Jeffrey E. Garten: The Thought Leader Interview

By Randall Rothenberg Strategy & Business

The Yale Management School dean plumbs the mind of the CEO.

To many, the global economy is an abstraction. To Jeffrey E. Garten, it is both a fertile plain and a battleground. For three years before his appointment as dean of the Yale School of Management in late 1995, Mr. Garten was the United States undersecretary of commerce for international trade. During that period, he was an architect of President Bill Clinton's developing policy of commercial diplomacy, an effort to open national markets to goods, services, and capital from around the world — particularly from the United States.

Applauded by business leaders, especially at multinationals, the effort also included skirmishes: with Japan, over the unlocking of its automotive market; with American industries and trade unions that desired protection from cheap imports; with the political right, which was suspicious of the Administration's overtures to China; and even with free-trade advocates, who opposed Mr. Garten's and the president's willingness to use sanctions to pry open markets.

If he was bruised by the combat, Mr. Garten, a 53-year-old graduate of Dartmouth College, Johns Hopkins School of Advanced International Studies, and the U.S. Army Special Forces, doesn't show it. To the contrary: In his newest book, *The Mind of the CEO*, he stands up to another force in the global economy — the chief executives of the world's largest companies, whom he finds unprepared for the leadership role he says they must assert if the past decade's prosperity is to continue. "CEOs," he writes, "ought to think more broadly about what true business leadership means today…. They should be corporate chief executives, but also business statesmen."

Published in January 2001 by Basic Books/Perseus Publishing, *The Mind of the CEO* is based on interviews Mr. Garten conducted in 1999 with some 40 chief executives — a who's who of business leadership that ranged from the triumphant (General Electric's John F. Welch Jr.) to the embattled (AT&T's C. Michael Armstrong).

As if to showcase the volatility of their world, many of his subjects who were riding high only a year ago — Ford's William C. Ford Jr., for example, and Honeywell's Michael R. Bonsignore — have since fallen prey to bad publicity, even takeovers. Several of his subjects (such as Aetna's Richard L. Huber and Xerox's G. Richard Thoman) have resigned their jobs. Others, including Sir Martin Sorrell of the WPP Group, have engineered major acquisitions, or, like Barnes & Noble CEO Leonard Riggio, emerged intact, even stronger, from bloodying battles with Internet startups.

Before his period in government, Mr. Garten spent 15 years as an investment banker, with senior positions at Lehman Brothers and the Blackstone Group. With Lehman in Tokyo, he oversaw all Asian investment banking activities. He also spent several years helping governments, such as Costa Rica's, restructure their debts, and led large teams that restructured some of the world's largest shipping companies. He draws on that experience to query the leaders of the world's largest companies on the nature of leadership itself in a transforming economy.

"So much is discussed today about business leadership or lack of it, and so little about the men and women who actually control the money, the technology, and the human resources that are propelling globalization," Mr. Garten said, over a recent lunch prepared by his wife, Ina, a noted cookbook author and gourmet food store owner, in their East Hampton, N.Y., home. "So, I thought I'd take a stab at looking at CEOs of big, global companies and ask a bunch of questions: What are their preoccupations in running their businesses? What are their thoughts about their broader roles in society? What is the link between the two? What should we make of all of this?

"Are these men and women masters of the universe," he mused in a conversation with *s+b*. "Or are they lost in space?"

S+B: In *The Mind of the CEO*, you note how John D. Rockefeller, at the height of his power, still had the time to spend hours just staring out the window, thinking. That's almost unimaginable today.

With the fragmentation of corporate constituencies and the speed at which economies and institutions are changing, is business leadership still possible?

GARTEN: One of the themes that needs to be discussed in business today is, is the CEO's job doable? The people I met are extraordinarily capable. You could not say that somebody got to be the head of one of these companies without being very smart, very thoughtful, very aware, very conscious of what's happening in the world. But the ability to run a company in the face of globalization, and in light of the pressures of the Internet, which is changing everything so fast, calls into question the whole notion of leadership. When you actually hear what the CEOs say, they're all putting a huge question mark over it. What should be their strategy? What should be the organization? How do they create a really multicultural organization and still have a common culture in the company?

S+B: You interviewed many impressive leaders for this book — men like Jack Welch of General Electric, Andy Grove of Intel, Hiroshi Okuda of Toyota, Jorma Ollila of Nokia, and many more around the world. Of the leaders you interviewed, who is actually addressing these questions?

GARTEN: I would say there are one or two who stand out for attempting to get ahead of the curve. Sir John Browne of BP sees, I believe, the interaction with broader society as a shareholder issue — that it's essential for the company's reputation, and for the morale of the employees, to feel that they're in a really progressive company. He thinks about this all the time. As successful as he's been, he is one of the most introspective [CEOs] on such issues as what kind of power a global company really has. How broad should its responsibilities be? What is the optimal span of control? What is the value of having a headquarters, when you're everywhere? What is the real meaning of diversity in a company? He asks all these questions over and over again. He has identified, in the most thoughtful way, the areas that he needs to focus on, and the areas that global CEOs need to focus on.

And William Ford of Ford Motor Company is the same, although with the Firestone tire recall, he obviously shows how difficult [the job] is, in light of all the anticipated or unanticipated problems that can occur.

S+B: Many CEOs seem to have been blindsided by the backlash against globalization, which manifested itself at the World Economic Forum in 1999, then at the World Trade Organization meeting in Seattle, and again at the World Bank/IMF meeting in Prague. Why had they missed this welling opposition?

GARTEN: I interviewed 40 people, and very, very few would say this is their job. Virtually none of them would say they are well-positioned to deal with the turn of events over the last couple of years. Most global CEOs do not come from backgrounds where handling major social and political pressures is a part of their experience.

You could make a case, in fact, that the background is exactly the opposite. For at least the last two decades, we've had very intense shareholder capitalism, in which people succeed almost by having a narrower vision of what business leadership is. This is certainly not a criticism. That has been the environment. Any sort of broader activity is actually seen as a diversion from the mainstream requirements.

S+B: Is "diplomatic skill" something today's CEO needs?

GARTEN: We are entering an era when the political and social pressures acting on companies are going to require leaders who have a strategic sense of how you deal with these groups. And if all that sense is defensive, they'll be woefully inadequate, because I think these pressures are going to intensify enormously.

Living with NGOs

S+B: But in Seattle and Prague, the protesters were a somewhat motley crew of anarchists and nongovernmental organizations. So how should a CEO grapple with something so amorphous?

GARTEN: The difficult strategic issue for any international institution or any company is which NGOs should be part of the discussion. That whole movement, which is a coalition of such vastly different interests, could be on the cusp of breaking apart.

S+B: Because there is a portion of it that prizes anarchy for its own sake?

GARTEN: There is a group that simply doesn't want to be co-opted. And then there are other groups that, I think, genuinely want to be on the inside. They're less interested in the visibility than in the actual progress. What happened at Prague, as far as I can tell, is there was tremendous tension between these two groups.

So the strategic issue, looking at it with a real hard head, is how do you deal with both of them? How do you get the moderates inside and isolate the radicals, so that everybody understands that they really aren't mainstream?

S+B: Isn't globalization, though, an inexorable process? Won't this tension work itself out naturally?

GARTEN: There's a real question, which I think overhangs everything: the stability of the world economy. Every publication that looks ahead projects pretty healthy growth rates. But if you disaggregate the components, you see enormous problems and enormous uncertainties. Russia, the second-largest country in the world, even at half the size of the former Soviet Union, is a huge question mark. For all the talk about emerging markets, if you look at the big ones — China, India, Indonesia — it's not at all clear how they're going to evolve. So in some ways, the future is a real crapshoot.

S+B: Yet we absorbed or deflected the Latin American debt crisis, the Asian financial crisis, and then the Russian financial crisis.

GARTEN: I think, in retrospect, we were extraordinarily lucky. The Asian crisis hit at a time when the U.S. was at the height of its economic momentum. And the ability of the Fed to lower interest rates three times with no fear of inflation was a unique situation. Had we had mild inflation at the time, had we not been growing so fast, it could have been much different.

Because of all the predictions that have been made and have not come to pass, we tend now to discount the darker scenarios. There's a very strong bias — and it's probably good — toward optimism in this country. Yet I have the sense that we're never more than a few steps away from a radically different situation. All it would take to really change the outlook is for Saddam Hussein to say he's going to stop pumping oil.

S+B: Why is this something corporate CEOs need to care about?

GARTEN: John Keegan wrote a wonderful book, *The Mask of Command*, about military leadership. His theory is that there is no such thing as military leadership without considering the context. Alexander the Great, if he didn't like what a subordinate did, could cut his head off. So when people ask what makes a great military leader, the second question is, under what sort of political and economic circumstances?

It's very similar with business management. What was required in the 1950s and '60s was totally different from what was required in the '80s. Now, it's changing again. The swashbuckling "shareholder-value CEO" of the '80s, who would do anything on the theory of unlocking shareholder value, and who ascribed to himself no responsibility for anything broader — that won't cut it in the next decade. Because the broader political and social problems aren't going to go away.

S+B: But why are these things the responsibility of corporate CEOs?

GARTEN: My theory is that we will be, for quite a while, in a market-driven environment. For most of our lives, that has not really characterized global society. It has been much more government-driven, and much more atomized. Who leads in society at a time when we have more deregulation, and at a time when the scope of government is contracting? Who handles the big questions? There is no other group on the horizon that seems positioned to step in or capable of stepping into the vacuum. Business leaders can't do it themselves. They can't be governments. But they have to be more involved.

S+B: That assertion is bound to trigger a lot of skepticism, from inside and outside the business world.

GARTEN: I hope that this book is stimulating enough to create a debate about corporate leadership. There are many sides to this question. One group of people is very suspicious of business; they believe business needs to be much more highly regulated and circumscribed. There is an increasing amount of that populist, antibusiness sentiment. Those people are going to look at this and say that I am advocating that little monsters become big ones.

Then on the other side, there's a whole group — including most CEOs and many of my colleagues in business schools — who will say, "Garten doesn't understand what business is about. It's about profitability and shareholders. And all this other stuff is outside the realm of what business leaders should do. If they earn profits for their shareholders, they are performing the ultimate social good."

To both groups, I'm saying, "You don't have the luxury of that particularly narrow view." CEOs are facing a global environment, which is going to put enormous pressure on them for involvement, not out of philanthropy, but because that is the only way these companies are really going to survive.

Vision vs. Execution

S+B: You're effectively saying that today's CEO has to have finely tuned political and cultural antennae.

GARTEN: When I interviewed Michael Bonsignore of Honeywell, it was the eve of the merger with Allied Signal. He said he had to do the merger: "We have to do this because we're simply not big enough to be a major global player. When I saw what happened with DaimlerChrysler, I realized the handwriting is on the wall. We have to be much, much bigger." But he also said, "I'm really concerned, because there are two cultures here. And Honeywell is such a uniform culture. I know the people. They trust me. I don't know what it's going to be like in this new organization. Obviously, I'm going to try to make it work." But it never did. Which is why he had to do the merger with GE.

S+B: Why do CEOs stumble in such situations?

GARTEN: It's the tension between vision and execution. You need an exceptionally bold vision to differentiate yourself. Bonsignore's vision was of a new company with profitability growth of 15 or 20 percent a year. They knew that was really ambitious, but they had to have that target to make the merger work. But they couldn't execute that target. And this is the big Catch-22 that so many companies face.

S+B: Execution is an even bigger challenge when corporate strategies are undergoing continual transformation. I can't think of any environment in which, in the past, a leader had to grapple with such rapid change, with the possible exception of a commander-in-chief fighting a war.

GARTEN: It's a good analogy, in a way, because in the military, if you don't execute well, you die. You don't have a second chance. You need both the strategy and the execution. Look at Armstrong at AT&T. There is very little criticism of the strategy he laid out. He bet the company, and no one's denying he should have. Events went against him, but no one is saying he should have seen it. They're saying he didn't execute well.

S+B: Are these "bet the company" thresholds that a Bonsignore or an Armstrong faced different from those CEOs faced before?

GARTEN: There's still a sense that you bet the company, and if you succeed, you succeed. But actually, the environment is different. You have to continue to bet the company. It's not one bet. A great example is Jorma Ollila of Nokia. Because in the early '90s, he bet it. He took Nokia from being an unwieldy, stodgy conglomerate, to basically focusing on cellular telephones. Years ago, they had everything from food to transportation; it was a Scandinavian version of GE, and they were on the verge of collapse. So Ollila winnowed it down to telecommunications, and particularly to cell phones, and won really big, with 25 percent of the global market.

But now he has to bet it again, because cell phones are a commodity. I asked him the question, what kind of gambles are you going to have to take? And he said, "Cell phones are going to become instruments of the Internet. But there is nobody who actually provides the software. And we don't know whether we should be that company." Right then, he was at the height of his success. One year later, they're scrambling to get into the whole middle ground. Nokia cannot stay where it is now. If all they do is customize cell phones, the hardware, the field is too crowded. Dell is going to move into this area. Sony is going to move in.

So let's say the role of the modern global CEO may be not one bet, but continual bets. And the implication is that a lot of them are going to fall off the high wire, because you can't win all these bets. By the very nature of the phenomenon — a gamble — what you're saying is, "I'm going to take a big chance. I have to take the chance, because I can't succeed where I am." But unless somebody is incredibly lucky, the law of averages is going to result in a situation where we're going to see that these people are much more vulnerable.

Swinging Markets

S+B: You're a former investment banker. Does this uncertainty account for the wild swings in the markets?

GARTEN: I think the capital markets are not quite sure what to focus on. In that sense, you could say they're operating rationally: They're moving from company to company, or from business model to business model, because they're not sure. And they're not sure because of all of the underlying changes that will make a company succeed or fail. In my book research, one of the things I found most interesting is what Intel's Andy Grove told me: That in some ways, technological change is too fast. It's a wonderful thing if you're a technologist, but from the standpoint of society, no sooner is something developed than it's already obsolete. And Grove was saying that this eventually has to come out in the capital markets, and they won't know what to finance.

S+B: In theory, capital seeks equilibrium.

GARTEN: But there is no equilibrium, as George Soros keeps saying. Technology is very uncertain. You don't know how to assess a company's people, because they're not stationary. And there's tremendous nervousness about the business model itself. For all the hype about the New Economy, there are more people who are just wondering, well, how "new" is this going to be?

I love the quote from Goldman's CEO, Hank Paulson, in the book, in which he says the Internet is like the telephone. It's the basic plumbing.

S+B: Andy Grove also told you that he considered it a step-change function, not a revolution. But I go back and forth on that.

GARTEN: Everybody does. This is another reason why the capital markets are having such a hard time, why they're so fickle.

Welch's Juice

S+B: Out of this mass of uncertainty, do you see a transcendent management theory emerging — something around which CEOs will coalesce, as many did around reengineering?

GARTEN: Modern, global CEOs face such enormous complexity that they need at least one or two transcendent theories. But I think that anyone who is wedded to one principle at the exclusion of at least some others is in dangerous territory, because there can be no one transcendent theory that actually deals with the whole range of the problems. And remember, what made GE's Jack Welch great is that he didn't embark on one and then leave it for another. All of his theories remain very prominent objectives.

For example, one of his first theories was to get out of businesses in which you're not first or second on a global basis. That is still his theory. In fact, he told me they continue to refine it, by questioning how they define an industry. He adopted Six Sigma. It wasn't his idea; he stole it from Motorola. Six Sigma is still part of GE's religion. And he's made a mantra out of getting every mind in the game. I don't know what the name of that theory is, but let's call it a theory of maximizing knowledge. He was on top of the knowledge economy before we were using the term. It is a continuous obsession with him. And now he's into the Internet, which he sees as a tool for getting much closer to customers and managing suppliers.

So over 20 years, Welch has only had three or four major theories. And each one remains today a high priority. There was nothing faddish. There was nothing temporary.

S+B: Of course, one of his other theories, on which you quote him, is the need to "blow up the company." That's exactly what Procter & Gamble CEO Durk Jager tried to do, and he blew himself up instead. Is Welchism relevant to the Procters and Coca-Colas?

GARTEN: It comes back to what we were talking about before: The more frequently people bet the company, the more big-time failure there's going to be. Rebecca Mark, who was then at Enron, said something to me that really sticks in my head. She said the CEO of the future is going to have to have a venture-capital mentality. That is, you're going to have to try a lot of things, and know how to cut them off at a very early stage. You can't be wedded to any idea, because something that worked in one circumstance may not work in another.

S+B: Mark ran Enron's Azurix water spin-off, from which she was ousted.

GARTEN: Rick Thoman of Xerox was another who had to resign. I cannot imagine a CEO who arrived with better training. He'd been part of all the big business stories of the last 10 years. The rise and fall of American Express. The reemergence of IBM. He was at the right hand of Lou Gerstner. He had all that background at McKinsey, and a huge amount of international experience. He tried to blow up the company. Maybe he should have seen earlier that the sales force was not going to react. That's another instinct a CEO needs to have today, which Welch undoubtedly has — to sense imminent failure early enough to keep the company from blowing up inadvertently.

S+B: The Xerox case highlights the serious conflicts that can exist between a company's desire for stability and the need for change. In your book, you discuss this in the context of shareholder culture and stakeholder culture. Is that tension irreconcilable?

GARTEN: No. The issue is, how do you attain shareholder value? And I'm saying that if you focus too narrowly on shareholders themselves, you don't create the value. In the short term, you may pump up the share price, but it won't last very long. So the notion of encompassing stakeholders is not out of some great social obligation. If you want to maximize the talent, a lot more of the economic surplus of a company is going to have to go to employees, as opposed to shareholders, or you're not going to keep them.

Likewise with the customers. Unless you're Dell-like in your focus on intimacy with customers, you're not going to get the shareholder value. And I'll go one step further: Most talented employees today want their company to be progressive. So when William Ford or John Browne talks about the social obligations of the company, part of that may be emotion, but they didn't hesitate to tell me that this is a question of getting the right people and making them feel this is the place they want to be.

S+B: There's another theory prominent in business today — the allianced enterprise. In fact, in some circles, Cisco's John Chambers is the new Jack Welch, running an extended enterprise that seamlessly links an entire supply chain in service to customers. You're a bit skeptical about that.

GARTEN: From a CEO perspective, how do you think about the basic growth strategies? One of those strategies, obviously, is through mergers, and that is fraught with difficulties. The second is alliances. And some CEOs seem to think that's the easier way to go, because you're not mortgaging your culture; you're just linking up with other companies. I'm not saying it isn't a legitimate strategy. I'm just saying this is no panacea. Because, first of all, it's quite new. And secondly, it has yet to be tested by really difficult economic times.

As the alliance strategy matures, we will see more things like Ford and Firestone. Here you had the ultimate strategic alliance, a century old, yet the minute a big problem hit, they were at each other's throats. If you had a problem like that within a merged entity, you would at least be able to deal with it immediately. So a company that is basing its whole strategy simply on alliances — they're just as difficult as mergers.

S+B: You leave very little doubt in the book that you think the winners are going to be the adaptive, large, existing companies. Do you think any of the Internet startups will ultimately be successful?

GARTEN: I think it is unlikely that we will see, five years from now, any big, global company that you would call an Internet company. If you look at the big ones, I don't believe that Amazon is going to survive in its current form. I don't think Priceline will. I don't think Yahoo will. I don't think eBay will.

S+B: Incumbents win?

GARTEN: The big, traditional companies do not yet have the Internet in their DNA. I think they will eventually, and it will be the battle among them. The ones that have the DNA will win out.

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