Leadership in organizations and projects, IY2511, fall 2012, MBA part time

# B. Group assignment 1: “The role of leadership when it comes to an organization’s success”

#### Submitted by Group 32: ****Carl Olsmats,**** Christian Olausson, Radhakrishna Kalyan

*Readings: DuBrin chapters 5-10.*

*This is a group assignment. Discuss the assignment within your group folder, and write your analysis down by using relevant concepts from chapters 5-10 in DuBrin. (You are of course allowed to use previous chapters if you find them relevant for your analysis.) The recommended number of pages is 4-5. Don’t forget to make correct references to the sources you use! If you are uncertain of reference techniques, see* [*http://tuba.bth.se/lo/reference/index.asp*](http://tuba.bth.se/lo/reference/index.asp)*. Before you start to work with the assignment you should also take a look at this tutorial, which concerns plagiarism issues:* [*http://www.bi.hik.se/Refero\_eng/1intro.php*](http://www.bi.hik.se/Refero_eng/1intro.php)

*For this assignment we use an extended version of the Leadership Case Problem B, pages 344-345, in DuBrin (pages may vary depending on which edition you have, but the text is also available below). Please note that the questions are not the same as in the book: the ones below are the ones that are to be worked with.*

*Choose one person within the group who will be responsible to submit your assignment. Name your file according to your group number and assignment number (example: ‘groupXassignmentY’). Don’t forget to also have your group number, assignment number and names of the members that have been active contributors, within the file. Submit the assignment by clicking on “Submit answer” and attach the file.*

*Deadline: 12th of October 2012*

*Good Luck!*

## Sparking Innovation at Gap

When Robert Fisher was the interim CEO of Gap Inc., he said that the apparel retailer needed to make faster decisions and cut through the bureaucracy if it hoped to hire and retain creative talent to turn the company around. Fisher also said the San Francisco company had relied too heavily on customer research and focus groups, which he said provide helpful feedback but can’t forecast what Gap should produce next.

“Designers need to be in a position where they can think creatively,” said Fisher, a Gap director since 1990, and chairman since 2004. “We almost tried to institutionalize creativity.” He said that the problem wasn’t apparent until he took over as interim CEO in January 2007. Fisher reiterated that he didn’t intent to be a candidate for the permanent CEO job, declining to explain why. “This is a board decision,” he said. “I’m working really hard to fix this business as much as I can” (Wall Street Journal, March 6, 2007, p. B2).

Fisher had to address the high turnover in key positions that plagued the 3,100-store company during 2006 under previous CEO Paul Pressler. Fisher said he would examine whether the company has too many management layers at headquarters. He also said the retailer would return more decision-making power to leaders of the Gap, Old Navy, and Banana Republic brands. “We’ve become too bureaucratic and overly analytical,” he said. “That’s not appealing to the people in merchandising and design” (Wall Street Journal, March 6, 2007, p B2).

Fisher also has to grapple with long-standing problems at the brands that former CEO Pressler took over in 2002, but has never recaptured the excitement of its peak in the late 1990s, when offices were move to casual dress and commercials such as “Khakis Swing” were hits.

“We’ve got to have a clear point of view about who we are,” Fisher said. He said the “clean” department in Gap stores that stocks classic work basics is a good reflection of Gap’s style, and “we’re going to be grounded in khaki and denim, as that’s where the roots of this business are” (Wall Street Journal, March 6, 2007, p. B2).

The Old Navy brand, with 1,008 stores, hasn’t kept up with the relentless progress made by discounters such as Target Corp. that have grabbed market share by making their clothes more stylish while holding down prices. Target adds excitement by hiring high-end designers to create products for its stores that are available for only a short time.

In July 2007, Gap surprised Wall Street by naming Glenn Murphy, a Canadian drugstore executive, as its new CEO. Murphy had been chairman and chief executive of Shoppers Drug Mart. Many observers had assumed the company would recruit someone from the apparel sector, especially given Gap’s long string of fashion missteps.

“One of their key criteria was apparel experience and Murphy doesn’t seem to have that,” said Mark Montagna, vice president of specialty retail for C.L. King & Associates. “He´s walking into a really tough job because here’s the biggest fish in specialty apparel, and he’s got to turn around all three divisions,” says Montagna. “I think the fact that Murphy has worked for mature retailers is a big help because certainly Gap is mature. He has a track record of success so hopefully he can do the same again” (TheStreet.com, pp. 1, 2).

With more than 20 years of retail experience, Murphy has been credited for reinvigorating retail brands in food, health and beauty, and books. “Glenn is known for being a decisive leader with great retail instincts who understands his customers,“ Fisher said. “He has revitalized major retail brands by offering new products and significantly improving the store experience. He’s well qualified to return Gap Inc. to the level of sustained performance we all expect” (TheStreet.com, p. 1).

Howard Davidowitz, chairman of a New York-based retail consulting and investment banking firm, says he is puzzled by Gap’s choice of leadership. “The people who drive companies are fashion geniuses – the people who fall on their face are people who are not,” Davidowitz says (TheStreet.co, p. 2). Other observers mentioned that Gap has strong merchants heading its three divisions.

Questions:

Explain you reasoning by using concepts/analytical frameworks from the book.

1. What steps do you think CEO Murphy should take to enhance innovation at Gap?
2. Is Fisher thinking too narrowly by insisting that Gap should stick to being grounded in khaki and denim? Explain you reasoning.

In my opinion Fisher’s thinking is not narrow while saying Gap should be grounded in khaki and denim. Fisher wants to emphasize on the fact that Gap was started back in 1969 by selling Livi’s jeans and due to denim and cotton dresses Gap was successful.

Most of all denim and khaki is affordable for all class of people, and that was the true factor of Gap’s success and has influenced the life style of middle classes in US and UK.

The cotton T-shirts and chinos created a sensation during 1990s which led to the spread of casual Fridays.

Denim is always popular clothing among all age groups. Even though there are other textile types like leather, fur, synthetic fiber etc. Fisher wants to say that Gap often stands for a no particular style and this simple, affordable style became the Gap's trademark.

Ref:

<http://www.telegraph.co.uk/news/obituaries/finance-obituaries/6243973/Don-Fisher.html>

<http://online.wsj.com/article/SB117311919898327251.html>

1. What is your opinion of the wisdom of hiring a non-fashion executive to revitalize Gap?

In my opinion Gap has taken a good decision in choosing a non fashion executive as its new CEO. If one closely observes the decline in Gap started during 2007 where Gap started losing its market of (20-30) age to its rival brands. The reason was Gap’s look and style was easy to copy. And moreover Gap is a retailer offering clothing and other related accessories, and Mr. Murphy has 20 years of retail experience which was lacking among all other previous CEOs. Though he was never having retail experience in fashion industry but his decision making style and vision for the future of Gap make him a leader who revitalized established Gap retail brands.

Ref:

<http://www.businessinsider.com/gap-ceo-glenn-murphy-explains-how-the-company-became-relevant-again-2012-8>

<http://www.gapinc.com/content/gapinc/html/aboutus/gapincexecutives.html/>

<http://sgn-group.com/fashion-news/glenn-murphy-talks-gap-growth>

1. What is your opinion of the statement that being too analytical and bureaucratic might have interfered with the creativity of Gap?

A key issue to become more creative is to overcome traditional thinking. According to DuBrin, “Principles of leadership”, Chapter 13, 2007, the central task in becoming creative is to break down rigid traditional thinking that blocks new ideas. Traditional thinking is relative, but it generally refers to a standard and frequent way of finding a solution to a problem. Being very bureaucratic means having rigid structures and procedures, which typically has a conserving effect on business matters and thinking, with high barriers and a lengthy process to change things. Analytical models and thinking have their roots and foundation in conventional, current and historical theories and practices “inside the box”. “Stepping out of the box” to become more creative can be very difficult when the mind is constrained by bureaucracy and conventional analytical thinking.

Consequently, being too analytical and bureaucratic, may well have interfered with the creativity at Gap.

1. How is Gap doing these days? Does the financial performance of the firm justify having brought Murphy on board? Or is Murphy still around?

Murphy is still around as CEO, which may be an indication that he has done a good job.

With a slight reduction in Net Sales, Operating income increased under his leadership from 1,31 Billion US$ in 2007 to 1,97 Billion US$ in 2010, despite the financial crisis 2008-09. For 2011 Operating Income decreased to 1,44 Billion US$, but this may, at least partly, reflect the general recession in the US economy. Earnings per share increased by around 50 % from 2007 to 2011. Despite the general recession, Gap seems to do well nowadays looking at stock prices. They have in principle doubled their value in 2012 from around 18 US$ in January to 36 US$ per share in September. When Murphy entered the company, Gap Inc shares were trading around 15-20 US$ per share. Gap stock prices remained at this level until the financial crisis in 2008-09 when a bottom level of 10 US$ was reached. Recovery followed and a new top level around 25 US$ was reached in 2010. In 2011 Gap stocks were traded around 20 US$. For comparison, the S & P 500 index is still today under its level in 2007. (source of financial information: [www.gapinc.com](http://www.gapinc.com) and [www.standardandpoors.com](http://www.standardandpoors.com) , 2012-10-05)

Based on the financial performance, it seems like it was a successful move to bring Murphy on board, but we cannot say for sure as it is impossible to say what kind of results another leader could have achieved.