

Shell, Siemens and DaimlerChrysler: Leading Change in Companies with Strong Values

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This article examines the question of change and the role of leaders in this process. In search of a formula which allows organisations to adapt without drowning in chaos the authors studied Shell, Siemens and DaimlerChrysler for three and a half years in the 1980s and 1990s. They discovered that the negative aspects of change can be avoided if leaders take a company's core values into account and engage employees when they guide their organisation through times of change. Such a leadership approach requires good actions by followers and the team and therefore a large talent pool. Shell and Siemens were able to fare better than DaimlerChrysler in this respect. They were able to take this approach due to a collective leadership style. A charismatic and overambitious leader, however, presented the greatest danger to the performance and survival of an organisation.

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Introduction

The good news is that leaders are generally aware that they need to help their organisation to adapt to a constantly changing world. The bad news is that particularly in companies with strong values and traditions they struggle to make this insight a reality. In an in-depth study of Shell, Siemens and DaimlerChrysler we explored how companies can live up to the expectation to transform successfully.

Shell, Siemens and DaimlerChrysler originated in the 19th century and survived consolidation, war and recession while other corporations failed. Over the years they built up a reputation for success. Their rich history and the common experience of thousands of employees created a strong corporate culture reflecting their long-held traditions and values. In the 1990s their leaders were faced with the task of adapting to an ever more global world if they did not want to

be left behind. We discovered that leaders in large corporations with strong values – such as Shell, Siemens and DaimlerChrysler – need to be aware of their values and the mental models which drive the behaviour of the organisation. They take a context-sensitive approach towards the implementation of change.¹ Such an understanding of a company implies that traditions are more than an obstacle to change: they can function as control mechanisms to avoid unnecessary and repetitive change.

Leaders in corporations with strong values need to be aware of their values and the models which drive the organisation's behaviour

We discovered that companies which are most likely to take a culturally sensitive approach towards change do not necessarily look for a charismatic hero to save the day but rather understand leadership as a process. This had implications for both leaders and their followers. Hafsi explains that co-operation is the essence of an organisation's existence. In times of change this is an insight easily ignored by managers who tend to stick to oversimplified ideas or tools.² If leadership is understood as a process, this implies that leaders are aware of the power of co-operation and engage their followers in times of change. This can only be successful if followers and the team take up their responsibilities. Once companies accumulate a stock of experience the utilisation of this knowledge by as many managers as possible is beneficial to the company.³ The goals of a corporation are only achievable through the efforts of thousands of motivated and talented people.⁴ Managers need to try proactively to collect existing knowledge and experiences, add their own insights and stimulate further progress. They should not be afraid to voice their honest and sometimes controversial opinion. A structure where leaders belonged to a strong collective body was most likely to create a set-up where senior managers were able engage in such a fruitful way.

In this paper we try to develop a model for change by starting to explore different concepts of change and the role leaders play in this process. One common approach stresses the role of charismatic leadership and forceful change. We will explain why we do not expect this to be a successful model for companies with strong values. An alternative view suggests a culturally sensitive approach. Our model of change will build on this concept and we will explain our methodological approach. Our model will be tested in three case studies analysing change initiatives in Shell, Siemens and DaimlerChrysler in the 1980s and 1990s. Finally, the implications and limitations of the proposals will be discussed.

Charismatic leaders, change and companies with strong values

Leaders have long been seen as the key factor in successful transformation processes.⁵ In our research we intended to focus on an area which has not been explored in great detail yet: the role of leaders when large corporations with strong values need to change. In a dynamic environment this is of great importance for the survival of many prominent institutions. The Great Depression, two world wars, the end of the colonial age and the beginning of the Cold War were but a few of the dramatic changes in the socio-economic conditions companies had to react to in the last century. Adapting to these changing conditions is a challenge: for large corporations, the task is very complex. For large corporations with strong values picking up the signs is even more difficult and to actually start changes seems almost impossible. An analysis of the Fortune 500 list of top companies shows that many large corporations can slowly deteriorate into obscurity. Each year since 1955 Fortune magazine has named the 500 largest US companies according to revenue. Out of a total 1,877 companies listed since then, only 71 out have been part of the 'corporate hall of fame' every single year.

Creating sustainable success in an unstable and dynamic environment is certainly a challenge. Early work on competitive advantage suggests that it is a complex phenomenon that depends

crucially on the active presence of superior leadership.⁶ Despite Porter's shift of strategy research towards the analysis of the company's microeconomic environment and the more recent focus on internal capabilities through the 'resource-based view' Cockburn et al believe that leadership remains at the centre of attention.⁷ Particularly at times of change, leadership has to play a crucial role.⁸ Far more controversial though is the discussion about which type of leadership is required and the role of those in charge of a corporation. In the 1990s a commonly-held view among practitioners and researchers was that a charismatic leader is the most suitable for ensuring outstanding leadership practice and superior performance.⁹ F. J. Flynn and B. M. Staw for example argue that companies with charismatic leaders guarantee higher return on investment and fare better in difficult times.¹⁰ In times of uncertainty and adaptation the charismatic leader has an even more important part to play. Waldman *et al* argue that charisma predicted financial performance under conditions of uncertainty but not under conditions of certainty.¹¹ A charismatic leader is believed to be able to convince employees to support changes in technology, strategies and structure. Some people are even prepared to sacrifice their self-interests in the interests of the organization.¹² In short, organisational culture, strategy and structure, as well as individual motivation, theoretically become aligned with the leader's vision.¹³

In times of uncertainty and adaptation the charismatic leader has an even more important part to play

While we agree that leaders are the ones who have to decide — based on the input from the organisation — when to press the accelerator of change, we think that companies have to be aware of the dangers of a charismatic leader. Rakesh Khurana argues that the focus on the superstar CEO is one of the greatest dangers in recent business history. Faith exaggerates the impact of CEOs. They are often chosen when more promising candidates could take the job and they can destabilise the organisation in dangerous ways.¹⁴ Well-intended strategies and initiatives can be deeply flawed or ill-advised. Corporate control mechanisms are less likely to prevent such strategies from being implemented when they are promoted by a charismatic leader. Followers may accept their ideas too indiscriminately.¹⁵ Recent scandals involving charismatic CEOs suggest that in some cases charismatic leaders may even strive for personal gain over the interest of followers.¹⁶

A strong emphasis on charismatic leadership seems somehow overblown. This is particularly true in large corporations which managed to create sustainable success. Arie de Geus's exploration of corporate survival, Jim Collins' and Jerry Porras' search for the characteristics of companies continuously outperforming their peers and Jim Collins' analysis of companies which transform a merely good into a great firm all note that these firms display strong values and traditions.¹⁷ Such an environment would be expected to be counterproductive, creating pressures to 'keep managers internally focused and comfortable with the status quo long after disquieting signs should have made them edgy'.¹⁸ Leonard-Barton explains that activities such as problem-solving, implementation of new processes, experimentation and importing knowledge from outside are essentially neutral. Today's core capabilities are tomorrow's core rigidities if a company fails to adapt in time. Values do not necessarily affect a company's ability to engage in the necessary transformation. The issue Leonard-Barton sees is widespread failure to distinguish two kinds of values: generic (or big V) and knowledge-base-specific (or little v) values. It is the latter, the behaviour of employees, the way in which the big V is enacted, which needs to change.¹⁹

In fact some of those old companies with strong values turn the apparent handicap into an advantage — they use them as a kind of control mechanism. Core values help them not to become overenthusiastic about change. They help the organisation to avoid what Abrahamson calls repetitive change syndrome.²⁰ He explains that many companies are guided by the 'Creative destruction' motto alone. They justify this by 'Change or perish' and apply the rationale of 'No pain, no change' to overcome innate human resistance to change. As a result these companies

change more aggressively, quickly and repeatedly than any organisation could hope to do successfully. In short: change is necessary but companies should neither change for the sake of change nor should they forget that they have to act with great care when they touch their core identity. Bate, Khan and Pye advocate a culturally sensitive approach to organisation structuring.²¹ While change literature often presents culture as a tool, or variable to be manipulated by management, they build on a more organic, processual and dynamic approach to the questions of culture.²² The understanding of culture as a process which tends largely to resist central control explains why companies with strong values need to take care when they engage in change processes. Leadership needs to be careful not to pursue strategies and initiatives where the rest of the organisation cannot and will not follow. In the next chapter we build on Bate, Khan and Pye's concept when we explain our own model. Our main contribution will be an exploration of the role of leaders in corporations with strong values which need to change.

Leadership needs to be careful not to pursue strategies and initiatives where the rest of the organisation cannot and will not follow

Change model: a culturally sensitive approach

Our research indicates that companies cannot rely on charismatic personalities to lead them through times of change. They are able to increase the probability of changing successfully rather than creating chaos if leadership is seen more as a process, the property of a system rather than a single person.²³ Based on Bate et al's work and the results of our empirical research we developed a model which explains the role of leaders in times of change (Figure 1):

In this context the leader is primarily a coach, someone who helps people to reach their full potential, who encourages them to use their creativity. Leaders have to be aware of the mental models and core values of their company. In companies with strong values they have to act in a culturally sensitive way.

There is evidence that the approach towards leadership has been a different one at different levels of the organisation. At the very top level the organisations have tended to stick to a collective approach. They might even refuse to install a strong CEO who takes long-term decisions when it is



Figure 1. Leading Change in Organisations with Strong Values

possible to have a broader, better balanced solution based on the consensus of a collective body. Concerning communication with the outside world the situation looks different. Following the demands of media and analysts they present their chairmen as CEOs. The CEOs are the ones talking to the press and communicating with investment bankers whereas in reality they do not always have the legal power to make decisions on their own. Therefore the 'top executive' is in the unusual situation of having to present himself as being more powerful than he actually is in order to get things going. The collective approach does not, however, mean that these companies do not value leadership. On the contrary they have placed a strong emphasis on the development of leaders within their organisation. What they have realised is that the approach best suited to them depends on the level and speed of the reaction required. If speedy reactions are necessary a leader needs the power to react immediately without having to consult a committee. Recent transformation processes have justified this by simultaneously giving more bite to the role of the operational leaders. Empowerment and accountability have taken over functional orientation and collective responsibility at this level. This adds to the personal risk of the leaders in charge but equipped with the right tools and training they can live up to the expectations as the improved business results have shown.

At the very top, speed is less of an ingredient for success. Far more important is the substance of the decisions which will affect the organisation for decades to come. At this level companies need to look for individuals who embody the characteristics of a soccer coach.²⁴ The leader can set up the guidelines for his team. He can give them more training, buy a few new players and invest in the development of new talent. He can also change the sort of incentives his players will receive if they perform well but during the game itself he will rely mainly on his team. He will occasionally shout at his team to bring them back in line or send in a few encouraging words. He will substitute one or two players, but that is it. He is not the one who is scoring the goals. The danger a strong CEO faces is that he might fall into the trap of thinking that he could be the one scoring the goals. If he does run on to the pitch things are in danger of going seriously wrong. He loses the overview and direction and possibly becomes biased. Direct action is important — such as the substitution of a player — but has to be selected and limited.²⁵ Certainly the best CEOs do not become involved to that extent. In reality it is much less likely that an individual will act in such a fashion if he or she is part of a group of capable individuals. A powerful group which shares the ambition to make their company a success is the way forward. In a system ruled by committees they do not even have the chance to act in their interest alone! What is more, in a group-based leadership, it is less likely that each new CEO will try to impose his own agenda. The common experience of top management will guarantee continuity. How this particular style of leadership can help companies with strong values successfully to master the art of creative destruction without breaking their organisation apart was tested in three case studies: Shell, Siemens and DaimlerChrysler.

Research method

The research is based on an in-depth, inductive case study of the transformation processes of Shell, Siemens and DaimlerChrysler in the 1980s and 1990s. In a first step, the entire history was scanned to obtain a complete picture of the three organisations and to understand their underlying mental models. In a second step, intensive research focused on the 1980s and 1990s. For this period a vast amount of material is available and responsible executives are still alive. Given the open-ended nature of our question we felt that this was the most appropriate method.²⁶

Publicly-available data included a complete set of historical annual reports, prior studies of the history of the three companies and their industries, and press articles. To gain a better understanding of Shell, the publications of Yergin, Horwarth, de Geus and Tichy were of particular interest.²⁷ Feldenkirchen's work aided greatly in understanding Siemens.²⁸ For DaimlerChrysler it was once again Feldenkirchen as well as Waller and Reuter who provided us with a better understanding of the company.²⁹ Historical change plans, organisation charts, internal memos and material for training exercises helped to document the evolution of the three companies.

In addition to the material which was publicly available or accessible in the company archives, data was gathered through interviews and active project participation.³⁰ The latter was intended to

provide a deeper understanding of the effects of change activities. One of the researchers took the role of a social anthropologist exploring the ‘unknown tribes’ of Shell, Siemens and DaimlerChrysler through active participation in various projects. This approach allows a much deeper understanding of how an organisation functions than mere outside analysis or exploration via surveys as many of the crucial aspects are implicit rather than explicit.³¹

The active participation in the three companies included a number of different projects to gain a broad picture and to develop an understanding of how the three organisations try to influence their evolution. One of the researchers spent several months with a team responsible for Shell’s groupwide employee survey in 1999 (90,000 employees were surveyed) and 2000 (100,000 employees were surveyed) and a team implementing Siemens’ core values across the entire organisation in 2001. In DaimlerChrysler the project best suited to active participation – a survey exploring the impact of change activities on middle management – was unfortunately already completed at the time of research. The research team therefore decided to have intensive dialogues over several weeks instead of participating in a project less suited to the analysis of change activities.

Although the companies made decisions to adjust their business to the shifts in the market, they did so while retaining their basic values

Finally we interviewed 17 active and retired top executives from Shell, Siemens and DaimlerChrysler. Our sample included seven active and retired CEOs and a number of individuals who played an important role during large transformation exercises, e.g. Rüdiger Grube, a member of DaimlerChrysler’s board of directors who was responsible for the integration of Chrysler. The interviews lasted from one hour to two entire days spent with one executive. On average an interview lasted one and a half to two hours. We stopped interviewing and collecting material when a level of saturation was reached.³²

Core values of Shell, Siemens, and DaimlerChrysler

Shell, Siemens and DaimlerChrysler are organisations with strong values and traditions. The roots of the various values promoted today can always be traced back to the formation of the businesses.³³ At the same time the mental models and organisational behaviours resulting from these values and principles differ considerably, as does the emphasis on different values at different times. This underlines Leonard-Barton’s argument that companies which understand the difference between the big V and the small v are able to ensure that core capabilities do not turn into core rigidities.³⁴ A good example of this is customer focus in Siemens. Before the 1989 transformation wave, Siemens’ telecommunications sector was highly bureaucratic. While this does not seem a desirable structure for their customers, it actually was. The telecommunications sector dealt mainly with the state-run telecom monopolies. A mirror image of their style and organisation was in their best interest. Once the market changed and national telecom giants no longer dealt exclusively with companies from their own country, Siemens responded rapidly, changing both its structures and personnel. In other words, the efficient, more rapidly moving organisation that we see today is as much the result of customer focus as was the slow bureaucratic one prior to 1989. While the new approach towards customers simply reflects the new challenges following deregulation of the telecom industry, the point which should be stressed here is that Siemens’ value of customer focus dating back to 1849 was flexible enough to adapt when necessary. The example of Siemens shows that although the companies made decisions to adjust their business to the shifts in the market, they did so while retaining their basic values.

The content of the value statements (Figure 2) and more importantly the analysis of the actual importance of the items stated shows two things:

- (1) There are a number of principles which seem to be important success factors, as all three companies stress them; and

Official Statements of Core Values

Shell	Siemens	DaimlerChrysler
<p>Core Values</p> <ul style="list-style-type: none"> • Honesty • Integrity • Respect for people <p>General Business Principles</p> <ul style="list-style-type: none"> • Responsibilities to shareholders, customers, employees, to those with whom they do business, and to society • Economic Principles • Business Integrity • Political Activities of companies and of employees • Health, Safety and the Environment • The Community • Competition • Communications 	<ul style="list-style-type: none"> • We strengthen our customers - to keep them competitive • We push innovation - to shape the future • We enhance company value - to open up new opportunities • We empower our people - to achieve world-class performance • We embrace corporate responsibility - to advance society 	<ul style="list-style-type: none"> • Customer Focus • Innovation • Teamwork • Performance • Openness • Agility • Quality • Speed • Professionalism • Profitability • Responsibility

Figure 2. Official Statement of Core Values in Shell, Siemens and DaimlerChrysler

(2) Strong traditions dating back to the founding period of the company put an emphasis on one specific principle.

Values in all three companies

Conservative finances: None of the three risks its existence through daring manoeuvres. Considering the crises a number of former US high-profile corporations are going through, this approach seems to gain the upper hand in many influential circles. However, until very recently this was very unfashionable. Resisting pressure from analysts, Shell, Siemens and Daimler built up reserves and grew steadily. Arie de Geus identifies conservatism in financing as a major survival factor too. His work is based on a study exploring the question of which major companies (across all industries) managed to survive longer than Shell, which was reaching its 100th anniversary at the time. He comments about long-standing companies: ‘They understood the meaning of money in an old-fashioned way; they knew the usefulness of spare cash in the kitty. Money in hand allowed them to snap up options when their competitors could not. They did not have to convince third-party financiers of the attractiveness of opportunities they wanted to pursue. Money in the kitty allowed them to govern their growth and evolution.’³⁵

Importance of stakeholders, particularly long-term interest of shareholders: Considering that the shareholder value model and the stakeholder value model are commonly seen as two opposing models this seems to be a rather confusing explanation at first. In fact as European companies Shell, Siemens and DaimlerChrysler would be expected to adopt the stakeholder value model.³⁶ As Calori and Wood explain: ‘Europeans have never fully adopted the simplistic approach of Milton Freeman, who claims that the only social responsibility of business is to make money.’³⁷ US companies on the other hand are generally perceived as being at the forefront of the shareholder value movement. Historically speaking this classification is true for Shell, Siemens and DaimlerChrysler. In the 1990s, however, the influence of US business drove a stronger shareholder value approach. The crucial difference for many US corporations was the acknowledgement that this needs to be a long-term approach. The obsession with quarterly reports took hold of the companies to a limited extent only. The thinking of management therefore may be summarised as follows: ‘We must produce outstanding profits for our shareholders. In order to achieve this we need to be customer-focused, employ the best and gain a positive image in society.’ Being guided

solely by the desire to satisfy shareholders is counterproductive to the creation of long-term competitive advantage and leads to an erosion of a company's market value eventually.⁵¹ This approach has worked well for shareholders: an investment of one euro 50 years ago in each of the three companies would now be worth 2,300 euros. This is eight times better than the DAX.³⁸

Being guided solely by the desire to satisfy shareholders is counterproductive to the creation of long-term competitive advantage

Importance of values and behaviours related to core competencies of companies: This is related to the pride in technological achievements, innovation and quality of both products and decisions. Highly-trained technical engineers have in the past played an even more important role than today. They are targeted in recruitment drives, are more likely to benefit from special financial arrangements and other privileges and (again this has been more evident in the past) enjoy considerable freedom.

Company specific values

Shell emphasises **corporate citizenship**. Having one of the most recognised brands in the world and being active in the oil business naturally puts Shell on the agenda of NonGovernmental Organisations. The legendary PR battle with Greenpeace over Brent Spar, a North Sea installation, is but one scandal that cost the company serious money.³⁹ Today Shell has procedures in place to avoid similar embarrassments.

Siemens' core principle is **customer focus**. Letters from leading figures in the early years of the company indicate that customer focus was already at the top of its list.⁴⁰ This has not changed: in a recent survey, 70 per cent of 1,500 employees state that they believe Siemens is customer-orientated.⁴¹

Daimler's leading principle is obvious to anyone who has seen a Mercedes advertisement: **quality**. Besides the tradition of craftsmanship, the culture in the south of Germany (where the company originated) put unbridled emphasis on quality. This went as far as making it next to impossible to produce engines outside this region up to the 1970s.⁴² In future the company faces the challenge of keeping alive Gottlieb Daimler's motto 'The Best or Nothing' while using the synergies from the Chrysler deal.⁴³

Having explored the basic values of Shell, Siemens and Daimler we will explore which ingredients make their transformation exercises work. How do they apply the soccer coach model in practice?

Ability to change without creating chaos: cultural sensitivity at times of change

Presumably a major part of Shell, Siemens and DaimlerChrysler's success would be to spot the need for change early to stay ahead of the competition. And who other than a strong charismatic leader would be in charge of such a process? Once again the history of the three companies tells a story that does not comply with common wisdom. They ensure continuity in order to avoid chaos through a combination of intensive dialogue throughout the organisation and a specific leadership style which we termed soccer coach leadership. Cor Herkströter, who started Shell's transformation in 1994, described the approach in a few simple words:

*'Managing an organisation is much more coaching an organisation rather than directing an organisation or saying, that is what we want you to do.'*⁴⁴

Contrary to popular belief, the changes undertaken have not been the results of proactive steps to keep ahead of the competition. Conglomerates of the size of Shell, Siemens and Daimler might indeed start a transformation journey because a few bright sparks at the top spot an opportunity. In fact recent history is full of examples of bright sparks spotting great opportunities: Enron,

Worldcom and most recently Ahold. Lasting success, however, is rarely the result of an overnight reinvention of a company. As Loo van Wachem, Shell's leader from 1985 to 1992 and the head of Royal Dutch's supervisory board until 2002, puts it: 'every company is continuously adapting itself, transforming itself. It may occasionally have a somehow higher speed of change than at other times'.⁴⁵ This is a natural process fostered by the people working for a company. When their attitudes and behaviours change, so does the company as a whole.

Huy and Mintzberg argue that we focus too strongly on dramatic change from the top.⁴⁶ Effective organisational change, however, often emerges inadvertently from the ranks or develops in orderly, systematic fashion promoted by specialists, e.g. consultants or staff groups. Van Wachem's statement about the constant need to adapt underlines Huy and Mintzberg's key arguments that successful change is a combination of the three aspects of change. Large and dramatic change exercises cannot be successful if they do not strike a chord in the organisation. Consequently it is a leader's first and foremost duty to listen to his people and the market to understand when he should press the accelerator of change. If he is not careful he is in danger of unleashing one initiative after the other. Frequently this results in chaos where not even the top management is able to explain which initiatives are currently taking place.

Large and dramatic change exercises cannot be successful if they do not strike a chord in the organisation

Shell and Siemens went to great pains to listen to their employees in their large transformations of the 1980s and 1990s. DaimlerChrysler on the other hand has shown less care, particularly in the 1980s. It hoped to avoid intensive, time-consuming exercises and went for the high price straight away. As a result Daimler's change efforts were not in compliance with the mental models and core values of its employees. Both the net profit and return on investment suffered.

Case study of Shell

The story of Shell's recent transformation journey highlights how the engagement of employees ensures that crucial processes, behaviours and values do not get lost. In 1994 the group's return on average capital employed fell below 7 per cent, well behind Exxon. This highlighted the underperformance that had gone on for years. In a session led by an influential US management guru, the committee of managing directors (CMD) agreed that change was necessary but the members were not yet united on vision and strategy. The crucial success factor was the CMD's ability to take a step back. It was aware of the mental models, traditions and core values. As Cor Herkströter put it:

'We didn't question the traditions, we did not question the culture but we said in addition to that should we not be much more outward looking and take into account the views of the environment in which we operate in very general, in very broad terms. And we began to talk to the leadership.'

Instead of unleashing a number of initiatives straight away, it compiled a list of themes to be tackled which was used by the CMD members to engage with a wider community of leading managers in the following months. In fact they acted in a culturally sensitive way by respecting the consensus-seeking tradition. Members of the CMD who were used to finding a solution together had always expected the same from the people who reported to them. Likewise these people would have expected the same from the people reporting to them. New entrants learned quickly that taking a conflict with a co-worker to his or her boss does not earn any points. At this crucial time of change the CMD relied on this proven approach. They engaged, they listened and were prepared to be more vulnerable. Herkströter said: 'Management became much more visible, management became much more part of the organisation, management was prepared to be vulnerable. Saying we

are not the ones who know everything. Yes, we are indeed in charge of this organisation but we are prepared to demonstrate our weaknesses and share them with you. At the same time this is not simply to be open and honest without development but to show that together we have to learn a lot. And I think it was also then that we decided that managing an organisation is much more coaching, rather than directing or saying that is what we want you to do. It is much more coming to the conclusion that this is the right thing for the organisation. At the same time — and that is something I expressed very much — not forgetting that someone has to manage the organisation.’

The final act in this preparation for the transformation wave was a meeting at the end of 1995 where 50 of the top people were asked to write a resignation letter to the ‘old Shell’. At this event, in groups of four, the participants started to map out the company’s transformation journey. Following further engagements a vision, termed the Shell Business Framework, was created.⁴⁷ It hardly comes as a surprise that this framework was aligned with Shell’s core set of values made explicit in the 1970s.

Cor Herkströter, Shell’s leader at the time, emphasised that it was not the top leadership alone who decided on where the journey would go:

‘We did not have a blueprint. We did not say this is what is going to happen. We allowed for input from the organisation. The feeling was that we have to arrive at something that is sufficient, which is proactive, which is highly professional. We looked at the environment around us but it had to be something that is supported by the organisation because we realised that many people would be affected by the fundamental changes that did arise out of this process.’

As a result of this wide engagement, the transformation journey started somewhat unusually. Feeling that structural changes at this point would break the organisation apart, the decision was taken to work on behavioural (or personal) change first. The aim was to make Shell externally and customer-focused, as well as orientated towards diversity, performance, teamwork and profitability. Begun as a training institute in The Netherlands, a team of change agents (LEAP — Leadership and Performance Team), who ran workshops across the globe emerged. By setting up a team of approximately 50 people, reporting directly to the CMD, the clear message was: This is important. While this approach certainly slowed the change process, it ensured that people stayed on board and that fundamental values were taken into consideration. The approach is also a reflection of leadership as a process rather than a one-man show.

Despite early successes the old structures created a challenge. Coming back from the workshops pumped up with enthusiasm, the employees found that the ‘real’ world had not changed and too easily they fell back into old processes and behaviours. Finally it was the plunge in the oil price to below \$10 a barrel in 1998 that put the train back on track. The considerable reserves built up over the decades could have been used to smooth out the bumpy ride, but the CMD acted far-sightedly and allowed a fall in net profit from \$7.9bn in 1997 to \$400m in 1998, thereby creating the pressure necessary to make painful decisions. Leaders continued to coach their people. In fact they helped to create an organisation which allowed those in charge of operations to take responsibility. New divisions were created and regional organisations took charge of the business. Accountability became a much-used term, adding a new perspective to a consensus-driven organisation. The barons of the past, the country chairmen, lost considerable power as they were moved into a more representative position while decisions were being taken on a regional level. This was particularly true of Europe, where continued integration of the EU countries made this a sensible reform. In other parts of the world, particularly in the Exploration and Production Business, the role of the country organisations was still a very important one. This need for preserving the advantage of local organisation became partly clear, when the mood of the organisation was gauged by the first worldwide employee survey in 1999, an exercise putting the emphasis on fundamental beliefs not to be lost. The major adjustments at the top level now seem to have been completed, as is indicated by the departure of LEAP, which has been absorbed into a larger learning organisation. Shell was the most profitable European company in 2002 (as it has

been for most of the 1990s), driving home the point that a cautious culturally-sensitive approach towards change is indeed beneficial.

The downside of such a process, engaging the entire organisation, is the amount of time necessary to do so. Shell took six to seven years. In the context of Shell this made perfect sense, according to Herkströter:

'I think, giving the old culture, given the strong traditions, we felt that it would be dangerous to abruptly change and lose in terms of not getting the support of people, and lose people in the process. If you want to change this culture, which is extremely difficult, you better do it on the basis of strong support in the organisation. The consequence of such an approach is that at the beginning of the process progress is probably slow. But we said once the organisation is on board you will catch up with the time you feel you have lost in inverted commas. Because it is not time lost. It is just time spent to get the people on board.'

Exploring the question of whether there is a possible shortcut, whether a stronger approach by leaders could do the same thing in a shorter time, DaimlerChrysler can teach us a lesson.

Case study of Daimler

Daimler was a successful niche player in the car industry but became anxious in the 1980s that new entries into this market might threaten its existence. In 1984 Edzard Reuter, the soon-to-be CEO, distributed a position paper to fellow board members, stressing the increasing competition in the luxury car sector with BMW creating its 7-series, Fiat swallowing Maserati, Ford taking over Jaguar and Toyota getting Lexus off the ground. His proposed solution: diversification, a recipe highly popular at the time. Convincing his colleagues and the supervisory board that the creation of an integrated technology conglomerate would be the way forward, he led the acquisition of MTU, Dornier, AEG, MBB, Cap Gemini and Fokker. In 1987 his role in this process eventually allowed him to take over as chairman from Werner Breitschwerdt, the former head of R&D, who had limited experience of acquisition. Reuter was a charismatic leader and a gifted speaker.

Employees who had been proud producers of cars suddenly faced criticism for being part of a conglomerate involved in arms

Once at the top, Reuter started implementing structural changes. A holding company was created, consisting of five divisions (cars, utility vehicles, aerospace, electricity and services). The integration of the divisions should have been guaranteed by having the CEOs of the divisions present on the board of Daimler Benz (Daimler Benz changed its name to DaimlerChrysler in 1999 after the merger with Chrysler), which according to German law had collective accountability. In reality, the vision turned out to be less successful than touted. Synergies between divisions were hardly used (e.g. Mercedes Benz, the car business, bought equipment from Siemens rather than Daimler's AEG). This is hardly surprising, considering the strong resistance felt in the rank and file. Employees who had been proud producers of high-quality cars suddenly faced everyday criticism, being part of a conglomerate with considerable interest in the arms industry. This was by no means in compliance with their values! Had they been engaged in the transformation process more intensively this issue would have become clear much earlier. The expensive spending spree could have been stopped before it actually took place. On top of this cultural problem, the divisions themselves had difficulty restructuring as minority shareholders continued to interfere and the different cultures turned out to be less than easy to combine. Internal programmes, similar to Shell's LEAP programme, were begun in order to gain some of the lost ground. The programme run by the car division in fact turned out to be highly successful. Nevertheless, these attempts at turning the company around were not enough.

In 1995 Edzard Reuter was urged to retire. His successor, Jürgen Schrempp, reacted similarly to Shell in 1998. Instead of using financial reserves to keep the engine running, he announced a DM5.7bn loss, the largest in German history. This bold move prepared the organisation and the wider public (particularly the unions) for painful changes. The crucial point, however, is that Schrempp did this in order to realign the organisation with the vision of Gottlieb Daimler to produce top-quality vehicles. By 1997, 12 of the company's 35 units, including AEG, Fokker and Dornier, were sold or spun off and the divisions reintegrated into a single company. This resulted in the company making a profit of DM3.7bn in 1996. Nevertheless Schrempp — like Reuter — was convinced that Daimler was not going to survive as an independent company if it only pursued a niche market. But differently from Reuter, his solution took the company's core values and traditions into account. A broader approach yes, but within the sector.⁴⁸

In 1998 Daimler Benz merged with Chrysler. A post-merger integration team was installed. The strength of the process (tackling 98 themes and 1,232 projects) was the fact that line managers (supported by a centralised strategy team) were running these projects straight away. This ensured the true engagement of the organisation rather than artificial communication processes. Operational leaders were able to take charge of their own destiny at an early stage. Despite these efforts and various other integration programmes, obvious frictions were not avoidable. The enthusiasm around the deal gave way to a more cautious approach, not only at the board level, where the company saw most Chrysler executives leaving. The falling share price and the difficulties faced by Chrysler are still causing problems. Chrysler's finances seem to be improving since Dieter Zetschke, a Daimler executive, took over in Detroit, thanks to increased consumer demand and cost cuts. It is still too early to say if the merger will ever be a success. Judging by recent results, the company has a long way to go. Its future will depend on the ability to use synergies and Schrempp's ability to listen to and engage his people.

Case study of Siemens

Siemens' approach towards change lacks the radicalism of Daimler and is therefore more similar to Shell's culturally-sensitive approach. In the decades following the second world war the German 'Wirtschaftswunder' (booming economy) created an ideal market for Siemens, swallowing every new product from the company active in virtually all fields of electricity generation and electronic technology. This was particularly true for the telecommunications sector, which worked closely with the state-run Deutsche Telekom. As a result of this growing market and the organisation created in the 1960s, a large number of specialists offered detailed solutions. No one, however, seemed to be in charge of the overall process. While a consensus-seeking leadership at the top had the ability to listen to the organisation, the issue was creating an environment where operational leaders were able to take business into their own hands.

The large centre in Munich was part of this issue. According to Dr Franz, in charge of strategy: 'The company fell into the familiar trap of concentrating too many services at the centre. While this made sense considering the competences the head count was simply too high.'⁴⁹ Once the markets started to be liberated, Siemens was under attack from companies focusing on a specific section of the electro and technology business. Starting in IT and semiconductors, the threat soon affected Siemens' core activities, e.g. electrical power generation. The smaller competitors were more flexible and target-driven. Siemens on the other hand had large divisions making efficient co-ordination next to impossible. An additional aspect causing organisational dysfunction was a centralised sales organisation outside the power of those responsible for a specific operating unit.

The leadership at the time picked up the signals from the organisation and the market. Already in the 1980s Siemens had initiated a first change programme focusing on marketing aspects. The intention was to improve the situation caused by the separate sales organisation. While this programme had little effect as long as the old structure did not change it underlines the cautious steps top leaders were prepared to take. They slowly prepared the large conglomerate waiting for an opportunity to increase the speed of change. In 1987 this opportunity turned up. A weakening of the dollar and a weak market for power plants set the ground for the internal merger of all electrical

power, energy and automation-related activities. At the same the semiconductor business moved into a newly-created division.

Nevertheless it soon became apparent that a complete reshuffle of the divisions was necessary. Hermann Franz, in charge of strategy (later to become head of the supervisory board) led these efforts in the first phase when structural changes were implemented. According to Franz, 'the transformation was organised in a snowball-like system.'

On the top level, the executive board developed an overall concept and decided on the main framework. In a next step, the top three people for each division were announced. These people were in charge of developing structure and concept for their division based on the main framework the board had developed and finally announced the third level of the organisation which was the last one to have general managerial responsibility.

Several managers who were in charge of a division prior to the transformation did not find themselves in a prominent position anymore. Some of them were asked to retire early. While this represents a radical step for Siemens, the entire process was still characterised by the deep engagement of leaders at all levels. Franz describes the mood at the time as follows:

'You always have to ensure that the number of those who benefit from the changes exceeds those who see disadvantages. Once the number of those who see disadvantages is larger it will not be possible to implement fundamental changes. If the number of those who benefit is larger you will be able to feel the momentum and motivation.'

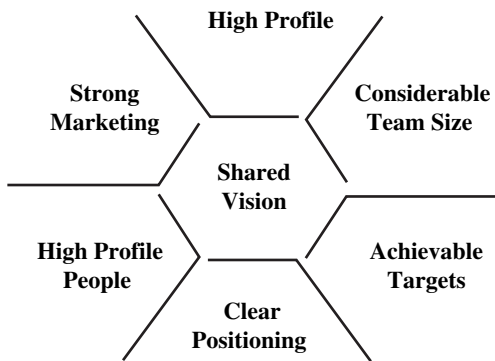
Siemens ensured that the transformation process was not driven from the centre alone. Those who would be in charge of the business had a major stake in the process. In other words, the main target of the transformation, to create entrepreneurs, was taken seriously right from the start. Those

The main target of the transformation, to create entrepreneurs, was taken seriously right from the start

who were meant to act as entrepreneurs were responsible for creating concepts and structures which would allow them to do so. The separate sales organisation therefore ceased to exist.

Overall the transformation efforts showed quick returns. Partly this is related to a booming market and business opportunities in former East Germany. Nevertheless the transformation's target to create entrepreneurs had not quite been reached yet. Old functional thinking died slowly. While the structural set-up made it possible for leaders to take overall responsibility, many of them still lacked the skills to do so. In 1991 Siemens made a profit of DM1.797m, the equivalent of 2.5 per cent of sales. Top management was not satisfied and formed a project team to analyse the reasons. This team blamed a lack of process orientation. To be more precise, the old specialist culture was still playing a significant role. Marketing, R&D, production, sales and services were fairly autonomous. Similarly to LEAP in Shell, a large team of internal consultants was put together in the top (time-optimised processes) movement. Previous programmes with the intention of improving processes had concentrated on specific functions. In the new structural set-up it was possible to look at overall processes for the first time. The 'top' movement focused on a new culture of broad involvement in process improvement, innovation and growth.

It became a great success, increasing productivity growth from 2.7 per cent in 1991 to 9.5 per cent in 1997 (Siemens estimates that 60 per cent of this gain was due to the 'top' movement). To follow up on this success 'top+' was created. The new programme concentrates on managerial aspects such as benchmarking, asset management etc, has strong line management involvement and a stronger management attention of the board. Both these programmes have helped to create the desired entrepreneurs. Having the right structures in place beforehand was vital.



- **Shared Vision:** Drive the organisation in one direction and speak with one voice. Mixed messages cause confusion.
- **High Profile:** Reporting directly to the CEO increases the chance of being taken seriously outside headquarters.

- **Considerable Team Size** (50 is a magic number) is a clear statement that the company is serious about change. Moreover size guarantees a broader impact.
- **Achievable Targets:** Change agents focus on processes and behaviours. If structures are not sorted beforehand people are likely to fall back into old behaviours once they leave.
- **Clear Positioning:** Change agents are consultants. They are not sent from central offices to implement change. Operational units are accountable for change.
- **Strong Marketing:** Marketing is not an option, but a must. Successful changes have to be communicated widely, in order to get new customers (operational units) on board.
- **Getting High-Profile People is another must.** Upon leaving the team – usually after about two years - change agents occupy key positions, implementing their ideas.

Figure 3. What Successful Teams of Change Agents have in Common

Siemens' leadership handled their change process in a similar fashion to Shell. They engaged the organisation, made sure that those who implemented change were responsible for the design as well and took a long-term approach. They understood that a large organisation will change overnight. Franz explains that 'he initially expected to take five years. Some people at the top were rather perplexed and thought that this should probably be over much faster. Once the transformation started they started to understand that this is a process which cannot be directed. The change of behaviours takes time. In the end it was closer to 10 than five years.' This was due to the unwillingness or inability of some divisions to change. Particularly the more traditional ones showed resistance while 'young' divisions, i.e. the one responsible for automation, were much faster to change their thinking.

Conclusion and discussion

On the basis of an in-depth study of Shell, Siemens and DaimlerChrysler in the 1980s and 1990s we developed a model which helps companies to change without drowning in chaos (see Figure 3):

1. Collective bodies are more likely to guarantee long-term success for large corporations. They will guarantee that a broader view is taken into consideration while a charismatic leader is more likely to develop his own agenda not necessarily in harmony with the company.

2. While leaders took their responsibility to listen and engage seriously their followers and team contributed by speaking out and delivering good action.
3. Old companies often developed strong traditions and values. Leadership has to develop an approach which allows them to stimulate creative destructions and at the same time act in a culturally sensitive way if they do not want to leave the organisation behind. Shell and Siemens' leaders have done this by engaging in intensive dialogue with their employees. The models of change which they applied reflected both these engagements and their core values.
4. Initiating company-wide restructuring exercises proactively was not a factor which seemed to determine success. The market sent the necessary messages. On a divisional and operation level a more proactive approach is probably asked for. This argument would need further research across a wider sample of companies to initiate a discussion.

We concentrated on large transformation processes in very large corporations that had strong core values in the 1980s and 1990s. More recent developments were not considered. Recent controversies about proven oil reserves in Shell were therefore not part of this study.

Implications for researchers

For the researcher potential areas of further studies can be suggested.

- (1) Our empirical work concentrated on three companies. The work of Arie de Geus, Jim Collins and Jerry Porras indicates that the fact that the companies have strong values does not only call for a special approach towards change. In fact they argue that strong values and a sense of continuity in itself is a success factor. Our research fits this model. As this is a controversial argument further research would be necessary. Three case studies cannot form the basis for a general theory of leadership.
- (2) A second area for further research is related to our suggestion that collective responsibility at the top of a large organisation limits the risk that a single individual overrules sensible suggestions made by his colleagues. Jim Collins explored good US companies which managed to turn themselves into great companies. He noticed that those companies who managed to achieve enduring greatness shared a similar type of leadership which he termed 'Level 5 Leadership'. Level 5 leaders combine personal humility with professional will. They demonstrate compelling modesty, act quietly and calmly, channel their ambition into the company and not the self, and look in the mirror and not out of the window to apportion the responsibility for poor results. At the same time they create superb results, demonstrate an unwavering resolve to do whatever must be done to produce the best long-term results, set the standard of building an enduring great company and look out of the window, not in the mirror, to apportion credit for the success of the company. None of these leaders was part of a collective body. Still they acted as strong team players. To what extent a formalisation of a collective approach is necessary therefore needs further clarification.

Implications for managers

Our research allows a number of suggestions for managers.

- (1) We stressed the limits of charisma and explained that leadership is primarily a process which involves a large group of people. For top executives this means that they need to spend time with their people rather than consultants. The right recipe for change is always company- and context-specific.⁵⁰ Cor Herströter stressed: 'What we specifically tried to avoid, was to get a standard solution what was invoked at a certain moment with management consultants.'
- (2) This leads to another interesting observation. Every single leader of Shell, Siemens and DaimlerChrysler was an insider. Each of them grew up in the organisation. Most of them spent

almost their entire career in the company. The one notable exception who joined only at board level was Edzard Reuter. He was also the one who implemented large changes in the period we researched. His actions do not reflect a deep understanding of cultural sensitivities.

- (3) Promoting an insider to the top position, however, requires a long and intensive grooming process. This will only work if the company has a large talent pool. Such a talent pool is also a condition to acting in a collective way where leaders can rely on the contribution of their senior managers who in turn rely on their followers.

Our model for change is guided by the hope of avoiding negative effects during large change exercises. The intensive longitudinal study ensures that solid data support our findings. We urge managers to act in a culturally sensitive way, listen to their people and bring the paradox of continuity in times of change to life.

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