” He caught Stephanie’s eye. “We got way too dependent on Jack for ideas,” he said, “and, to be honest, he didn’t have much faith that anyone in the company could come up with them, so he didn’t really develop the capability. He was always talking to people outside the company for ideas. And now we’ve got a real problem on our hands.”

Stephanie listened intently. “And what would you do if you had my job?” she asked pointedly.

Frank paused for a moment. “Well, to begin with,” he said, “we’ve got to take a look at why people are not thinking beyond their immediate functional departments. People around here are focused only on making their numbers within their own units, so they don’t have much reason to respond to product development initiatives from R&D. Besides, they don’t believe R&D’s estimates of market potential. So why invest time and money on a promise they don’t believe? When Jack pushed an idea, we all responded because Jack was the boss, and he was just that kind of guy. But with him gone, who’s going to stick their necks out now?”

“Did you ever talk to Jack about this?” Stephanie asked more abruptly than she had intended.

“I didn’t,” Frank acknowledged. “But we did get a report from PK Henderson a year ago. The board got Jack to call them in for a consult. They came up with this reorg idea. Most of us thought it was a little crazy and that a massive reorganization was not the answer. Personally, I still believe that the problem is motivation, that the company needs more powerful incentives to get people thinking out of the box. Jack didn’t see it, though, and he buried the report. He said that really good ideas don’t need incentives, they need passion, and that he was the chief passion officer.”

Filed but Not Forgotten

Stephanie had come away from the conversation intrigued. She’d been told about the Henderson report in her negotiations with the board, but only in passing. The board members had seemed quite dismissive, so she hadn’t pressed them on it. She decided to get herself a copy.

Stephanie read the report that night in her office over a tuna sandwich from the company

cafeteria. She picked up the binder and turned to the summary page. As Frank had told her, the report’s recommendations involved a fairly major change to the company’s management practices. Decision rights for new product development were to be taken out of R&D and given to cross-functional new product development teams headed by senior marketing people. The teams would be responsible for seeing the development from its early stages through to introduction of the product. The teams would be made up of those most closely related to the new development: bench scientists from R&D, a relatively senior manufacturing engineer, along with the manager of the plant making the product and someone from sales.

Because Jack had played such a dominant role in defining new product opportunities and pushing them through the organization, the consultants acknowledged that the marketing division lacked the experience and credibility to do this kind of work. On the other hand, the division had the best view of the market through its relationships with surgeons. Yet sales and marketing at Innostat was heavily sales dominated and had few people with both high levels of marketing and general management skills. To get around this problem, the consultants had suggested creating a strategic marketing department that would report to the CEO. This new department would be responsible for identifying opportunities and for leading the product development process. No recommendation was made as to who in the company might head this new department. It was this issue that slowed acceptance of the reorganization plan. Jim Pappas, director of sales and marketing, clearly didn’t have the head for this kind of work. But, like most salesmen, he was fiercely territorial and resented losing part of his responsibilities.

Stephanie felt for Jim. He was an old-school salesman down to his fingertips. He entertained lavishly, and he probably knew the golfing handicap of every hospital purchasing manager in Boston. It wasn’t going to be easy for him or for anyone in the company to give up his sovereignty; once it happened, all hell could break loose. Stephanie looked around her office, which had Jack’s personality imprinted on it. A huge corner suite with an oversized mahogany antique desk, the room communicated the force of life that had been Jack Donally. “He certainly was a charismatic

leader,” Stephanie thought, scanning her surroundings, “but I wonder what his kids thought of him. He must have been a difficult man to live with.”

Stephanie forced her mind back to the report. The consultants believed that people needed to be motivated further to commit the time and energy to the new process, and recommended that employees be held accountable to both their functional and team heads. The consultants also suggested that the team leaders and members be measured on the timeliness and profitability of new products and that all incentives be monetary and based on performance. They recommended hiring an organizational development consultant to work with HR on designing the new system and on creating appropriate training programs.

It was the final recommendation, though, that obviously got the report killed. Henderson had strongly urged Jack and other top executives to be less involved in the details of developing new products, limiting themselves to formulating strategy, choosing the portfolio of new products, reviewing team progress, and continually reprioritizing projects and reallocating money and people based on emerging information. Stephanie wondered whether the consultants who recommended these measures would ever have received another assignment from Innostat. Probably not. Jack would never have said yes to these recommendations. But should she?

Company or Career

Stephanie put the question to Teddy Adler, her executive coach. Stephanie had first consulted Teddy for career advice shortly after joining Phasar. A fellow Sloan alum had recommended him: “He’s a bit domineering but very smart,” the alum had said. “He can give you a real political edge.” Teddy had more than lived up to the billing.

After Stephanie read the report, she and Teddy met at a small restaurant in Cambridge, one of Stephanie’s favorite haunts when she had been a student at MIT. The restaurant was part of a popular, upmarket local chain, and Stephanie remembered having a farewell meal there with some friends after her business school graduation. She ordered a small Caesar salad and a glass of Diet Coke as she settled down to talk with Teddy, who was fairly dismissive of the Henderson report. “There’s no

way you can win doing a wholesale reorg,” he said, leaning in and lowering his voice. “You just don’t have the people to make it work fast enough. It’ll take five years minimum. If he’d wanted to, Jack might have made it work, but not you, not yet. You’ve got to build some capital with the board to make that kind of change, and to do that you’re going to have to rack up some successes.”

Stephanie pushed back. “Suppose I don’t turn out to have any great ideas for products, or the ones I do develop and push through just don’t pan out? Then we’re back to square one—and at that point, the honeymoon, such as it is, will be over.”

“Look, Stephanie, that’s just the risk you take with this kind of job. What this board wants is new products, and they’re not worried about how they get them. They’ve made you CEO because they think you can give them what they want. Remember, they saw the report, too, and they buried it. If they’d wanted to do what the report recommended, they would have hired some reorg expert instead of you. Your strong suits are technology and marketing. That makes you the best person to spot new products that will work—products that you can then drive through the organization. In this respect, your biggest problem will be Timoshotsky because, whatever he says, he’ll resent the fact that you got the job and he didn’t. The other people will fall in line. Pappas is near the end of his career and won’t want to move, so he’ll ultimately knuckle under. And Chuck Bukowski over there at R&D is used to playing a supporting role anyway. With limited time at your disposal, you’ve got no choice but to repeat the Jack Donally leadership formula. Create your own senior team, pick a product, and be forceful in moving it through to conclusion, even if that means more top-down management than is typically your style.”

At that point, friends joined them, and the conversation shifted to the Red Sox. Stephanie listened with only half an ear; baseball bored her, and her head was full of the conversation she and Teddy had just had. On one level, everything he said made sense. A massive reorg carried a lot of risks. The noncollaborative culture of the company made it hard to see how a complex matrix like cross-functional organization could possibly work. Moreover, there was the question of who in the company could lead the new strategic marketing group. As Teddy

had pointed out, she could find herself out on her ear before the results came in. If the company survived after she left, it would be the next CEO who got the glory. And that was supposing Innostat could even stay independent. It was obvious that the board knew that, too. Why else would it be in such a hurry?

But Stephanie wasn't so sure that Teddy was giving her good advice. Her experience and values instinctively told her that developing the organization and its people so that the company would possess the capability for sustained innovation was the way to go. Innostat has shown that it can't dream up new products on its own. Shouldn't she be looking for ways to fix that? Wasn't a CEO supposed to look to the long term? Or was she just cooking her goose?

Then again, she had never been in this type of turnaround situation before. Frank had said that the problem in the company was motivation. People needed an incentive. Why not make a larger percentage of managers' com-

pensation contingent on sales and profits? This, together with strong leadership from her, might be just the solution. Maybe Teddy was right after all.

"Guys," Stephanie said to Teddy and those who had joined them, "I have to go. I have an early morning meeting tomorrow." She suggested they stay and enjoy the rest of the evening. She walked out of the restaurant into the cool fall air. "Let's see, which way?" she said out loud, speaking to no one in particular.

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