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A HOLISTIC FRAMEWORK FOR TRANSITIONAL MANAGEMENT

by

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B.S. The George Washington University, 2005

M.S. The George Washington University, 2010

A dissertation submitted in partial fulfillment of the requirements
for the degree of Doctor of Philosophy
in the Department of Industrial Engineering and Management Systems
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Major Professor: Luis Rabelo

ABSTRACT

For all business organizations, there comes a time when a change must take place within their eco-system. It consumes a great deal of thought and planning to ensure that the right decision is made as it could alter the entire course of their business for a number of years to come. This change may appear in the form of a brilliant CEO reaching the age of retirement, or an unsuccessful Managing Director being asked to leave before fulfilling the term of her contract. Regardless of the cause, a transition must occur in which a suitable successor is chosen and put into place while minimizing costs, satisfying stakeholders, ensuring that the successor has been adequately prepared for their new position, and minimizing work place gossip, among other things. It is also important to understand how the nature of the business, as well as its financial standing, effects such a transition.

Engineering and management principles come together in this study to ensure that organizations going through such a change are on the right course. As the problem of transitional management is not one of concrete values and contains many ambiguous concepts, one way to tackle the problem is by utilizing various industrial engineering methodologies that allow these companies to systematically begin preparing for such a change. By default, organizational strategy has to change, technology is continually being renewed and it becomes very hard for the same leader to constantly implement new and innovative developments.

Organizations today have a very poor understanding of where they currently stand and as a result the cause for a company's lack of profitability is often overlooked with time and money being wasted in an attempt to fix something that is not broken. To be able to look at the bigger

picture of an organization and from there begin to close in on the main problems causing a negative impact, the Matrix of Change is used and takes in many factors to layout an accurate representation of the direction in which an organization should be headed and how it can continue to grow and remain successful. The Theory of Constraints on the other hand is used here as a step-by-step guide allowing companies to be better organized during times of change. And System Dynamics modeling is where these companies can begin to simulate and solve the dilemma of transitional management using causal loop diagrams and stock and flow diagrams.

Through such tools a framework can begin to be developed, one that is valued by corporations and continually reviewed. Several case studies, simulation modeling, and a panel of experts were used in order to demonstrate and validate this framework.

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CHAPTER 1

In this first chapter we begin our research by identifying a problem that has been disrupting business practices for a long time yet no absolute solution has ever been conclusively presented. We will start by defining the problem, laying out our research objectives, identifying potential contributions, and presenting a synopsis of our work.

1.1 Introduction

All businesses strive for sustainability; they yearn to move on from one generation to the next, continually being successful and staying at the top. It is an understood objective for corporations to want to live forever, but very few actually fulfill this objective. Today, the average lifespan of a company listed in the S&P 500 index of leading US companies is 15 years (Gittleson, 2012).

Sustainability is dependent on a number of factors; organizations must know how to continually evolve and adapt themselves to meet the needs and requirements of new generations and a changing customer base. Technology is also continually changing, and organizations must be prepared to implement and utilize these new technologies whenever necessary. A company like Kodak whose business was dependent on the production of camera film has filed for bankruptcy due to the overwhelming boom of digital photography (Spector, Mattioli, & Brickley, 2012). Telephone landlines are becoming obsolete with the rapid expansion of cellular

phones and the development of Voice-Over IP technology. Even standard walk-in retail stores are quickly losing business because of the wide selection of online retailers.

But it takes more than just adapting to make a business last forever; organizations must have an excellent strategy in line putting them on the right path and ensuring their success. These strategies are developed by the organizations' leaders; and they are only as good as what the leader can envision for the business.

It is the company's leader that carries the burden of making the toughest decisions. He or she is considered the face of their company and their impact on the business is unparalleled.

Leadership is an entity of extreme value, yet lacks any true state of being. Throughout the years, many experts, all across the world and at different universities, have attempted to build on a solid explanation of what true leadership is. Merriam-Webster Dictionary defines leadership as follows:

- 1: the office or position of a Leader
- 2: capacity to lead
- 3: the act or an instance of leading
- 4: Leaders<the party *leadership*>

("Leadership," 2010)

As accurate as that definition may seem, it really does not tell us much. How does a leader efficiently guide their business towards the path of success?

There are some leaders that are considered to have single handedly put their company out of business, and others which are praised because they implemented a vision that saw their organization rise to the top. Some companies are purely identified by their leaders, both the ones

still running them and the ones who have left them; when one thinks of Virgin Enterprise they think of Sir Richard Branson, Apple – Steve Jobs, News Corporation – Rupert Murdoch, Microsoft – Bill Gates, Oracle – Larry Ellison. The names of these leaders are so identifiable because the companies they run have become household names.

People line up by the thousands outside of Apple stores because Steve Jobs had a vision for such innovative products that fit so well into people's lives, and regardless of the fact that he was known to have ruled Apple with an iron fist, (Martin 2012), he is still considered by many to be the greatest CEO's of the last 20 years, if not the greatest CEO of all time (Groth & Bhasin, 2011).

The old cliché states that, not every manager is a leader, but the more important part of that sentiment is that to be a *good* manager, one *has to* be a good leader. *Good* managers do more than just manage, they have to lead by inspiration, they have to lead by example, and they have to lead through the best times for their companies as well as the absolute worst times for their companies. This is just a small list of traits that describes good managers, and it would take an entire dissertation to continue listing the remaining traits.

Managers have so much to do; they carry a burden that is distributed to their subordinates, but ultimately they are the ones that are held accountable for their decisions. This is why organizations do their very best to hold on to good managers, for example great CEO's at the biggest companies in the world are given incredible salaries and excellent benefits, including stock options, to insure that they will stay with their company and not transition to a competitor with a better package. It is very hard to find a good replacement for a great executive.

Time and time again, companies have struggled to develop a good transition plan for their most important positions. A great example of that is the departure of Mark Hurd in 2010, former CEO of Hewlett-Packard, who, after five years of successful management, was forced to resign when allegations that he was having an affair with a marketing consultant began to surface (Goldman, 2011).

HP went through a number of transitions and various trials and errors before they could find a formula that works for them. Their recent history represents a perfect case study for the struggles faced by companies when attempting to manage executive transitions.

Many are under the false impression that because one CEO left a company at the top of the market and ahead of the competition, then the successor's job by default will be much easier. This is simply not true. As a matter of fact it may be harder. This newcomer will be under great scrutiny by the stakeholders, and they may not welcome riskier decisions and strategic change. Whereas when a company is not doing well, drastic change is usually the call for action.

This has been clearly demonstrated when Jack Welch, former CEO of General Electric, stepped down after 20 years in the position. Under his leadership, GE's worth increased by \$400 Billion and, at that time, it became the most valuable corporation in the world (Storrs, 2006).

One would've thought that his successor, Jeff Immelt, would hardly need to lift a finger as the entire foundation had already been laid out for him. But things did not quite pan out this way. When Immelt took over, GE's stock was at \$40 a share, 10 years later that figure dropped by 50% and the company had long lost its title as being the most valuable company in the world (Colvin, 2011).

There is not one factor that determines whether a CEO will have a successful transition or not. It is often a combination of internal as well as external circumstances that dictate the course of action. At times, it could be an entirely unforeseen event that ends up giving shape to one's career. In Jeff Immelt's case, this is how his career began.

Immelt was appointed CEO on September 7th 2001, just four days before the terrorist attack on the Pentagon and the World Trade Center. These events saw two of GE's own employees killed, cost their insurance business \$600 Million in one day, and had a direct effect on their Aircraft Engines sector (Stern, 2011).

Companies around the world have gone through numerous attempts, and various trials and errors working to find the best pattern of transition. Some companies simply follow their organization's hierarchal structure hoping direct subordinates of the previous manager will be knowledgeable enough to take over. Many other companies may have a risk management strategy in place that covers the sudden departure of their top executives and may use a temporary acting manager until they hire somebody new for the job.

No one company has been able to find a tried and true universal method for transitional management or succession planning. The same company can experience multiple results at different times, as was the case for Hewlett-Packard. Regardless of the method used, the primary goals of any successful transition are as follow:

- Minimize time, costs, and resources.
- Handling Managerial difficulties such as:
 - Learning curves / Allowing the new executive to become acquainted with the position

- Leadership strategies
- Minimizing workplace gossip and rumors
- Gaining shareholder trust
- Gaining subordinate confidence
- Maintaining partner relations
 - Customers
 - Suppliers
 - Sub-Contractors
 - Licensees
 - Regulators
- Continuing success

1.2 Problem Definition

It's important to understand why some companies succeed after a change in their executive management and why some fail? This is a problem that has been addressed a number of times and looked at from many different perspectives but a clear solution has yet to be identified. A critical issue which arises when researchers attempt to tackle this problem of succession planning is that; it is not such a concrete dilemma, the factors are, at times, very ambiguous, and attempting to grasp all issues which embody this problem may lead to conflicts or, on the opposite end of the spectrum, may lead to favoritism when giving attention to one

aspect of the problem in comparison to the other. No scientific method has been developed to tackle this problem and as a result organizations continue to have mixed results when using practices that have been suggested to them by experts and consultants working in the field.

1.3 Research Objectives

The objective of this dissertation is to develop a framework for transitional management. This framework will come in two parts; the first will be to develop a model of the problem in a way that aids in visualizing the issues faced by the organizations and understanding what factors will be affected when they make certain changes. The second part will be to build a rank system using the factors which have been identified through the developed model. This rank system would lead to a mathematical formula / methodology with which one can take the necessary action to move forward.

This study should serve as a guide to help executives and board members identify what steps should be taken in order to ensure companies are better prepared for a change in their organizational structure such as the departure of a CEO.

It will benefit organizations by giving them a plan and a course of action, leaving very little room for surprises and unexpected turns. Organizations should be better able to predict the outcomes of managerial decisions and as a result maintain financial stability in what can be considered a time of uncertainty.

This dissertation should offer contributions in both the fields of business and engineering as it looks at an age old managerial problem and attempts to tackle it using a scientific method. It specifically offers contributions in the field of change management developing new problem solving techniques through the development of this particular methodology.

1.4 Contributions

From an educational perspective, this research will potentially offers a number of contributions to the science of leadership which have not been prominent in previous studies, these include:

1. The First framework for Transitional Leadership without precedence: This is the first framework developed to help transitions from CEOs to Team Managers. It can be applied at multiple levels in an organization as well as in many different fields and industries. It helps to organize and understand the processes and then derives the leader's behaviors required to accomplish this. From the behaviors, a clearer understanding of leadership styles begins to develop and as a result a conclusive determination can be made.
2. Integration of Industrial Engineering tools: Tools such as the Theory of Constraints are used to understand the restrictions and some of the potential bottlenecks or issues which put constraints on the current system. This is the first time that this has been devised in order to understand the current systems and then map them to the desired environment

that will define the company. For example, during the time of Jack Welch it was clear that the management style revolved more around a growing company portfolio (some sort of optimization) as a product of buying and divestures. However, GE (and even Jack Welch) understood that future growth had to be more from an organic viewpoint, such as a focus on quality and sector improvement.

3. Integration of the Matrix of Change: The Matrix of Change provides one with Mapping Tools in order to study the behaviors of a leader who complies with the vision of the future. This is very important and the literature is clear that this has been tried in order to build studies using more quadrants style of framework rather than using more detailed tools of a more quantitative nature.

1.5 Dissertation Synopsis

The dissertation will begin with a literature review, identifying the efforts that have already been put into this subject and what other experts have found to be possible solutions to the problem of transitional management. Upon further examination of the literature, certain gaps will begin to become evident and these will be outlined in further details. After the literature gaps are identified, the model and methodology will be developed and explained, showcasing how they are best applied to the problem presented. And finally, the conclusion will bring all of this information together and provide CEOs of various organizations with a better understanding of how to handle managerial transitions.

CHAPTER 2

Chapter 2 will primarily address the past efforts which have already been put forth in this area of study and the gaps that still remain. It is through those Gaps that we will present our own contributions and develop a holistic framework for transitional management that will prove to be a first of its kind.

2.1 Literature Review

Our literature review of modeling and empirical studies have identified that the contributions are spread out across several areas dealing with transitional leadership. Three of those areas appeared to be of great importance in the eyes of the authors and would potentially play a significant role in the outcome of leadership transitions. These areas focused on:

1. The involvement of the current leader and how his/her actions and decisions could impact the succession process.
2. The upcoming leader and how he/she was dealt with in preparation for their new role.
3. Items relating to the business itself such as its financial standing, corporate structure (Whether it was public, private, or family owned), and the nature of its board of directors.

These three areas do see certain overlaps at times; one theme that brings them all together is how they are taken into consideration in the development of a succession plan (or lack

thereof). Nevertheless, separating them in our study allows for a better understanding and visualization of this problem which can bring us closer to the development of a model.

2.1.1 Impact of the Current Leader

In his book *Good to Great* (Collins, 2001), Jim Collins discussed how some companies were able to make a transition from being already successful companies, or good companies as he called them, and turning themselves into great companies. In his study, Collins looked at the companies' stock returns for the past 15 years, compared them with other similar companies in the same field (which he called the comparison companies), and studied their result patterns.

His findings turned up a number of items, such as similar patterns of behavior for those who led the good to great companies and for the employees who reported to them. One of the most key findings was the type of leadership needed to turn these companies from good to great. The findings were ironic because Collins had specifically asked his researchers to avoid looking at the effects of the organization's leader on the company's performance as he wanted to avoid the cliché backlash of all the credit (or blame) going to them, but the research results were too drastic to ignore and the impact of the company's leadership needed to be addressed.

Collins stated that the good to great companies were run by Level 5 Leadership. This represents the highest level that can be obtained in a hierarchy of executive capabilities and is shown in the chart listed below.

Level 5 Hierarchy



Figure 1. Level 5 Hierarchy. Adapted from *Good to Great*

Collins believed that Level 5 leaders shared a number of distinct features that differentiated them from celebrity executives employed by other companies used for comparison and were not listed in the good to great database. The features included things like their level of

modesty, their strong professional will allowing them to do whatever needed to be done to make the company great, and finally their ability to set up their successors for success.

In his findings, Collins discussed the unexpected discovery that many of the executives running the comparison companies, which could not make the leap from good to great, were unable to put the company before themselves or their egos. The strongest indicator of this was their lack of ability to set up their successors for success. On the contrary, some of them actually set them up for failure.

The CEOs in the comparison companies seemed to be more concerned with their own reputation for personal greatness than setting the company up for future success. Many had the “biggest dog” syndrome in which they didn’t mind having other successful leaders working with them or after them as long as they remained the most successful and most powerful. In their minds there was no better testament to their own personal greatness than that the place falls apart after they leave.

The example used to showcase the attributes of the comparison company’s CEO is that of Rubbermaid, a company that rose to the top of Fortune’s annual list of America’s Most Admired Companies and shortly after saw its demise which led to an acquisition by Newell. The man responsible for seeing the company rise to the top was Stanley Gault, a self proclaimed “sincere tyrant” who saw the company generate forty consecutive quarters of earnings growth under his leadership. In articles and interviews, Gault appeared to be a proud man who continuously praised himself for the company’s success. But the problem was, as Collins stated, Gault did not leave behind a company that would be great without *him*.

Rubbermaid continuously saw managerial problems with the executives that followed. Gault's chosen successor only made it one year with the company before he was replaced; the one after him was not getting any support from the management team and had to take on numerous responsibilities until he was able to identify someone to report directly to him. There were problems with the management and with the strategies implemented previously, and this all led to Gault's successors eventually begging to be saved by another company's take over.

Collins believed that Level 5 leaders want to see the company even more successful in the next generation and they are the type of people who would be ok with the idea that the future success of the company may not necessarily be traced back to them. One Level 5 leader who was studied by Collins' team stated, "I want to look out from my porch at one of the great companies in the world someday and be able to say, 'I used to work there.' "

Setting up successors for success is a vital notion and is just one part of what some experts believe is the single most important factor in transitional management; the development of a succession plan.

Planning ahead is extremely critical, and the earlier one starts planning for the transition, the better they will be prepared to tackle any sort of unexpected disturbances. All of the people that will be involved in the transition should be fully aware of and in tune with the plan being put in place.

There is a lot to be considered when preparing for a corporate transition. Time, costs, and resources are all on the line when changes are implemented and a decision is made to replace the CEO. Especially when the new CEO has such high aspirations and drastic plans, quick and risky changes are put into place. If the decisions are not well thought out, it can turn out to be a

very expensive mistake for the company, and the expenses to rectify the errors may further hinder their future progress. It is no surprise that 55% of CEO's over age 60 who expect to retire within the next 5 years have not chosen a successor (De Pontent, Wrosch, & Gagne, 2007).

CEO's may be very hesitant to let go of their roles and to pave the way for a new comer, and there are many reasons why such a phenomena can occur. There could be a lack of trust in the potential successor, or when the current leader moves into another position such as that of an honorary chairman or a member of the board, they begin to unknowingly interfere with their successor's actions and decisions. So even though they may remove themselves from the position of CEO, they may still continue to question the successor about every decision made, and continue making decisions themselves without discussing it with the new CEO. This can also occur when the current leader transfers their position but not their shares within the organization, causing them continuous worries and concerns regarding the direction which the company is headed under the successor's guidance (De Pontent, Wrosch, & Gagne, 2007).

What happens when executives are not removed from the company and instead are moved into a position such as chair of the board? How does that affect the dynamics of the transition? This is what Timothy J. Quigley and Donald C. Hambrick attempted to examine and explain their article; When the former CEO stays on as a board chair: Effects on successor discretion, strategic change, and performance (Quigley & Hambrick, 2012). The problem they found when CEO's become chairmen at their organizations is that their successors are not given the same freedom of implementing new or different strategies as they would be if their predecessors had completely retired from the business.

Quigley and Hambrick found that at least 39% of CEO's remained at their company as board chair for at least one year after a new CEO was introduced, and 26% remained for at least three years.

Organizations struggle to adapt to change and CEO's who have been involved with a business for a long time will firmly believe that their methods were what allowed the organization to be where it is today. As a result they will be hesitant in allowing new comers the flexibility of changing their methods, they will justify their actions by saying what they are doing is in the best interest of the company.

The authors found that retaining the former CEO as a chair was dependent on the degree of which the board believed corporate change was necessary. If the board welcomes the predecessor's continued influence she will stay on as chairperson. Naturally, if the board believes a dramatic change is needed or if they wish to move away from a past CEO's culture, they will welcome her complete departure from the organization.

They also discovered that the highest performing CEO's were only 10% more likely to be retained as chairs than the lowest performing CEO's. Unexpectedly, the authors also bring attention to a number of CEO's who retired under very favorable conditions and at a time where their organization flourished, yet they were still not asked to stay as chairs. These included; Louis Gerstner of IBM, Harvey Golub of American Express, and even former General Electric CEO Jack Welsh.

Amidst their studies, Quigley and Hambrick found that leadership turnover increases the likelihood of change, and this occurs due to two interrelated reasons. The first, as was mentioned earlier, is that CEO's who have been in their positions for significant amounts of time

face a great difficulty attempting to reverse their previous decisions. They are under the notion that the current system is what made them and the organization so successful, and changing this formula would make it seem as if they were second guessing themselves and unsure of previous actions.

The second and more important reason is that new CEO's are watched very closely and under immense pressure to prove themselves to stakeholders. They find that the best way to go about this is to implement new strategies and different techniques and push a change into the organization's culture, regardless if the board has asked that they do not want to see much change, it is unlikely that the new CEO will continue on the same path as their predecessors.

Quigly and Hambrick (2012) mention that former American Express CEO, Harvery Golub, was once interviewed by Anthony Bianco of *Business Week* and stated that;

“The dynamic of having the old CEO hang around in order to be helpful to the new CEO... can create two problems. The successor may not want to make changes because he doesn't want to hurt the feelings of his predecessor and the person who is being succeeded may feel resentment if something is changed.” Confirming the notion that some CEO's will even avoid speaking about implementing a desired change out of worry that it will automatically be rejected by the retained CEO sitting as Chair.

The authors conducted a study to better understand the positive and negative associations between retention of CEO's as Chairs and post succession performance change. They drew a sample from the Execucomp database, looking at all CEO successions between 1994 and 2006 in the computer hardware industry, software industry, and the electronics industry. They also constrained their sample by only examining companies that have been public for at least three

years, were generating revenue of over \$100 million at succession, and they excluded interim CEO's, and CEO's who served for less than 12 months. This left them with 181 successions.

Quigly and Hambrick (2012) reviewed press releases and annual reports to verify the information and the exact dates for each of the following for every predecessor: becoming CEO, departing as CEO, and departing the chair position. They also used the same sources for each successor.

Through this study they were able to derive a number of results. The authors found that under conditions of poor performance, predecessor departure was much more prevalent (37 vs 15 cases), under conditions of strong performance, departure and retention was about equally common (26 vs 28). Validating the fact that CEO retention was somewhat dependent on performance.

More importantly, they found that predecessor retention as chair was significantly negatively related to issues such as resources relocation, divestitures, and TMT departures, confirming that predecessor retention would be negatively related to strategic change. The results also showed that as long as the predecessor is chair, the company performance tended to remain in line with pre-succession performance, but upon his or her departure, there were noticeable changes in accounting performance, either large gains or large drops.

Finally, the results of their study indicated that predecessor retention held back strategic change which led to diminished performance change. The opposite held true as well, the ultimate departure of the predecessor led to more strategic change resulting into more changes in performance.

Quigley and Hambrick (2012) concluded that; whether a predecessor retained as chair was merely in that position symbolically or for actual day to day function, it did not matter, the successor's discretion and influence were significantly limited.

Looking at how the current executive sets up the organization for his successor is vital for understanding the transition process. One of the most perplexing cases regarding transitional management is the story of Jeff Immelt who became the CEO of General Electric when Jack Welch stepped down after 20 years.

In the article *General Electric: Life after Jack* (Grant, 2004) a study is presented trying to understand exactly why Immelt could not replicate the same success that Jack Welch had, as Jeff Immelt inherited one of the most successful companies in the world.

GE had remained a member of the Dow Jones industrial index since the creation of the index itself. Upon Jack Welch's departure, *Fortune* magazine named GE as America's most admired company for the fifth straight year and the *Financial Times* had identified it as the world's most respected company for the fourth straight year.

General Electric was one of the world's most diverse companies with branches involved in media broadcast such as NBC, medical systems, appliances, and aircraft engines, just to name a few. And when Jack Welch's career took grasp of all those divisions he put his efforts on making his company "better than the best" by encouraging division manager to have overly ambitious goals. He reconfigured the business portfolio by streamlining certain divisions, selling off the non profitable ones and expanding on the most successful ones. Welch also put his efforts into changing the corporate structure by eliminating management layers and administrator positions he deemed unnecessary. He put an emphasis on updating the strategic planning

system, the financial planning and control, globalization initiatives, and implementing six sigma methodologies to improve product quality.

Immelt's own transition into the position of CEO could not have been better planned. He certainly had big shoes to fill, but the company was in a position that any upcoming CEO would yearn for. So why was the outcome not what anybody had suspected?

Immelt was the former head of GE's medical systems and at one point, head of their plastics division. He has an MBA from Harvard, and continued his father's legacy, who also worked his entire career at GE. Jeff Immelt was happy with the strategies his predecessor had implemented and he had a great understanding of the management system and how appropriate it was for Welch's personality. But Immelt would be a different CEO; he was a friendlier more approachable figure who the employees could relate to, whereas Welch ran the company with intimidation and built himself to be at a level far above those who worked for him.

Immelt spent the first year after the September 11th attacks trying to build confidence in GE's customers and investors. He emphasized four main areas he wanted to see advance; the business portfolio, technology, internationalization, marketing and customer service. But things were not so easy for Immelt. When Jack Welch took over GE in 1981 it was a successful company but there was tremendous room for growth and improvement. When Immelt stepped into the picture, the company was pushing the boundaries of corporate success, Welch had taken it to the next level – multiple times, where could Jeff Immelt possibly take it? It was very difficult for Immelt to identify opportunities for growth and to turn the company into something that Welch could have never imagined possible. People, both inside and outside GE, assumed

Immelt would be a successful leader, but the question was always on whether he had the ability to take GE to the next level – whatever that next level was.

2.1.2 Impact of the Upcoming Leader

As Jeff Immelt was a different manager in comparison to Jack Welch, Tim Cook is also a different manager when compared to his predecessor Steve Jobs. The transition of Apple's management occurred during a bitter sweet period, Apple had just enjoyed a summer with its highest share prices since its inception, but its founder and CEO, Steve Jobs was battling pancreatic cancer, an illness that eventually claimed his life.

Tim Cook came to the position of CEO stating that there would be no changes to Apple when he took over. But things had already started to be done differently; Cook began focusing on administrator assignments that Steve Jobs was often uninterested in.

He also kept an open line of communication with Apple employees, something that was very difficult for Steve Jobs to do. Where Jobs was usually very unavailable, Cook would send out company-wide e-mails regularly addressing employees as "Team" and initiating discussions (Vascellaro, 2011).

And in the most surprising move, Tim Cook announced in March of 2012 that Apple would pay its first dividends since 1995 and buy back \$10 Billion in stock, something that Steve Jobs had been very hesitant to do for some time.

But even after Steve Jobs' passing and with some of the changes going on, Apple is still Apple, only with a lot more money now. On the day Steve Jobs resigned Apple's stock closed at

\$374 per share, a little over a year after that, the stock rose up to \$700 per share on the wake of the fifth generation iPhone (Satariano & Faughnder, 2012).

Tim Cook has gained much support from investors and employees, no one could deny the company's financial standings under his leadership, but one cannot forget that the company is still successful due to the plans put forth by Steve Jobs. Jobs was very heavily involved in product development, and his mark is still on the latest products announced over a year after his death. The next few years will better determine if Tim Cook can replicate that same vision and leadership that allowed Steve Jobs to bring Apple to where it is today (Lashinsky, 2012).

Leadership as a concept on its own is difficult to understand. One could look at 100 leaders with various strategies and struggle to explain why each of them is successful. No single cookie cutter formula can be applied to all the different types of leaders, each case must be observed individually and separate conclusions are to be made.

One of the more interesting cases of global leadership is that of Carlos Ghosn and his work with Nissan during the Renault merger. In the article, The global leadership of Carlos Ghosn at Nissan (Millikin & Fu, 2005) a study is made on what Ghosn had to do to make this a successful transition.

Carlos Ghosn spent 18 years working with Michelin and climbing the ranks until he became the head of Michelin North America. It was then that he realized he could not go any further; he would never be president of the company because it was a family run organization and he would be considered an outsider. Ghosn decided to switch careers and joined Renault as the Executive Vice President of Advanced Research & Development, Manufacturing, and Purchasing.

With many of the cost efficiency initiatives that Ghosn had put into place, Renault saw incredible turnarounds and higher profit margins, this earned him the nickname “Le-Cost-Killer” but more importantly it drove the heads of the company to ask him to take over the role of Nissan Chief Operating Officer.

Nissan had been facing some difficulties during the Asian financial crisis, it was a successful company but it leaned more towards short term market share growth, rather than a more long term strategic success plan. It needed a partner to support it both financially and to introduce new management ideas, that’s when Renault acquired 36.8% of Nissan and began the transition. But this was also a good move for Renault as they needed someone to decrease their dependence on the European market and to increase their involvement in the North American market and this was a market that Nissan had already had success in.

Ghosn had to go through a learning curve to make sense of both, Japanese culture and Nissan’s corporate culture. He saw that there was no sense of urgency, as if the concept of bankruptcy was far from the employees’ minds. He also identified a lack of vision from the management’s side and lack of attention towards customer demands.

Ghosn embraced the cultural difference between him and the Japanese but he still applied three concepts that embodied his philosophies of management, these were:

1. Transparency
2. Execution is 95% of the job, strategy is only 5%
3. Communication of company direction and priorities

Just as Ghosn embraced Japanese culture, he found that the Nissan workers respected his ideas and were quick to participate in the changes that he was implementing. Ghosn was the first manager to actually walk around the plant and speak with line workers; he shook hands and exchanged ideas with many of them, shortening the distance between upper management and factory laborers. He also set up Cross-Functional teams to make decisions for radical change allowing Nissan to develop a new corporate culture and helping managers think in new ways and challenge existing practices.

Ghosn had four main goals he wanted to work on with Nissan, the first was the development of new automobiles and markets, second was the improvement of Nissan's brand image, third a reinvestment in research and development, and fourth was a focus on cost reduction. This led to the closing of five factories and the reduction of 14% of the company's workforce a decision that did not sit well with media, but a decision that Ghosn stuck by.

There was also a great effort for cross-functional reorganization allowing employees to see the broader picture and get an understanding of tasks that were beyond their own scope. Performance based incentive systems were also introduced to Nissan by Ghosn, going against the cultural norm where managers usually did not receive stock options or bonuses, the highest achievers were now receiving the highest rewards and promotions were no longer dependant on age or length of service but rather on return.

Ghosn efforts in Japan were referred to as the Nissan Revival Plan, and it was achieved in two years, one year ahead of schedule. After his work at Nissan four plants produced automobiles based on 15 platforms, as opposed to the seven plants which produced 24 platforms. The company also saw a 20% reduction in purchasing cost.

But the future of Nissan was not entirely in his hands as the company's succession plans had Ghosn listed as the new CEO of Renault, and he had to find the right person to replace him and take over the Nissan efforts in order to, once again, push it to the next level.

Dr. Jane Adler, a senior executive and entrepreneur coach, and Dr. Robert Karlsberg, an expert in leadership development and business process improvement, discuss the difficulties faced by many leaders when it comes to succession planning. In their article, *Why Promising Transitions Fail: Hidden Barriers that Sabotage Succession*, (Karlsberg & Adler) they aim to provide leaders with some insight on how not to face the same pitfalls that have hindered other CEO's in the past.

They begin by discussing what they call the succession dilemma, where executives who move directly into a senior leadership role due to the sudden and unexpected departure of their predecessor are often faced with greater difficulties than those who gradually take over the position. But Adler and Karlsberg believe that the challenges which arise during a gradual transition tend to be more difficult to identify.

It is becoming more common for organizations to setup future leaders for a gradual transition. The board may look closely at a candidate promoted to a number 2 spot or at an outsider with leadership experience that they feel confident in, and through a carefully prepared timetable they begin to orchestrate a transition that will include the support and guidance of the current leader. But contrary to the belief that it would be beneficial to have the current leader involved in the transition, the authors have found that many of the new leaders in these scenarios never actually last for a significant amount of time in the top position. Transitions were still poor and it was becoming clear to them that a successful change was dependent mostly on the

interpersonal and group dynamics of key players such as the incoming and outgoing leaders, the board members, and the other relevant stakeholders.

As was stated earlier, the authors found that there were cases of leaders who just couldn't let go. As the business world continues to evolve companies began to look for CEO's who were different than the ones currently in the position, embracing the change, and welcoming a new strategy for a new era. Even if the current CEO helped the company succeed, the new train of thought was; what may have worked at one time may not necessarily work for future challenges about to be faced.

CEO's will commonly give off the impression that they too are welcoming of this change, but subconsciously they have difficulty fully accepting it. As the current CEO and the new CEO begin to work together, the current one may start to disagree with the new strategies being presented and may start finding flaws in the future leader. Rather than work closer as a coach and offer his support, the current leader begins to retract and distance himself from the changes that are about to take place. This action is then followed by misinterpretation from the future leader which causes him to increase his pace into the top spot while assuming the current leader is losing interest in the business and allowing him to take over the decision making. Since contact between the two leaders decreases, chances are the future leader will begin taking actions on his own account and he will unknowingly start making very critical mistakes.

CEO's coming from the outside to replace a great leader or highly praised founder face an even more difficult challenge in that they have to gain the support and trust of all the employees who have gotten accustomed to a specific system. Aside from feeling that they are betraying the outgoing leader by succumbing to the new way, employees in general resist

change, especially if they feel that what they had been doing in the past has been working and benefiting the company. They may lack the confidence to try things differently, and as they see the outgoing CEO stepping back and staying silent they start to question whether she is even onboard with the change or whether this was something that was forced upon her. New CEO's are trying to prove themselves to the board, to the employees, and to all the stakeholders, so it's not unnatural for them to take drastic measures signifying a fresh start and a new path for the company. This is what Adler and Karlsberg call "sink or swim", whether the new CEO will be able to handle the difficult task of gaining the company's trust amidst much doubt and frustration or if they will become another statistic among the rapidly growing number of short term leaders who are let go much earlier than what their original contract had stated.

Other pitfalls develop as new CEO's are brought in to help a company improve on a product, enter a new market, or develop a new strategy. The CEO is generally hailed to be an expert on this new endeavor which is exactly why the board sought her out. As the new CEO takes her place in the company she generally begins to move fast. She may believe that she is the higher most authority on this subject, and as she sees that the board is standing by her side, she starts to take drastic measures, often acting recklessly and unaware that she may be on the wrong track. But another side effect of acting so fast is that, the CEO may not have given herself a chance to really understand the new company's culture and politics, this on its own may be a daunting task and may lead to the CEO's demise.

As the CEO understand the company's politics he must gather as much information as he can, more often than not though, CEO's are faced with an information bottleneck. The new CEO may have joined a company which is conditioned to keep bad news from reaching upper

management, or even worse he may be faced with a situation where subordinates are worrisome about voicing their disagreements with the executive's position, regardless of them being specifically instructed to voice their own opinions.

Adler and Karlsberg explain that the majority of transitions are not successful because the incoming leader doesn't establish sufficient credibility with the board, the outgoing CEO, or the workforce he/she is tasked to lead. On the other hand, boards generally tend to shrug off this failure as merely choosing the wrong candidate, one without the right leadership skills and who just couldn't fit in to their organization.

Transition failures rarely boil down to just one entity which is at fault, but rather a complete dynamic of relationships between certain key stakeholders which work as barriers that stop a successful transition. It is these barriers that should be identified, addressed, and improved upon in order for organizations not to fall into a vicious cycle of hiring and firing potentially successful CEO's.

CEO's looking to make changes in their organization will often find themselves struggling with the status quo; external factors are usually out of their control, so naturally their efforts are directed internally. Such was the case for Lee Scott, the former CEO of Wal-Mart, who was working to prevent a group of executives, from dividing the company's management, as was studied in the article, Changing of the Guard at Wal-Mart (Kapner, 2009).

Lee Scott became CEO of Wal-Mart in January 2000 and his promotion did not sit well with other executives like Thomas Coughlin who had a similar background to Scott's humble beginnings. Scott was known for being reserved and strategic; a stark contrast from Coughlin who was larger than life both in appearance and in personality. And although Coughlin thought

about leaving Wal-Mart when Scott was named CEO, the Walton family persuaded him to stay on as the president of Wal-mart's domestic stores. This is when a civil war began to emerge with certain employees and executives standing behind Lee Scott and others standing behind Thomas Coughlin.

Scott and Coughlin disagreed constantly on a number of issues both big and small. One day Coughlin told Scott he was stepping down as Vice Chairman but would still keep his seat on the board. This did not all go as planned when it was discovered that Coughlin was using a Wal-Mart gift card designated as a reward program for lower level employees. Immediately a fraud investigation was put into place, Coughlin was forced to resign from Wal-Mart's board in 2005, and he was found guilty in court for wire fraud and tax evasion.

Scott continued to take other initiatives such as implementing a green movement and improving health care for employees. Wal-Mart also became a pioneer in the analog to digital TV transition and got the government to include some rebates due to energy saving features that came along with buying a digital converter box.

The company continues to battle discrimination lawsuits in court and it publicly opposes a bill backed by the Obama administration that makes it easier for employees to unionize. Employees continue to fight for higher pay, but the company still insists that its average hourly wage of \$10.68 is right in line with other retailers.

Lee Scott announced that he was retiring towards the end of November 2008, an unusual time as Wal-Mart tended to make management changes in January. But Scott wanted his successor, Mike Duke, to have control over the budgets and strategic planning for the following year. Duke had worked for Wal-Mart since the early 90's, he worked closely with Scott and was

responsible for a new distribution system which consolidated shipments, minimizing waste and making full use of the company's trucks. Duke was also responsible for a number of their international strategies, allowing Wal-Mart to exit unsuccessful markets such as Germany and Korea, and expanding in others which showed potential.

January 30th 2009 was Lee Scott's last day with Wal-Mart. One of his most admired traits is that he never believed that he'd be CEO forever. Although he worked many long days and saw the company's international sales more than triple under his tenure, he was still very adamant about living a balanced and complete life involving his work, family, and his friends.

Dr. Chris Wright, the founder and president of Reliant, a global provider of on-demand human resources tools and proprietary content, believes that an effective succession plan must always be linked to the overall vision and strategy of the company and it must include the current senior level executives in the process. It begins with a small basic setup which includes defining the talent needs. The company must also understand exactly what the requirements for the position are. Based on the position requirements, the company will have defined the competencies and skills needed for today and for the future. The next step is assessing the current bench strength, which entails the identification of potential successors from within the organization and clearly defining the qualifications of these individuals. Surprisingly, the next step is often overlooked, and that is the actual creation of the succession plan and the development of successors. The outcomes associated with this part will include specific development plans for potential successors to strengthen their skills and educate them on information that they may be missing (Wright, 2012).

Succession planning and the studies around succession planning are always evolving, new ideas, techniques, and methods are put into trial and error on a regular basis by a number of different companies in various industries. In his article, *The Future of Succession Planning* (Rothwell, 2010), William J. Rothwell discusses the direction of which he believes succession planning is headed.

He explains that succession planning is really just preparing someone for a promotion. And in past ideologies management skills were the most valued traits when it came to this promotion. But recently a pattern is developing in which a different set of criteria is being closely examined for when it comes time for a transition of power. While preparing employees for promotion into management remains critically important, it is not enough. In a global knowledge economy, technical expertise is often the key to a competitive advantage. This is sometimes called “technical talent”—individuals whose job performance is contingent upon special knowledge. This includes engineers, IT professionals, accountants, lawyers, medical doctors, research scientists, and various others in specific industries. Organizations are focusing less on management succession planning and more on technical succession planning.

Rothwell found that approximately 70 percent of all succession planning programs fail and in trying to understand these statistics, he developed two models which are displayed on the following pages. They were designed to compare the two different types of succession planning and they serve as a road map to a long term implementation and highlighting what successful succession requires.

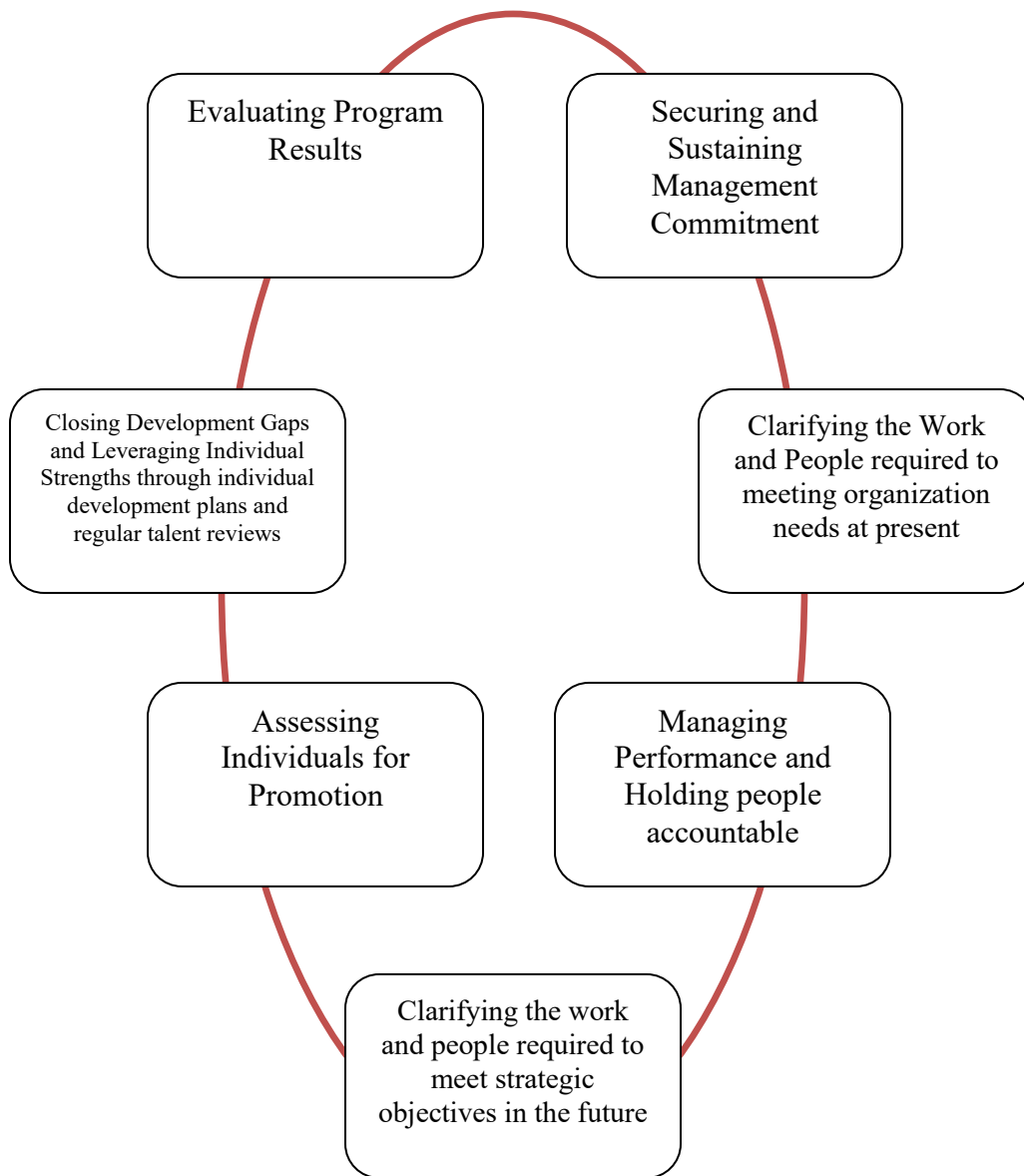


Figure 2. A Strategic Model to Guide Management Succession Planning. Adapted from *The Future of Succession Planning*

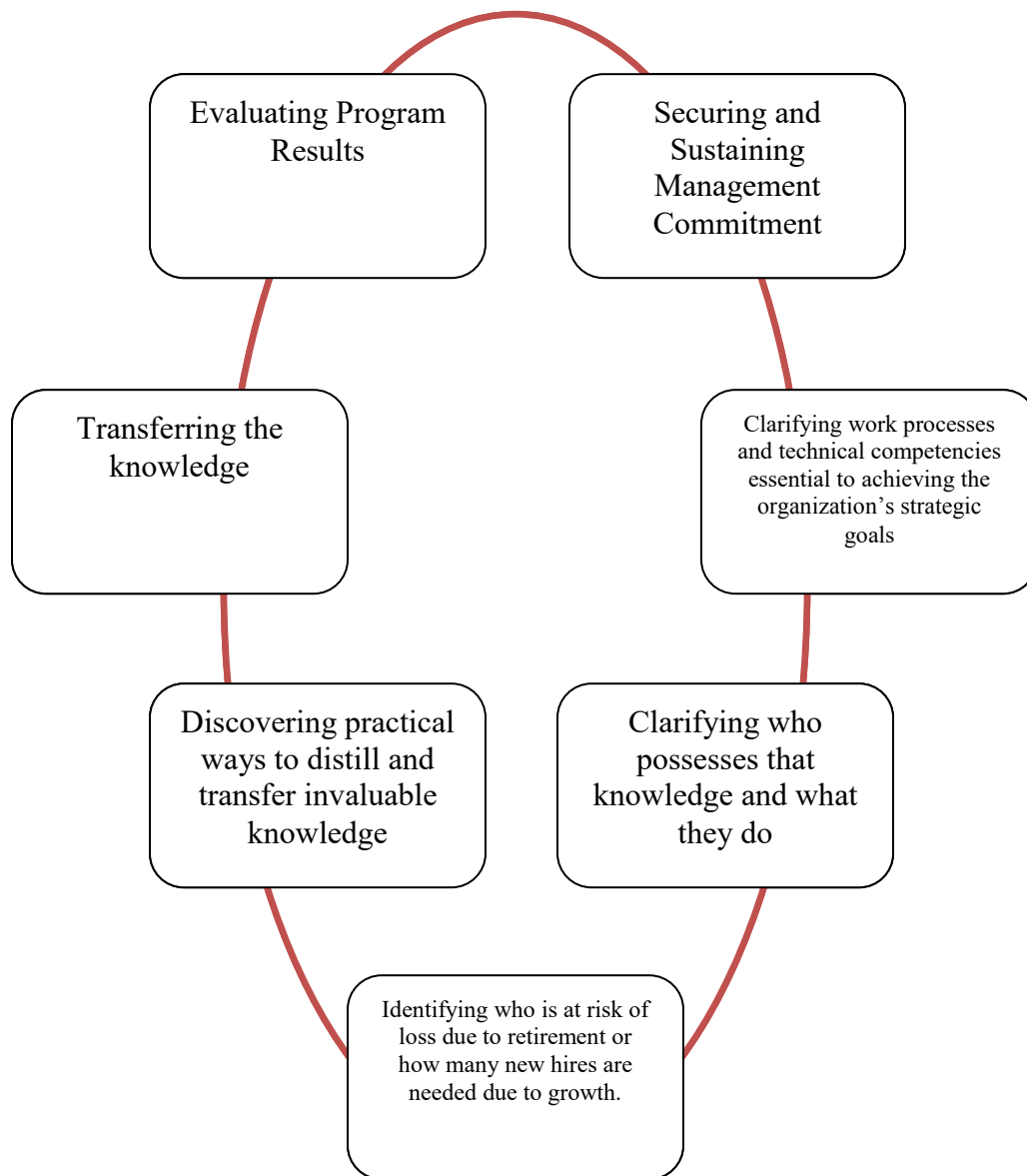


Figure 3. A Strategic Model to Guide Technical Succession Planning. Adapted from *The Future of Succession Planning*

Another issue faced during succession planning is aligning upcoming executives with the company's strategy, maybe the new executive is planning on changing to a new strategy, or maybe he will continue on the path of the currently implemented one. Nevertheless one of the most difficult things a company has to do is translate the overall strategy of the business to a tactical practice which can be implemented into daily events at the workplace. Rothwell explains that managers spend 20% of their time focusing on training and developing their staff when it would be more beneficial to train them as they do their work. This issue can be tackled by building management awareness regarding the need for individual development as they work with their staff, training managers to integrate thinking and acting as a means to develop the staff in conjunction to them turning in their work, and finally giving managers the right tools to make these tasks easier.

Finally, Rothwell explains the importance of involving the upcoming executives in the succession planning. Traditionally, succession planning is a top down process but he encourages a bottom up approach which integrates career development and allows for a smoother transition. This method better prepares the upcoming leaders for what they will be facing after their promotion and it supports Rothwell's argument of promoting workplace learning for more effective succession planning.

Kevin S. Groves, from the College of Business and Economics at California State University, prepared a best practice model for optimal leadership development and succession planning practices, which are two items that many highly successful companies have began coupling in their strategic development as a means to avoid the stereotypical pitfalls faced by growing companies.

To conduct his study, Groves interviewed 30 CEO's and senior human resources executives from a number of different US healthcare organizations renowned for their best practice leadership development methods. The criteria for these methods include:

- 360-Degree feedback
- Executive coaching
- Mentoring
- Networking
- Job assignments
- Action learning

The author explains that he chose the healthcare industry due to the many managerial hurdles faced by the sector. In healthcare, CEO's tend to retire between the ages of 55 and 60 years old. A number of the CEO's interviewed noted that the industry drives away many of the potential future leaders due to a lack of resources and developmental opportunities. In addition, recent days have seen a shift in which middle management has begun to decline, further hindering leadership development.

To better understand how these organizations handle leadership dynamics, the interviewees were asked the following questions:

- What are the primary leadership development and succession planning practices in your organization?
- What are the critical success factors for effectively integrating leadership development and succession planning practices?

- How are managerial personnel utilized to deliver an integrated talent management process?

Groves utilizes the following figure to summarize his research themes regarding integrating leadership development with succession planning:

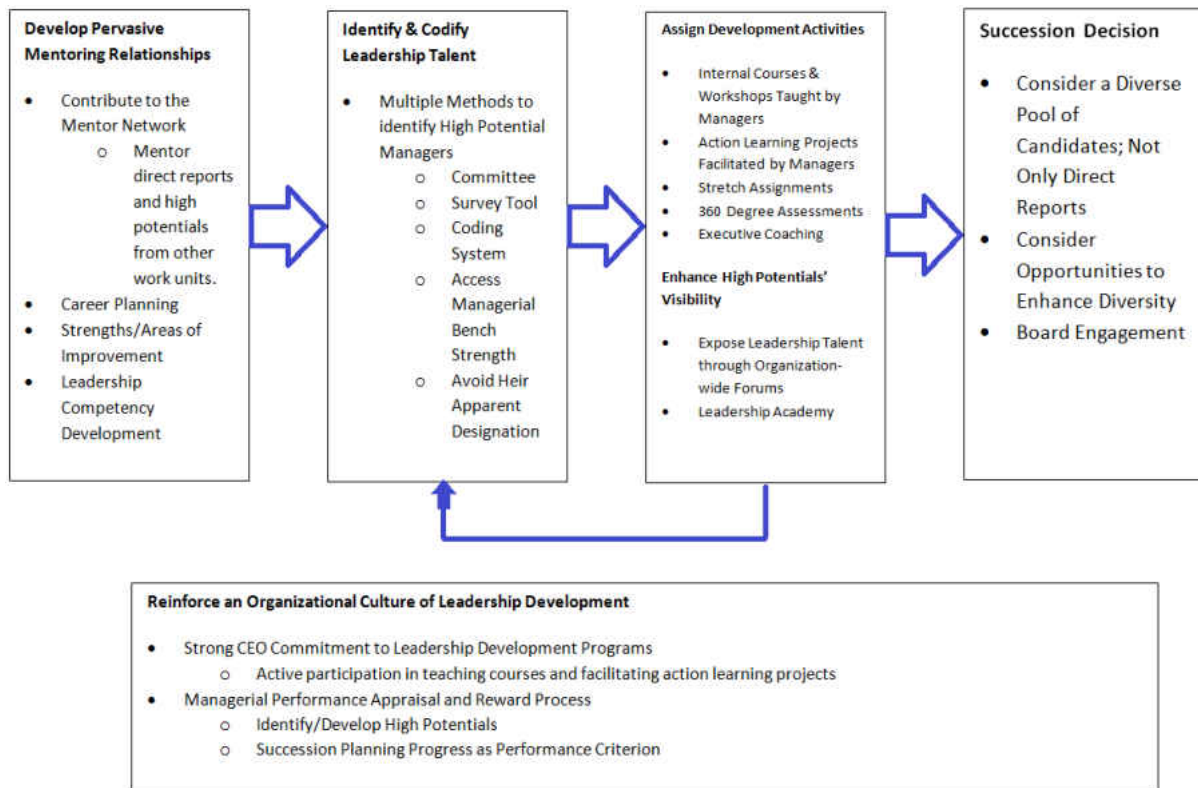


Figure 4. How an integrated leadership development and succession planning process requires active manager participation. Adapted from *Integrating Leadership Development and Succession Planning Best Practices*

Groves explains that he believes the worst leadership instructors are the professors and strategy consultants that train and put candidate after candidate through the same cycle using standard cookie cutter routines, when the best instructors are those leaders who have actually experienced day to day problems that may very well be faced by their predecessors. It is no wonder that the development of mentoring relationships appears first in his model. Many of the executives in the study spoke very highly of the mentoring programs their organization has in place, both official and unofficial. They discussed how they were encouraged to develop a mentoring network with individuals from different sectors of their work and this aided in an increase in job satisfaction, promotion opportunities, work related performance, and the reduction of turnovers.

Groves later explains the importance of identifying and codifying leadership talent. While interviewing executives he discovered that a common theme among them was to avoid the replacement mentality, meaning that, instead of choosing an heir apparent, leaders in best practice scenarios would identify multiple potential successors and begin developing and analyzing their strengths in various positions. This method also helps develop diversity in senior management positions as it pushes leaders to give opportunities to individuals who are different than themselves.

The next step in his model, according to the interviews conducted, is assigning action-oriented developmental activities. CEO's explained the importance of exposing future leaders to several functional areas providing them with key work experience. They also believed it was critical to assign their personnel to very diverse projects in order to see how well they adapted to the unique task. The interviewees' explanations support the author's previous research findings

that diverse and challenging assignments undertaken early in one's career facilitates career advancements.

In addition to action oriented developmental activities, the executives interviewed explained the use and implementation of action-learning in which a group of high potential employees get together, study current business issues and situations, and provide recommendations to the executive management. This proved to be a very effective leadership development method, and had been applied in many sectors outside the healthcare industry as well. This method enhances the potential successors' visibility across the organization and aids in developing their networks.

Groves found that there was a huge trend regarding the importance of having executives working very closely with their subordinates and teaching them on the spot as they also conduct their evaluations for potential succession. One executive stated that their organization requires that every manager identify two individuals under their supervision who they believe have demonstrated high potential and they must help them develop in their career. As time goes by the managers are required to talk with those individuals about the possibilities of moving them up and promoting them and from there they analyze how these transitions may begin to take place.

Finally, Groves summarizes his points regarding integrating leadership development and succession planning by stating that organizations must do the following in order to ensure effective transitions:

1. Develop a mentoring network within the organization which fully engages all managers with high potential employees in both, their divisions and outside of their divisions as well.
2. Managers must be very active in identifying and codifying high potential employees.
3. Ensure managers are fully immersed in leadership development activities such as teaching and creating project based learning experiences.
4. Avoiding heir apparent designations and continually updating a list of multiple potential successors based on their performance and evaluations.
5. Develop a leadership academy where high potential employees are exposed to key stakeholders of the organization.
6. Develop a supportive organizational culture by encouraging active CEO and senior management participation in programs and performance appraisals that reinforce managerial engagement.
7. Evaluate the effectiveness of leadership development practices through empirical studies that model program theory and assess knowledge, behavior, and results outcomes.
(Groves, 2007)

It has been documented that when the next generation was involved in the development of the succession plan, in one way or another, they were able to obtain a number of benefits regarding their education of the business which effectively aided them with their professional decision later on after they had assumed their new positions as leaders of the business (Mazzola, Marchisio, & Astrachan, 2008).

2.1.3 The state of the Business

Developing the right procedure for succession planning is never easy, all too often the wrong person is chosen for a very important job and stakeholders find themselves scrambling trying to rectify their error in judgment. Dr. Soonhee Kim looks to understand the relationship between employee performance and succession planning and how to utilize this information to facilitate these transitions, he accounts his study in the article, Linking Employee Assessments to Succession Planning (Kim, 2003).

Kim offers a definition of succession planning as an ongoing process of systematically identifying, assessing and developing organizational leadership to enhance performance. Assessing, both, the organization and the employees is vital for successful succession management.

Succession planning is widely considered to be an important aspect of an organization's human resource and strategic planning process since it ensures leadership continuity, prevents transition problems, and reduces the incidents of premature promotion. Combining the process of career development and succession planning can give organizations a snapshot of available talent for meeting current and future needs.

The International Personnel Management Association (IPMA) states that the key steps to successfully integrate succession planning and career development in public organizations are establishing core competencies, encouraging self-determination, developing career planning, using technology for career development, recommending a strong career development program, taking a comprehensive and organization-wide view of career development, focusing on people,

finding a champion, and promoting realistic expectations. The main components of succession planning are identifying and analyzing key positions, creating and assessing candidates and selecting people.

Kim summarizes the reasons for conducting employee assessments with succession planning in mind with the following points:

1. Determining the extent of an organization's pending leadership shortage.
2. Identifying needed leadership competencies based on services or program needs, values, and organizational strategies.
3. Assessing employee strengths, skill gaps, developmental needs, and career plans.
4. Monitoring the implementation of succession programs with top management support.

Kim conducted a survey focusing on skill utilization and career development to gather information on this topic. He distributed a questionnaire to Nevada's Department of Energy who had adopted a long-range strategic planning method to account for the 25% of all employees and 70% of career senior executive service personnel who would be eligible for retirement in the following five years.

He found, among other things, that out of the 186 questionnaires completed, 50 were participating in the organization's succession planning program and 51 were planning to retire within the following two-to-five years. The results of the questionnaire found that succession planning management at Nevada's Department of Energy is closely tied to the organizational objective of increasing the participation of individuals with diverse backgrounds (minorities and women) in management level positions. It also showed that employees perceived a greater need

for supervisory and managerial support for the purposes of career development and self improvement, which means that there is a need for executive leaders to encourage employee career development rather than grooming particular employees for specific supervisory or managerial positions. This also shows a need for executives to provide more mentoring activities as employees prepare to move into higher positions.

Kim concludes by stating that none of the result suggestions could be possible unless organization leaders make a commitment to changing their personnel management approaches from the traditional hierarchal structures and decision-making patterns to a focus on workplace quality and the effective design of human capital strategies to enhance performance and accountability.

The process of succession planning involves management at all levels, it is often referred to as “talent management” and provides bench strength, a group of talented and ambitious individuals who are ready to assume more senior responsibilities. (Maginn, 2008)

In his article, Who’s Next? Succession Planning, Michael Maginn discusses the importance of succession planning and why organizations need to utilize a proper strategy to move towards the future.

He states that life in an organization without a succession plan contains vague uncertainty on what will happen if certain key individuals leave, yet there is no denying that employees will definitely leave at some point. Whenever there is a change in key personnel there is always a period of susceptibility. Succession planning provides an organization with a number of benefits and Maginn outlines them as follows:

1. Motivational process which leads to greater retention of key staff.

2. Continuity of leadership policies and strategies.
3. Key individuals with potential and ambition are developed.
4. Performances appraisal and rewards systems become aligned with the standards created for performance.

Maginn also emphasizes five key components to the succession planning process, they are; employee history, creation of standards, measurement, development, and the succession plan itself.

In regards to employee history, it is important to understand certain factors such as their interest in advancement into a leadership position, their past performance, their promotion record, and their willingness to relocate if deemed necessary.

Creation of standards is the desired state which can be created in a number of different areas such as a corporate environment where an emphasis can be made for a team-focused culture and working together towards a common goals.

Measurement follows the creation of standards and can be through a 360 degree survey where peers, managers, and direct reports provide an accurate assessment of an individual's capabilities which are reported through survey scores and compared to other individuals. The use of Triad Consensus is also encouraged where members of upper management rate the employees individually and then in a small group.

Development is usually a good indication of an organizations commitment to its people and can be measured through its investment of time, effort, creativity, and resources to help them grow. Maginn explains that in succession planning there are a number of activities that can be

put into place to fill the needs of employees. These activities include; training programs, educational experiences, assignments and projects, job rotation, mentoring programs, individual study, volunteer work, and action learning that address real issues.

Finally, the succession plan itself is explained. It should embody three fundamental elements, an organization chart with the openings during certain time periods, a list of potential candidates for these positions, and the job requirements for these various positions. The succession plan should be housed in a human resource information system, many of which are commercially available, and is accessed when an opening occurs to identify the likely candidates.

Maginn concludes by stating that succession planning is an integral part of an organization's performance management process – including training, performance appraisal, hiring and recruiting, and career development. It should not be considered an add-on, but rather a requirement and it is the reason why development programs exist; to produce capable and motivated individuals who are ready make personal contributions to their organization as they assume new responsibilities.

Dr. Chris Wright defines succession planning as identifying potential leaders within one's company that could one day fill critical leadership roles and then investing in their development so that when they day comes, they are ready to step into critical leadership roles. He adds that it is important to note, the only way to create a succession plan is to start the conversation with management and executives and aid them in understanding the importance of succession planning for the long-term sustainability of the company (Wright, 2012).

It shouldn't be such a surprise that the actual implementation of a succession plan is often overlooked as the three most common mistakes in succession planning are:

1. Ignoring it: A number of business owners have trouble just thinking about giving up their control of the business, which is why 70% of small family-owned businesses don't make it through the transition to a second generation.
2. Not Considering all the Issues: The job is not complete by just choosing the right person to take over the business, but it's important to have an entire comprehensive plan laid out. This plan must address issues such as the challenges which the successor may face, as well as the proper exit strategy for the current leader.
3. Waiting until the last minute: It is important for leaders to give themselves enough time for a successful transition. Utilizing a two to five years succession plan will allow for both the current leader and successor to adjust their actions and decision accordingly while minimizing errors and costs (Lewis, 2000).

In order to implement the most ideal methods to move forward with a successful transition, its best to understand what the best practices are. This is a topic which Dan R. Dalton and Catherine M. Dalton discuss in their article, *CEO Succession: Best Practices in a Changing Environment* (Dalton & Dalton, 2007), which was published in the *Journal of Business Strategy*. Dalton and Dalton begin by explaining the important task of succession planning emphasizing that is essentially the responsibility of the entire board of directors. While it may be helpful to have the current CEO and other stakeholders involved in this decision, they are not the ones who should be leading the charge. The board is the one who carries the burden and they should be

exposed to the potential leader on a regular basis. They must have a clear understanding of the leader's strengths and weaknesses and they must be able to identify whether she will be able to bear the responsibility of becoming CEO.

Contrary to what is expected of the board's exposure to the upcoming leader, Dalton and Dalton believed that this leader must be exposed to more than just the board of directors. She must be put in a position to interact with internal and external stakeholders *prior* to becoming CEO. These stakeholders may include important suppliers, the investment community, analysts, customers, etc. This is what is needed of them if they are to guide the company into the next generation.

From the CEO's side, her experience should be on the enterprise level, this is what best prepares them to be a successful CEO. In that sense they would have had responsibility for every aspect of the business and have seen it from its operations, marketing, production, and financial sides, just to name a few key divisions. This is typically a classic example of how a CEO see's a company but allowing a potential leader to see a company similarly could prove to be very beneficial. Giving the upcoming CEO enterprise level responsibility could be achieved by selecting candidates who were once heads of independent divisions which bring its own profits and losses (P/L). That would be the ideal path in becoming CEO.

Dalton and Dalton conclude by referencing General Electric, a company which, as we saw, has become a staple when it comes to succession planning. It is used as an example for many businesses aspiring to make a similar change.

When Jack Welch informed the board that he would be retiring, a very public race ensued with many hoping to be his replacement. But it was Jeff Immelt who came out on top and the

two other front runners, W. James McNerney, the CEO of GE Aircraft Engines, and Robert L Nardelli, the CEO of GE Power Systems were very disappointed with this decision, so much so that they ended up leaving GE almost a year before Immelt officially took over the position. As a matter of fact more than five top executives at the company either moved to another company or chose to retire at the wake of this decision. Dalton and Dalton's discussion proves to be a double edged sword, where it is encouraged to expose potential CEO's to P/L divisions and key stakeholders, there are a lot of ramifications when a different individual is selected for the position. And As odd as it may sound, it is a good sign when competitors and outside companies begin to take interest in an organization's executive team, but it is the organization's responsibility to capitalize on the worth of its personnel.

There is no denying that where a company stands financially will impact how it handles executive transitions. Marne L. Arthaud-Day, S. Trevis Certo, Catherine M. Dalton, and Dan R. Dalton have found that executives at companies filing a financial restatement were more than twice as likely to exit their organizations as their counterparts.

Their study, documented in the article; A Changing of the Guard: Executive and Director Turnover Following Corporate Financial Restatements (Arthaud-Day, M., S, T. C., Dalton, C. M., & Dalton, D. R., 2006), found that financial restatements have caused some companies' stock value to drop by as much as 90% due to accounting irregularities used by executives to try and maintain legitimacy, as perceived by stakeholders, in an increasingly competitive market.

One way for organizations to maintain legitimacy is through executives' replacement, when organizations are not doing well the removal of certain scapegoats gives the illusion that the problem has been "fixed" and removes any stigma that was attached to a firm.

The authors believed that, although poor performance is harmful to an organization's legitimacy, they found that financial restatement is a more serious threat to legitimacy.

Restatements are different in that they are usually a direct result of managerial decisions leading to the intentional altering of the company's financials. Poor performance may be as a result of external factors or honest mistakes. As executives are the ones who are held responsible for their organizations the authors believed that replacing them is a step in the right direction.

Transitional management becomes even more complicated when the current CEO is also the founder or the owner of the company. It's common knowledge that starting a business is an extremely tedious process, providing much satisfaction as one watches it flourish and succeed. But exiting a business is also a very tedious process. One wants to leave the business while not just having it be a profitable move for them, but also for the organization itself. The options available for a company owner include;

Selling the business to a third party, a move which may require three years of planning, and provides a key benefit of maximizing profit, this is also the best option for a business owner who wants to walk away entirely from the business.

Another similar business transaction is selling the business to partners or employees, which allows the owner to gradually let go of the organization. With such a transaction it is also important for the owner to have enough resources outside of the organization to maintain his or her retirement.

Liquidation is usually the least desired option and considered the most tax-costly exit strategy. Many times it's seen as absolutely the last resort, it can be an indication that the asset value of the business may be more than the value that owner can sell the business for.

A preferred option is to keep it in the family, assuming there is interest in the business from other family members. This is also an option where the owner does not abruptly exit the business entirely, but gradually removes their hands from the day to day tasks. The successor may gradually buy stock or pay the predecessor through a promissory note based on the company's future success and earnings. (Holmes, 2007)

Regardless of what a business owner decides to do with their company, as has been emphasized earlier, a succession plan can serve to be a very useful tool for them. Long-term succession preparation lets current middle management become accustomed to the idea that the shop owner will sometime leave to take advantage of what they've built. It also leaves time to groom the next generation in the ways that make the business successful. (Nofel, 2007)

It is very important to set a specific goal. The foundation of a successful plan is to establish solid goals and objectives, both for the company and for one's own personal retirement and the use of professional advisors and attorneys can help with the process. It is also excellent practice for one to create "what if" scenarios to ensure complete preparation for facing unforeseen contingencies. It can never be an exact science or something that has a predictable outcome and as a result it requires regular monitoring and for one to continually follow up with it (Schumacher, 2008).

Transitional management is a very intricate process; it can be affected and further complicated by some of the most unexpected issues. The nature of the business itself cannot be

overlooked. Technical and engineering organizations have completely different fundamentals than ones such as retail or entertainment for example. Engineering organizations, be it manufacturing, design, or a form of consulting emphasize a very specific practice that follows a certain set of rules and theories, and as a result the personnel sought out to run these types of organizations will be very different than those who are asked to take over a chain of retail stores.

Another issue that severely impacts transitional management is when the company is a family owned business. Unbeknownst to many, some of the biggest companies in the world are family businesses. Companies such as, Ford Motor Co., Samsung Group, SC Johnson, Fidelity Investments, and Wal-Mart, have all generated Billions of dollars in revenue and have become true household names, and each of them is predominantly owned and operated by family.

Family businesses in general have been on the rise in the United States. Although there isn't quite an exact definition of what a family business is, a general notion can be that it is owned to a certain extent and operated by a select family. It is important to note that family businesses represent over 90% of businesses, and provide over half the jobs in North America (De Pontent, Wrosch, & Gagne, 2007).

Succession planning within a family business can be a very difficult process due to the extremely sensitive nature of the circumstances. Unfortunately, decisions made within a family business don't just influence profit margin, but they tap into some of the deepest emotions of those involved. Things can go very bad, very fast. One of the most famous family business feuds of all time is the story of the U-Haul company controlled by the Shoen family, which led to the exile of the company's founder by his own sons, fist fights in board meetings between two brothers, and the murder of one of their wives (Groves, 1990).

The U-Haul company's history is an extreme case which demonstrates how high tensions can get when transitional management is not carefully handled in the sensitive environment of family businesses. Nevertheless, the company has managed to stay ahead of the competition and in 2011 generated over 2 Billion dollars in Revenue (Amerco, 2012).

On the opposite end of the spectrum, one of the most successful transitions of a family business is that of Comcast's Brian Roberts, whose father was one of the founders of the company and later turned it over to him. When Brian was finally selected as the CEO of the organization, the shareholders questioned and criticized his plans to take over the Walt Disney Company. This idea arose after Comcast had successfully acquired AT&T Broadband, and as a result the board of directors was starting to believe that Roberts was getting too far in over his head, and was overwhelmed with excitement clouding his own judgment. When Roberts decided to scrap the plans for the take over and focused on more realistic ventures, the board and shareholders began to regain trust in the new CEO (Lansberg, 2007).

Preparing successors or grooming them for their next position is an important factor that should not be casually overlooked. A relevant example for proper grooming of a successor within an Engineering organization is that of Allan Switzer, the current vice-president of William Switzer & Associates Ltd. a furniture manufacturing company based in Vancouver and obviously controlled by the Switzer family, the company originally started off as a design firm. An unavoidable problem that is easily faced by family owned businesses is that the potential successors could be born with a silver spoon in their mouth; they may feel that they have a sense of entitlement purely because of their names. The Switzer family tackled this situation by involving Allan Switzer at a very young age. Allan's parents had him sweep the floors at the

office at the age of six, at 12; they sent him to England to apprentice with a furniture manufacturer in Ipswich where he resided at a hostel for 6 months learning the basics about antique furniture. The following year, Allan was sent to Spain where helped open a production workshop and trained a number of employees. In the eyes of his parents, it was vital for Allan to have hands-on experience working side by side with their employees on the floor-shop where he could truly value all aspects of the business and see things that the executives on the top may not be able to see. A more dramatic action taken was when Allan grew older, his mother realized that neither him or his sister had the specific skills needed to run a design business and as a result she convinced their father to change the nature of the business all together from a design company to a manufacturing company, this decision eventually allowed the company to earn over \$30 million dollars (Successful Successors, 2007).

Succession planning is necessary when it comes to small firms just as it is necessary for larger corporate enterprises. The article, Exploring succession planning in small, growing firms (Sambrook, 2005), aims to understand some of the issues faced with finding and developing successors to ensure the continuity of and growth of small firms.

Sally Sambrook, the author of this article, explains that not all small organizations have growth as one of their objectives, growth is actually found in the career motivations and the expectations of each individual small business owner. She defines succession planning as the attempt to plan for the right number and quality of managers and skilled employees to cover retirements, death, serious illness or promotion, as well as any new positions which may be created in the long term plans of the organization. Sambrook believes that succession planning is closely related to human resource planning which aims to ensure that there is a match between

the demand and supply of jobs, from the internal and external job markets. Human resource development, which encompasses organizational development, career development, and the development of potential successors, is an important factor which impacts succession planning.

Research has shown that the survival rate of smaller, usually family owned firms has been very low in comparison to non-family firms. Through examination of this issue it had been determined that succession has two interactive dimensions; satisfaction with the decision making process, and the effectiveness and impact of succession. Usually the current managers were more satisfied with the process than their successors and felt more ready to step aside; this could be because there was weak communication amongst the two parties, a common problem during the succession planning process.

Sambrook conducted a research study where four participants, two owner-managers (one working in Human Resource consulting and one working in IT Software development), and two of their employees were interviewed on topics revolving around three main issues:

1. Why are you successful?
2. How do you find people to succeed in the future?
3. How do you develop successful successors?

The results found that the owner-manager in the HR field wanted his organization to be the number 1 firm in this field in the Northern Hemisphere and believed that his role would not be very significant down the line, as a result he had already been thinking about his exit strategy. He focuses on recruiting flexible, loyal, and committed employees to keep his business running and he did not have a very hard time finding them in the urban setting of his organization.

The owner-manager in the IT software field had a very growth oriented strategy; he believed in delegation but also states that he has a hard time finding skilled employees in the available job markets.

When asked about how to develop successful successors, the IT software owner-manager insisted once again that delegation was the most important item and that their own personal involvement should be limited. He believed this was important in helping his employees prepare for the future

The HR consulting owner-manager ran his business in a way that each employee is responsible for a certain project allowing them to make decisions and empowering them to have individual control over one sector of the business.

The employees were more vocal in their dissatisfaction with certain issues, they stated that there wasn't a clear understanding on their part regarding the organization's plan in the next five years for certain directors.

Sambrook found that there was a need to transfer three different types of knowledge from the current manager to his or her subordinates in order to ensure a well prepared successor. These were labeled as; K1 Technical knowledge, K2 Knowledge about the organization and how it works, and K3 Knowledge related to leadership.

Succession planning in small firms occurs at two tiers, the first tier is made up of lower level employees who are hired for jobs that require minimal skills. The second tier is a more managerial level and harder to find the right people for it from the external job market. Employees in the first level who demonstrate potential may be promoted to the second level to

take on more responsibilities and become specialists. Sambrook demonstrates the recruitment process regarding those tiers in the following diagram:



Figure 5. An initial model of succession planning in small firms. Adapted from *Exploring Succession Planning in Small, Growing Firms*

Sambrook also explains that there are two key succession steps as small businesses grow which she demonstrates in the below diagram:

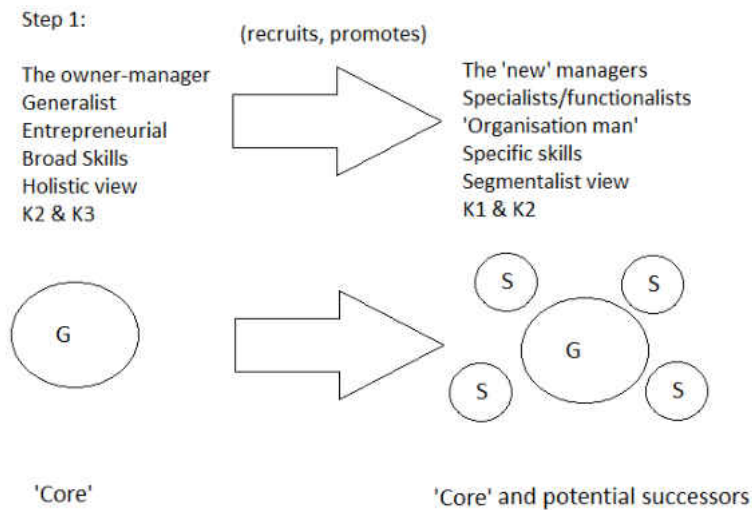


Figure 6. The first step to succession. Adapted from *Exploring Succession Planning in Small, Growing Firms*

Step 2: Transfer of K2 & K3

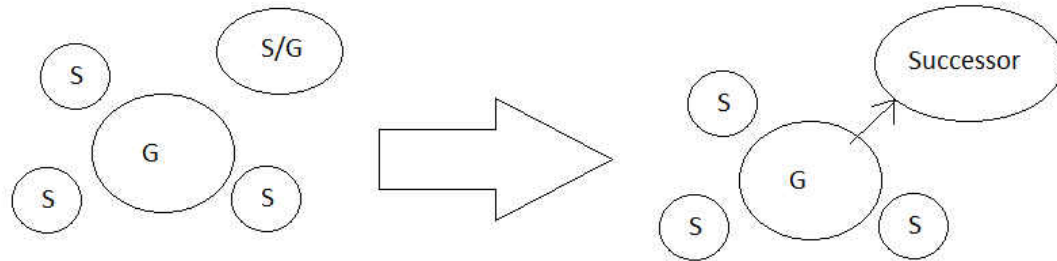


Figure 7. The exit strategy, developing principal successors. Adapted from *Exploring Succession Planning in Small, Growing Firms*

Step 1 indicates the core in which the owner-manager (G) holds knowledge about the business and how it works and leadership knowledge (K2 & K3) but may lack technical knowledge (K1) so as a result he begins to recruit specialist (S) around him with various skills to take over certain jobs.

On the other hand step 2 is a demonstration of the owner-manager's exit strategy where he begins to transfer knowledge about the business and leadership skills to a chosen specialist whom he believes could adequately take over. This specialist is then chosen as the successor and the transition process begins. It is this final part of the succession process, which is also the most important, that the greatest difficulty arises. If no specialist can be chosen internally, then looking at the external job market will have to occur, and this will make for a longer training period which in turn raises cost. But at the same time, transferring knowledge of leadership (K3) is no easy task as it is derived from personal skills and experiences, as a result it is better to focus on developing these skills through mentoring and education programs, which may or may not replicate the effectiveness of the current leader with the successor.

2.1.4 Hewlett-Packard Case Study

Depending on the approach used, transitional management can be a very messy endeavor, and as was mentioned earlier, Hewlett-Packard is an accurate example of this very notion.

Regardless of the events which led to his exit, Mark Hurd has often been hailed as the savior of HP; some experts even went as far as stating that it was a mistake to fire him because of his affair with a marketing consultant (Worthen & Lublin, 2010).

Mark Hurd came to Hewlett-Packard during a really difficult time. There was great tension amongst the Board members at HP due to the very unpopular merger with Compaq in 2002. Things got really bad when Carly Fiorina, the CEO of HP at the time, publicly ridiculed Walter Hewlett, a board member and the son of one of the founders, for expressing his disagreements with her decisions (Bandler & Burke, 2012).

In 2005, Carly Fiorina was forced to resign and was replaced by CFO Robert Wayman, a 36-year veteran of the company who acted as the interim CEO until Mark Hurd would eventually be picked up for the position. (Pui Wing Tam, 2005; Hewlett-Packard, 2005)

Mark Hurd began his mission at HP with a financial agenda; he wanted to see the company's expenses aggressively cut down. This paid off, as in just a few years, Hurd saw HP's revenue, \$118 billion in 2008, surpass IBM's \$104 Billion.

Under Mark Hurd's leadership HP's stock gained \$50 Billion and 6% in sales during the recession of 2008. But those gains were all lost only one year after he was forced to resign (Koploy, 2012).

In an attempt to recover from an embarrassing turn of events, HP decided to shift their focus towards strengthening their Enterprise division and in the fall of 2010 they hired Leo Apotheker hoping his experience at the enterprise-centric SAP would be of use to them.

The hiring of Apotheker as CEO was very controversial move from the board's side. For starters, Mark Hurd had promised a number of different individuals that they would be the ones to replace him at the time of his departure, ensuing confusion and fueling rivalries amongst executives.

There was also the question of whether Apotheker would be able to handle running a large company such as HP. SAP had one-eighth of HP's revenue, and the entire company was smaller than some of the individual divisions at HP.

Then there was the Oracle dilemma. HP and Oracle were competitors as well as partners and shared 140,000 customers. Larry Ellison was a very good friend to Mark Hurd and actually ended up hiring him at Oracle as Co-President after he resigned from HP. (McMillan, 2012)

On the opposite end of the spectrum, Leo Apotheker had a very bad relationship with Larry Ellison, which was due to numerous court battles between SAP and Oracle over the theft of Oracle software by one of SAP's units. Things only got worse when Mark Hurd joined Oracle and the two companies, which once had an admirable partnership, were now also in and out of various court battles (Levine, 2012).

Nevertheless, some members of HP's board really believed Apotheker can build on the success which Hurd had established. Apotheker spoke five languages and 60% of HP's business was now overseas. He desperately wanted to restore innovation at HP.

Leo Apotheker began overseeing the projects being developed by HP's recently acquired Palm Inc. The division developed and released a tablet computer called the HP TouchPad. Utilizing a new operating system called WebOS they planned to go head to head against Apple's widely successful iPad.

Sadly, weeks after its release, HP's tablet was a marketing disaster and the company quickly halted its production.

Things continued to get worse for Apotheker, HP was constantly missing revenue estimates and the board was starting to get concerned. This is when Apotheker realized that the company needed to do something drastic. He approached the board with two huge initiatives that he wanted to take in order to strengthen their enterprise portfolio; the first proposal was to acquire a software company; the second was to spin off the PC business and sell it as IBM successfully did with Lenovo (Chuanzhi, 2004).

HP's PC division was bringing in \$41 Billion in sales at the time and represented a little over 30% of the company's total revenue. Only one day after they made the announcement regarding the PC spin-off, HP's shares dropped 20%. Their customers and investors were in a panic and journalists took off writing of the would-be business disaster of the century. This frenzy did not last very long, one month after the spin-off announcement an unusual turn of events took place; Leo Apotheker was fired from HP and would be replaced by former Ebay CEO, Meg Whitman.

Whitman wasted no time getting to work and implementing policies that were reminiscent of the Mark Hurd era. She put a focus on cost cutting, the elimination of waste and

unnecessary extravagance, and she made it crystal clear that HP's PC division was not going anywhere.

Less than one year after Whitman took control of the company, HP reclaimed the number one spot in global PC sales with 15.8 million devices shipped in the first quarter of 2012 (O'Brien, 2012).

The last few years for Hewlett-Packard have been an excellent exercise in the dynamics of transitional management; the case gave two examples from opposite ends of the spectrum. They had to deal with the sudden need to fire one of the best executive that has ever worked at the company during one of its most profitable times and they followed it by hiring an extravagant leader with high hopes for drastic change and a history of burnt bridges. Apotheker barely made it through one year working with HP and when he was done their market value had plunged by 50% (Hartung, 2011).

These various circumstances traversed by HP embody the extreme difficulties faced by organizations struggling for sustainability and continual success.

2.2 Literature Gaps

As was stated earlier, the dilemma regarding transitional management is that it is not a concrete topic that can easily be represented. The areas and concerns that arise are often very ambiguous or may revolve around personal characteristics that cannot be easily measured. This leads authors and surveyors to speculate and make educated guesses over what exactly is going on when an organization reaches a point where they need to change their leadership.

Although, many authors may use items such as an organization's financial revenue as the basis for measuring how well suited an executive is, this does not tell the whole story. Impact of a new CEO may not necessarily be reflected in the short term financial results. Granted, the goal of an organization is to make money, but if the leader is an excellent salesperson but not a visionary, eventually they will hit a plateau and fall behind other more innovative competitors.

An excellent example of this is former Motorola Mobility CEO, Sanjay Jha, who even amidst a number of inconsistencies and continual financial losses was announced in 2009 to be the highest paid CEO in the United States, with over \$104 Million in compensation. Sanjay Jha was a visionary who quickly aligned his company's products with Google allowing them to stay competitive against Apple's newly launched iPhone. This benefited both, Motorola and Motorola's biggest customer, Verizon, who were battling AT&T after they had just landed the exclusive deal for Apple's new handset.

But Sanjay Jha's swan song came in 2011 when he singlehandedly orchestrated one of the greatest tech acquisitions in history which allowed Google to buy Motorola Mobility (The handset division of Motorola) for \$12.5 billion. This was at a cost of \$40 per share, a 63% premium to the closing price of the company's shares the week prior. Sanjay Jha knew that there was more to Motorola Mobility's worth than just what its share price in the stock market represented. He understood that Google could greatly benefit from having a hardware arm at their disposal and make use of Motorola's wide array of patents (Efrati, Ante, Das, Iwatani Kane & Jarzemsky, 2011).

Essentially Google bought Motorola's handset division at an amount equivalent to the market value of all of Motorola as a whole in 2008. Motorola Solutions, the still-public division

of Motorola which specializes in telecommunication equipment for industry and government is currently valued at \$14 billion. Experts believe that Sanjay Jha almost doubled the market cap of the entire Motorola enterprise in just three years. He is praised by many as an excellent example for CEO's that want to make positively dramatic transformations in their companies (Mui, 2012).

Sanjay Jha's example shows that there is more to a CEO than just what appears on a company's financial statement. Had Motorola been bought by Google based on only the company's current stock value, shareholders would have been incredibly disappointed. It is these other factors that are often not brought together and analyzed in literature sources in order to help organizations decide on a leader.

How does one measure and rank a CEO's innovation perceptions, or their level of influence on stakeholders and employees? What about their ability to make sound decisions amidst troubling times? And how do board members use these factors to decide who they want to see as the next managing executive at their company? These qualitative factors have not been scientifically addressed in the above references; they have not been quantified or modeled and this is what is needed to make an accurate assessment of how to transition management and move a company forward.

In the HP case study we saw the board put a lot of weight on Leo Apotheker's experience in the field of Enterprise Resource Planning and System Solutions, but how could they put any weight on his awful relationship with Oracle, one of HP's biggest partners. His tenure at the company did not last very long even though he was impressive on paper.

The literature talks about the importance of succession planning, the dynamics between the stakeholders involved, and things such as mentoring programs and on the job training, but it

gives them no tangible values and provides organizations with no methodologies to visualize the grand scheme of this problem and no tools to find a solution based on quantifiable data.

Much of the research may focus just on one or two important factors, whereas organizations need to look at all of them together and understand how each factor may positively or negatively impact the other factors. Only then do stakeholders start having the right discussions, and the organization comes closer to choosing a new leader.

We saw that the available research today uses things such as interviews, statistical analysis, and various case studies to validate their points and reach conclusions, but very few of them actually develop methodologies or models to aid in visualizing the problem, and even then these models are not entirely conclusive they do not help us in finding a definite quantitative method to select the future leader.

The below diagram shows some of the primary research articles studied in this dissertation and where they fall in comparison to the literature gap. The literature gap is the area which this dissertation aims to fill while utilizing some of the tools available in the other more saturated areas. This dissertation aims to develop a model which maps out the problem of transitional management giving a clear understanding of where the challenges lie, followed by a methodology using system dynamics to provide quantitative data which can allow us to determine a suitable successor under certain circumstances.

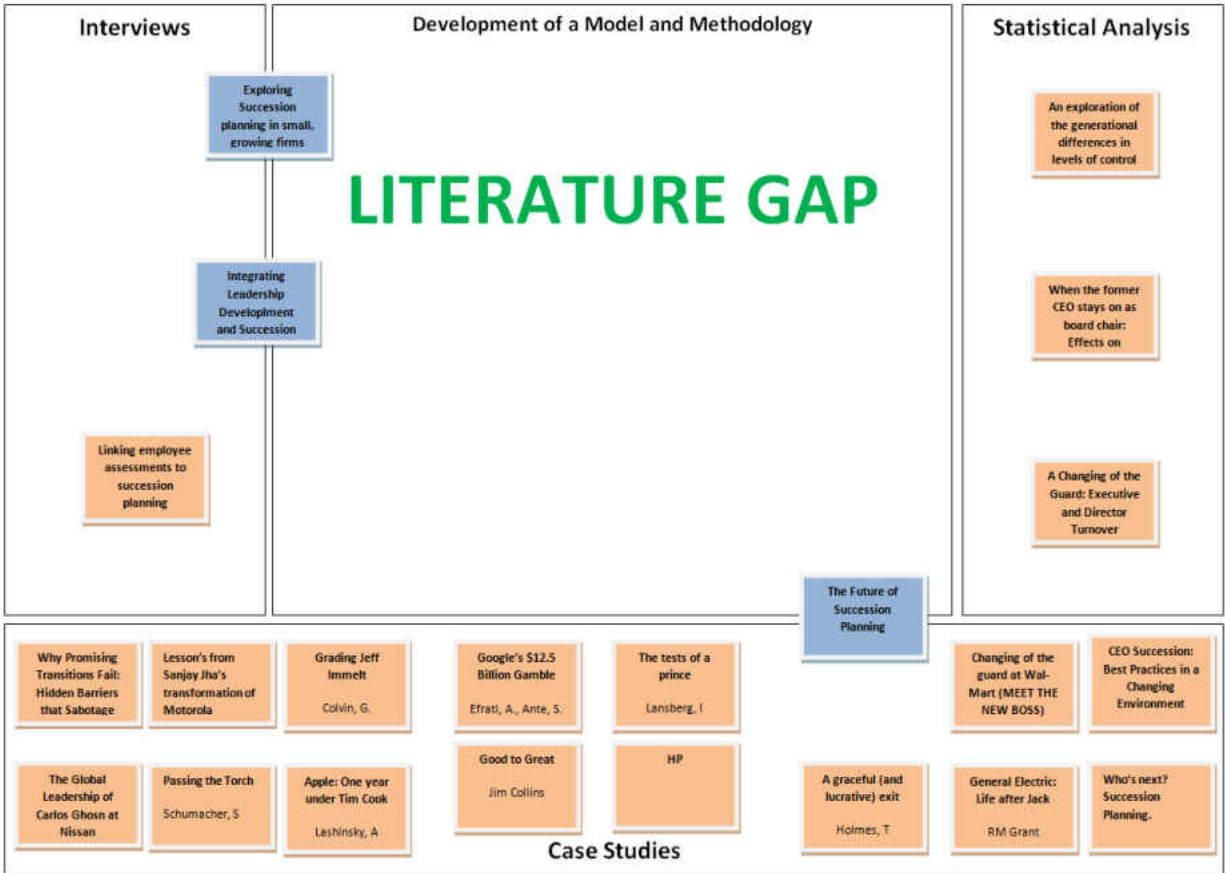


Figure 8. The Literature Gap

CHAPTER 3

This chapter introduces the research Methodology utilized to formulate a cohesive study on the problems of transitional management. Essentially the research methodology lays out the building blocks for the development of a dissertation which will contribute new information and new ideas towards its relevant field. As is the case with any dissertation a new problem is identified from a thorough literature review, and a solution must be derived. The research methodology is comprised of everything that makes up how one gets from identifying the problem to eventually formulating a solution.

3.1 Research Methodology

The following diagram shows the research methodology followed in our study. It is a way to visualize how our train of thought developed as we moved forward in this work. The research really started with one idea for a problem regarding transitional management in family owned organizations, but this idea evolved into something much bigger, and as we came to find out, more critical. It turns out the original research idea was just one part of a broader problem. Transitional management was a dilemma that held no prejudice with respect to the type of organization. This became even clearer as we progressed in our literature review, which was the next step in our research methodology, and that eventually opened our eyes to the literature gap, which was a lack of a concrete framework for transitional management. Once the literature gap

was identified, we moved onto the next step which was the development of our three step framework.

This framework was applied to two case studies and simulation software in order to test how it functioned on real world scenarios.

As part of our research efforts we presented the framework at various industry conferences and this opened our eyes to new ideas and new ways which it can be applied. This further reinforced the fact that we were headed on the right track.

In order to validate the framework we presented the material to a Panel of Experts who would utilize a Nominal Consensus Technique to formulate a constructive perspective on the work. Upon the completion of the Nominal Consensus Technique, the results were analyzed, adding validation to our efforts, and contributions were made towards our ideas for future studies and how one could expand on this research.

We identified our contributions to the body of knowledge and are able to see clearly that this research does certainly fill the original gap which we identified. The framework presented was validated by the Panel of Experts and is indeed a solid combination of models which can be applied as it currently stands, but with the potential to be further expanded upon.

The research methodology makes it clear that this is indeed the first framework of its kind to be applied to such a problem, and it holds strength in that it can be applied without precedence at multiple levels of an organization.

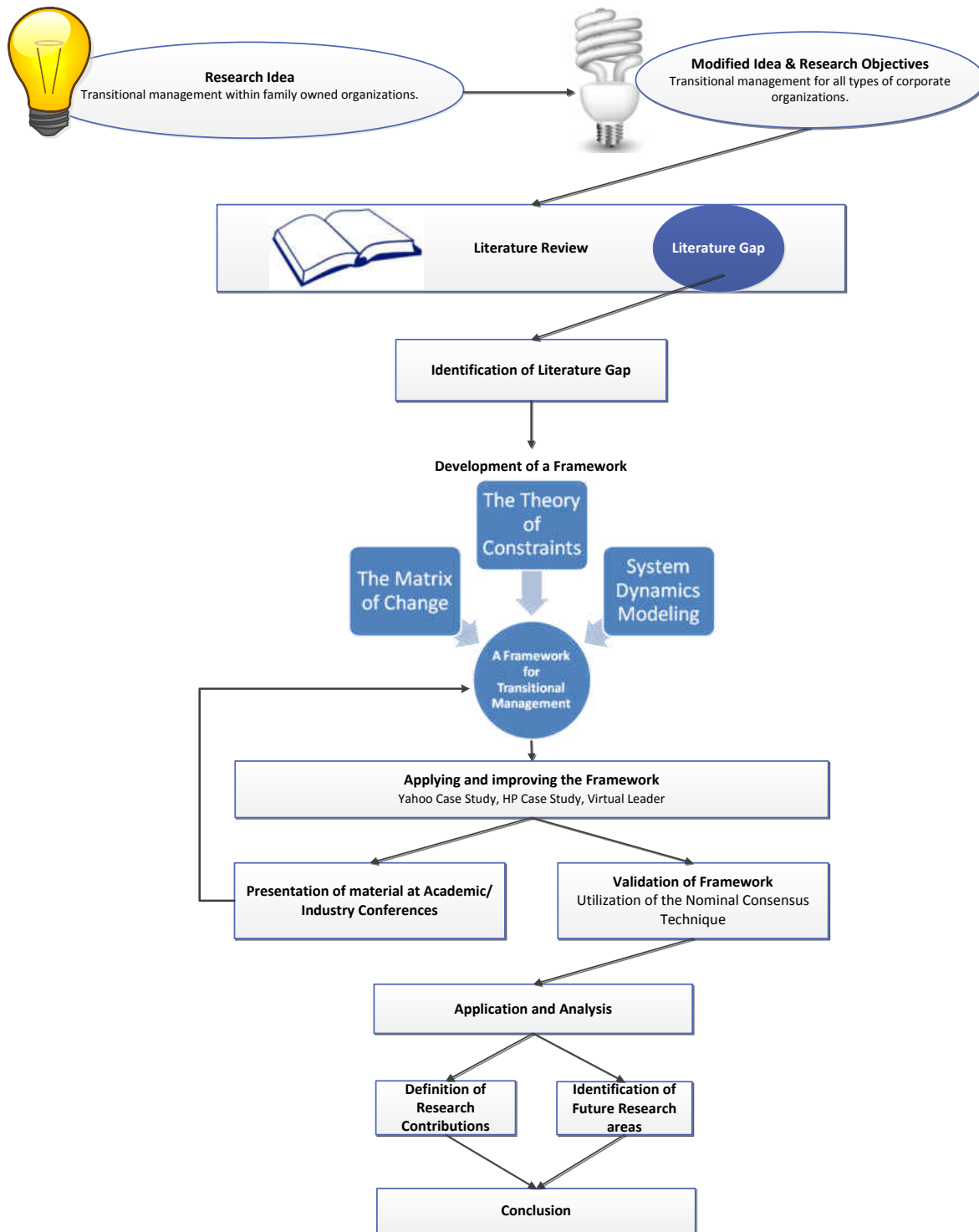


Figure 9. Research Methodology Diagram

3.2 Research Idea

When we initially started this study, our original focus was on transitional management within family owned organizations. It came as a result of experience to see the dynamics within family organization differ so greatly from those non-family owned businesses. There are many factors to be considered when family members are working together and involved in transitions of managerial positions. Personal feelings come into play far more frequently than at standard organizations. The issue of nepotism is always lingering and stakeholders dance around the topic with hopes of running the business as if personal relationships do not influence their decision making capabilities, though that is rarely the case either.

3.3 Modified Idea and Research Objectives

As we expanded the sources of our research it became clear that there was a very real problem with respect to transitional management, not just in family owned organizations, but in all types of corporate organizations. In general corporate organizations worldwide continued to struggle with the idea of transitional management. The whole process was often left to chance and whatever poorly developed plan there was, most likely was not followed. When companies saw a successful transition they believed it was as a result of something they did in choosing the right candidate, and when they attempted to reapply the same technique to another candidate in

the future, the transition would turn out to be a complete failure. Some organizations believed that because their current executive was successfully running the company that the successor would not have any problems transitioning into the role. But as was discussed with the case of General Electric, these scenarios don't always work out that way. As a result, we saw that this research could be far more effective if we expanded the study instead of limiting ourselves to just one sector of a broader problem.

3.4 Overview of Literature Review

The literature review was composed of; academic journals, business journals, case studies, management books, research articles and essays, current affairs as well as global news, and corporate reports. They provided the sources of which we able to study past ideas with respect to this topic and oversee what others who also identified this problem had contributed to the field.

At a time when technology has become so quick to change, businesses are continuously rebuilding themselves, developing new strategies, and going into new markets with the hopes of gaining an edge over their competitors. At the time of writing this dissertation many of the world's biggest companies were in the process of changing their Chief Executive Officers.

The more we read about this topic the more we became convinced of two things:

1. Transitional management was a very real problem
2. No one had developed an analytical framework to mitigate this problem

The literature was successful in identifying the different ways which these problems developed. Sometimes the problem came as way of the outgoing CEO, unwilling to guide the newly hired executive, or unable to successfully do so. Other times it was the incoming CEO who, despite the board's confidence, proved to be unqualified and just the wrong person for the job. But at times it was the nature of the business itself; the industry was becoming flooded with new competitors quickly meeting customer demands and leaving other companies unable to adapt to the changing market.

3.5 Research Gap

From the very beginning we were able to identify a major gap in the literature; there was much speculation on how transitional management should be conducted but no analytical framework giving support to the opinions being presented. Companies continually voted to bring in an executive who successfully turned the tables in one company, not realizing that the dynamics of their business differed greatly. Executives were chosen because of how they looked on paper, and not so much on how they fit within their company and whether there was goal alignment between the business and the executive. The better a candidate looked on paper, the

more interest was developed by the board to push for their selection. It was all very much based on opinion. Many of the opinions used past examples but there was no framework developed to add justification for what was being stated.

The decision of choosing the right successor to run a business is so important that it should not be left to opinion or luck, there needs to be a concrete scientific way to choose who the best candidate is to run the business. The problem was apparent throughout all the literature that we reviewed; from there it became clear to us what the framework should look like.

3.6 Development of a Framework

One problem faced by many companies was their lack of ability to understand the state of their business. Their profits may be falling, and instead of focusing on the core problem they were looking at a number of outliers which they thought were the culprits. The process of identifying corporate problems was very unorganized. When these companies were unable to truly understand the problems which they were facing at the current state, how could it possibly be expected of them to plan for where they wanted to be in the future? It is very important to analyze the current state and the future goals of the system, when the goals of the business are clearly identified; it becomes easier to align the right executive with the company. The transition is very important and the stability of the current and future goals are often overlooked if they are not laid out and presented to all the key stakeholders.

The tool that we have proven to be the best match for tackling this dilemma and allowing companies such an in depth level of visualization is The Matrix of Change. It was developed at MIT to specifically address the problem we just listed; it is visualization technique that promotes stakeholder discussions and allows for a better understand of the big picture. Where a company currently stands and where they want to be in the future is mapped out on the Matrix of Change and the level of difficulty with respect to the transition process is also displayed and eventually discussed.

Once these companies understand their current standings and where they want to be in the future, they then need an action plan to be able to initiate this change. Merely knowing where they need to go is not enough; companies must have a very clear plan indicating how they will be getting there. The Matrix of Change does not identify the problems that companies will encounter during the transition, and this is why we introduced the Theory of Constraints. From an upper level view, this is a means to organize the problem and provide a step by step guide for organizations to go from the current state listed in the Matrix of Change to the future state. The theory of constraints was developed as a business tool to help organizations understand where certain bottlenecks lie within their business and what are the actions needed to be taken in order to mitigate these trouble makers.

But relying on these two models only presents a qualitative perspective, adding System Dynamics modeling is a way that will lead the model towards a quantitative technique. With so many different factors that come into the picture at massive global companies, it is important to understand the cause and effect scenarios and this is best modeled using causal loop diagrams to

see the nature of these relationships. However, Causal Loop diagrams are still qualitative models, this is why Stock and Flow Diagrams are used as the last step in our framework and it is here that our simulation can be run using different alternative factors to test out multiple scenarios identified through the Matrix of Change and the Theory of Constraints. Stock and Flow diagrams is where the transition from qualitative techniques to quantitative techniques occurs. The scenarios outlined in the previous models are given values and weights and input into the simulation by way of formulas, they are held at bay by constraints, and some interchangeable variables leave room for the testing of multiple alternatives. Just as our inputs have now become quantitative values, so will our outputs giving us a chance to compare the different alternatives at a higher level of accuracy.

3.7 Applying and Improving the Framework

Case scenarios are an appropriate method to see the capabilities of the framework and, by default, improve upon on it. Two case studies and a simulation software were selected; the very well known case of Yahoo's hiring of Marissa Mayer as CEO, the disastrous one year tenure of Leo Apotheker at HP, and the simulation tool known as Virtual Leader. Yahoo and HP were selected because of how different they were from one another, on one hand Yahoo was on a downward spiral, had gone through a number of CEO's in a very short amount of time, and were faced with a very fast growing giant of a competitor. HP on the other hand was at a prime

position in the industry, and was achieving record revenue figures when their CEO was suddenly let go. Despite the urgent need for a new CEO in both scenarios, the dynamics of the transition had to happen in a different way. Yahoo was viewed more as a recovery effort and HP was viewed as a sudden need for sustainability.

Virtual Leader was utilized in our study because it is one application that we can be a part of. HP and Yahoo's case studies put us in the position of an outside observer. Virtual Leader on the other hand provides us with results based on our own actions and, in a way, holds us accountable.

As a means to better understand the dynamics of the models when used individually versus when they are used together, we will utilize them in different ways. For the Yahoo case we will only use the Matrix of Change, for the HP case we will use the Matrix of Change and System Dynamics modeling, and for the Virtual Leader simulation we will utilize all three models, The Matrix of Change, the Theory of Constraints, and System Dynamics Modeling.

3.7.1 Applying the Framework to Yahoo

Yahoo's case is an interesting model of a company so lost it cycled through 5 CEO's in only two years. Things got so bad that the company was left with no choice but to hire one of the executives from their primary competition to set things right. Yahoo was at one point the Google of the world, it was groundbreaking, it was efficient, and it was easy to use. But in such

a competitive playing field, Yahoo failed to adapt adequately to the mobile revolution, or the ongoing demands of consumer cloud storage and their dire need for more accurate search results. The ship was not sunk, but its path was constantly changing towards the wrong direction and it needed swift action if it was to become competitive once again.

3.7.2 Applying the Framework to HP

HP on the other hand was faced with a different dilemma than that of Yahoo. This was a company that was at the peak of their success. It had a CEO that knew exactly what the company needed. He kept costs down, the company was profitable and was surpassing its chief competition and industry Benchmark, IBM, and the board was continually seeing the result that it wanted to see. But due to unfortunate circumstances, Mark Hurd was quickly removed from the position and the board saw an opportunity in SAP CEO, Leo Apotheker, who was brought in to strengthen HP Enterprise division. But the decision proved to be disastrous, providing a classic case study of the importance of goal alignment between CEO and Company.

3.7.3 Applying the Framework to Virtual Leader

The closest thing to testing the framework to an actual organization going through a change is to utilize simulation software placing the user at the seat of a newly hired executive asked to make certain decisions, both big and small, and react to the consequences of his/her actions. Virtual Leader provides its users a final score for their management skills allowing them to practice in a number of various scenarios while learning about their own strengths and weaknesses.

3.8 Presentation of Material at Academic/Industry Conferences

The premise of this dissertation was presented at two international conferences, the 2013 Systems Dynamics Society Conference sponsored by MIT in Cambridge Massachusetts, and at the 2013 Industrial and Systems Engineering Research Sessions, part of the International Industrial Engineers Conference in San Juan, Puerto Rico. Both events allowed us to interact with various professionals in the field who offered constructive feedback and reinforcement with respect to the direction of our study. Minor errors, such as some of the values we were inputting into our stock and flow diagram, were highlighted in the framework and this allowed us to go back and implement some slight modifications for more accurate results.

3.9 Validation of Framework

In order to validate the developed framework, a consensus method, which is what, is generally applied to qualitative studies when there is a lack of unanimity in opinion, sometimes due to limited scientific evidence or if there is contradictory evidence on an issue. The three best known consensus methods are:

- The Delphi process
- The nominal group (Panel of Experts)
- The consensus development conference

(Jones and Hunter, 1995)

We have decided, due to the nature of the subject, the method we choose to validate our work would be the nominal group and we will present our work to a Panel of Experts.

The Panel of Experts is a group of individuals made up of business owners and executives, university professors, and working professionals who have been involved in or studied organizational transitions and could relay their experiences and compare them to the steps outlined in our framework.

This discussion gives us a chance to look for discrepancies within the methodology; they could highlight potential pitfalls and areas of weakness that we would have to reevaluate or could note for future research.

These practices are all intertwined and are a part of the Theory of Constraints where the problem needs to be identified, elevated, and rectified, and then the next problem is tackled, until the entire methodology system is running efficiently.

The Panel of Experts is traditionally composed of 8-12 members. In our case, there will be 8 members and they will come from three different fields:

- Academia
- Industry
- Government

They will be asked to look at the framework from three different perspectives:

- Financial
- Operational
- Behavioral

Our framework was validated by a Panel of Experts made up of individuals from different industries, with different experiences, and different perspectives. They utilized a Nominal Consensus Technique to voice their opinions and present a consensus regarding the efforts of this study.

3.10 Application and Analysis

The first step will be to conduct an individual interview with each member of the Panel of Experts. The framework will be presented and explained to them. Upon completion of the interviews the members will be individually asked to answer a set of questions where they will rank whether they agree or disagree with the framework.

Next, in order to validate the framework, an online discussion forum will be setup for the experts, giving them a chance to discuss the framework amongst each other and allowing them to present their potentially varying perspectives. Once they are done they will once again be asked to present their rankings based on the discussions and noting if their opinions have changed because of it and why.

The procedure for this panel of experts is outlined in the following diagram:

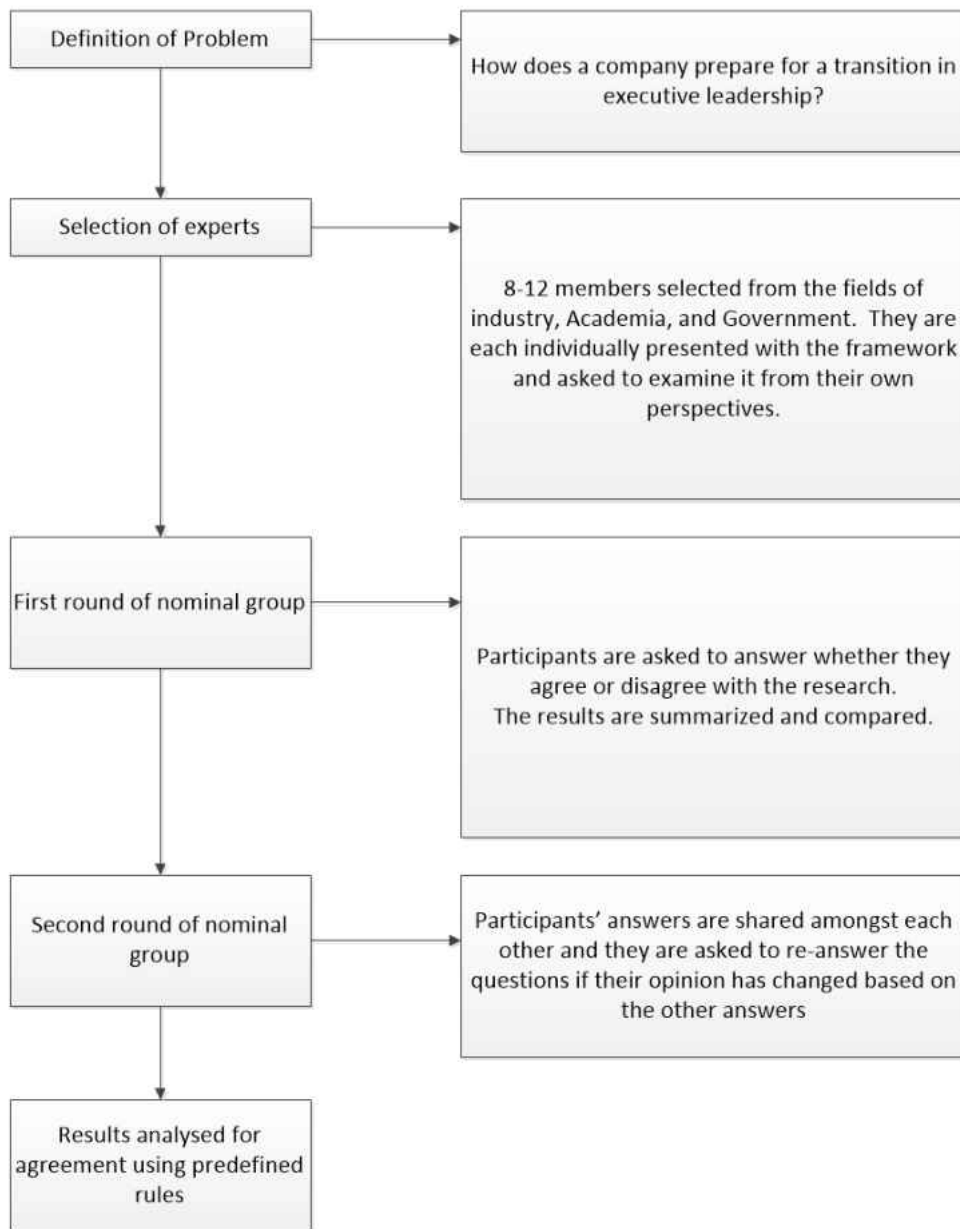


Figure 10. The Panel of Experts. Adapted from *Consensus Methods Medical and Health Services Research* (1995)

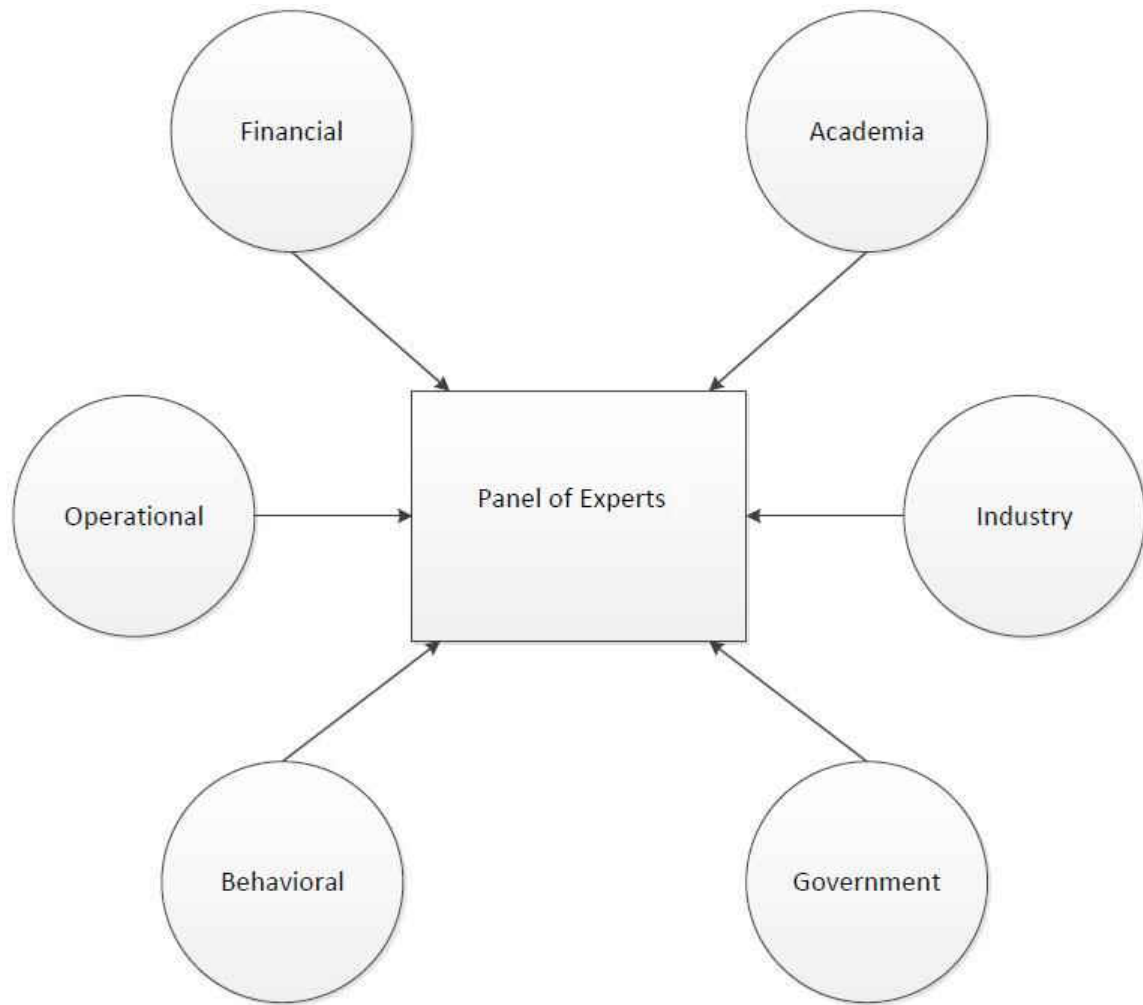


Figure 11. Distribution of the Panel of Experts

We will analyze the results of the Nominal Consensus Technique derived from the Panel of Experts and observe if there are any patterns amongst the results. Both the individual assessments and the group assessments should offer unique views, but as the industries of the different individuals overlap, so should their results.

3.11 Research Contributions and Future Research

With many dissertations, there is always room for improvement, research is always evolving, new ideas may come into play and may be tested, and we identified some areas where there can be expansion and additions to our work. But by the conclusion of this study, the next generation should now have a systematic means to get started on the next iteration of this work.

Our research impacts the business community as well as the engineering community as it combines practices and ideologies from both fields and offers new contributions which as we saw in the literature review were just not present. There is a dire need for companies to use a systematic tool in making their most important decision. This study opens the door to this very solution.

CHAPTER 4

In this chapter we introduce the core material of our study, and that is the framework we have developed to mitigate the problems which arise in Transitional Management.

The literature review opened our eyes to a gap in the research in which we saw that there were no analytical frameworks present to aid organizations in moving on from one generation to the next with respect to the corporate executives.

As we examined the available models which could be utilized for this problem, we saw that there were many potential options that could be utilized to build our framework. Some alternatives were considered initially but later eliminated; such as IBM Business Process Modeling Notation, due to the fact that they did not seem to function in a contributing manner alongside the other models that were actually selected.

We knew there needed to be a straightforward procedure which was dynamic enough to be applied at various organizations without precedence, but strict enough that it would not allow for deviations once the process had begun.

Due to the nature of the problem, the models we would implement in the framework would utilize both qualitative and quantitative factors as they worked together towards a final solution. For it to cover the problem from multiple perspectives, the framework needed to be composed of both, business modeling tools and Engineering simulation software allowing for a diverse interaction of ideologies and problem solving techniques.

4.1 The Framework

As displayed in the diagram below, the framework we are presenting comes in multiple phases. Utilizing only a single model may allow for single a qualitative perspective, and although that may be helpful, it doesn't quite present us with a concrete framework. One can imagine it as looking through a window with the blinds open but still pulled down, you can see what is going on outside, but you are not getting the whole picture because the blinds may interfere with your view.

It's important to utilize the three phases outlined to allow for an organized transition process. An accurate visualization technique is the first step in our framework and it's a way for organization's to assess their position with respect to the market. The next step is for a company to begin preparing itself for the change, once they have a firm understanding of their current position and their desired future position, the company needs to have a step by step process in order to move forward and start on their path towards stability. Businesses, like all things in life will always be faced with constraints, organizing themselves to tackle these constraints efficiently is also another step in the right direct, and it gives everyone a firm set of rules that can be followed. This is something that should leave no room for deviation, it is not open ended but it is quite dynamic and will be continually evolving as the business evolves.

The third phase is the simulation and solving phase. System Dynamics modeling will allow companies to test multiple scenarios while considering different factors. It allows for a

company to implement the constraints discovered in the second phase into simulation software which will provide a clear assessment in the final outcome.

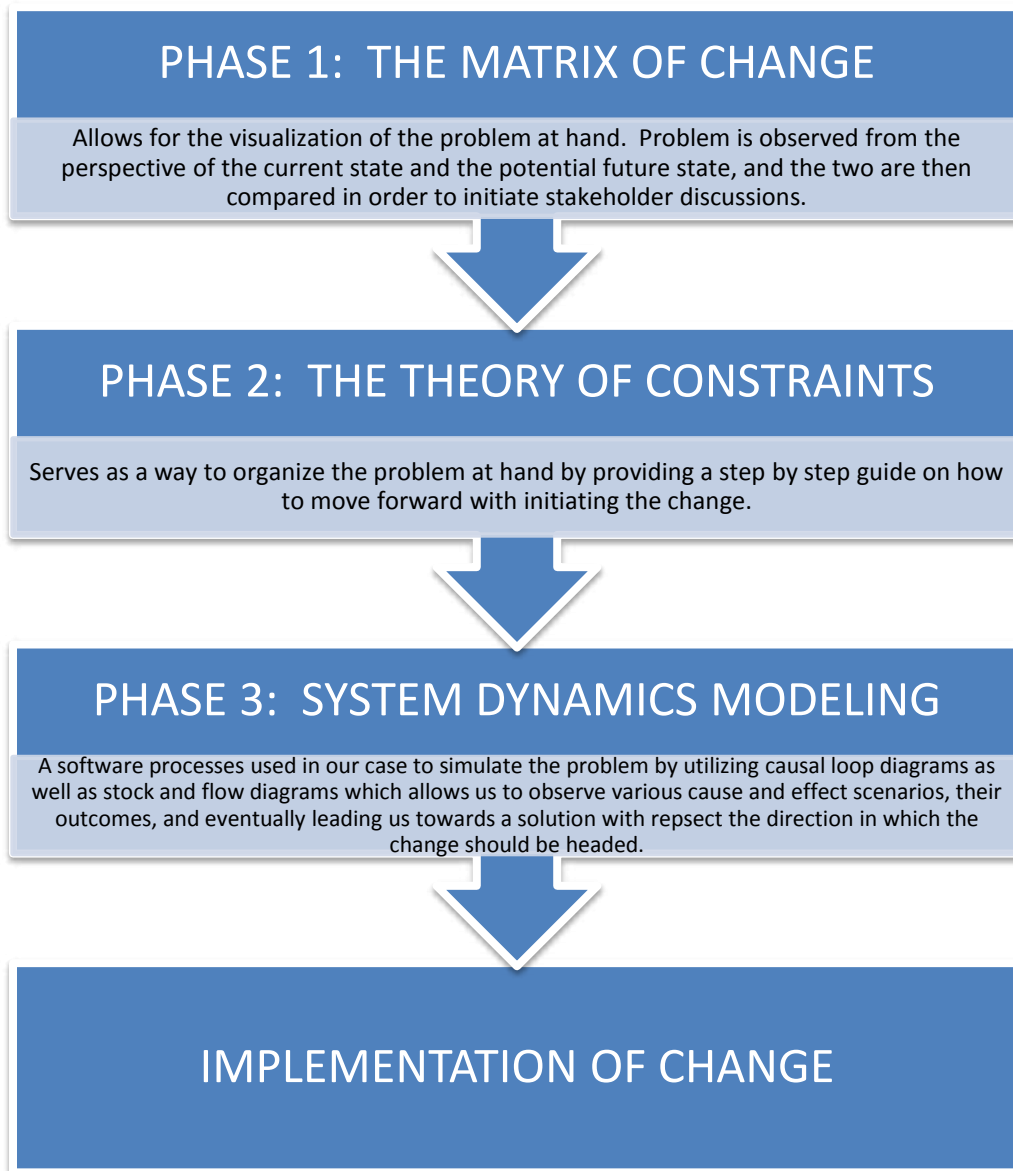


Figure 12. Framework of the Transition Process

In order to begin understanding how an organization can go about preparing for a transition of their CEO they have to find a way to model this situation. The current CEO brought certain things to the table; if the company was successful then they will want to build on this success, maintain it or even surpass it, when they hire someone new. If the company was losing money and in desperate need for change, they will want to find someone to act as their savior and help turn them around. Both scenarios pose certain difficulties and challenges, neither one is particularly easier than the other, but the scenario where the company is losing money may carry with it a sense of urgency giving the organization limited time and possibly less flexibility. Nevertheless, each case needs to be modeled in a manner where the status quo is clearly visualized, and the practices which need to be changed (or need to remain untouched) are identified. The organization cannot be moving forward blindly, they need to know where they will be in the next one, five, ten, or even fifteen years. The change needs to be directly correlated with where the organization wants to be in the future and this too must be clearly defined in the model.

All constraints that may arise must be outlined and a solution must be presented, potential problems cannot merely be put aside and dealt with later. Organizations must take pre-emptive measures in insuring that the changes they are implementing will not cause further harm towards the business.

A number of different models can be applied to understand the above scenarios. The Matrix of Change is one of those models which can give stakeholders a snapshot of the organization's present and future standings and how the change can come to be. The theory of

constraints is another method which was originally developed for manufacturing applications, but in our case we will apply it by looking at the managerial transition process as a system, and then identifying bottlenecks and constraints (weaknesses in the leader) and then working to exploit these constraints and find ways to rectify the leader's weaknesses. Finally, the development of a System Dynamics model using causal loop diagrams will allow us to simulate all the factors discussed in the previous models and allowing us to come out with a solution.

This dissertation's framework will appear in the following sequence:

4.1.1 The Matrix of Change

The Matrix of Change is the first system we will use to model the problem of transitional management. It was a joint research project developed by the Massachusetts Institute of Technology's Center for Coordination Science and the Center for eBusiness@MIT, and it was predominantly funded by Intel Corporation and British Telecom.

The Matrix of Change is a method developed to model change management, it works by identifying complimentary and interfering work practices and is made up of three matrices that are all interconnected; the existing practices, the target practices, and a transitional matrix connecting the first two.

The first matrix is that of an organization's existing practices. It allows stakeholders to visualize the practices which make up where an organization currently stands and gives them

weight to rank their importance. It provides the stakeholders with an understanding of whether these practices have a positive impact or a negative impact on the organization as a whole. It will also look at the relationship between these practices and determine whether they interfere or complement one another (Massachusetts Institute of Technology).

The second matrix is that of an organization's target practices and it represents where an organization wants to be in the future. It may or may not contain practices that were already displayed in the existing practices, and more often than not will display newly introduced practices, depending on what the organization's objectives are. Like the existing practices, the target practices will also be given a ranking and compared with one another to identify their relationship dynamics.

Finally, the third matrix is a transitional area, identifying the relationships between the existing practices and the target practices, and showing whether they interfere or complement each other. Generally, if there is a large amount of interference between the existing practices and the target practices, this usually indicates that the transition may be a difficult one. But in contrast, if the majority of practices complement each other then this is usually indicative of an easier transition.

One great advantage of using the Matrix of Change is that it opens up room for discussion amongst stakeholders. Once they see what practices are important to them and how they impact the organization as a whole they'll also start to appreciate those practices that do not pertain to them and it may help them make more sound decisions.

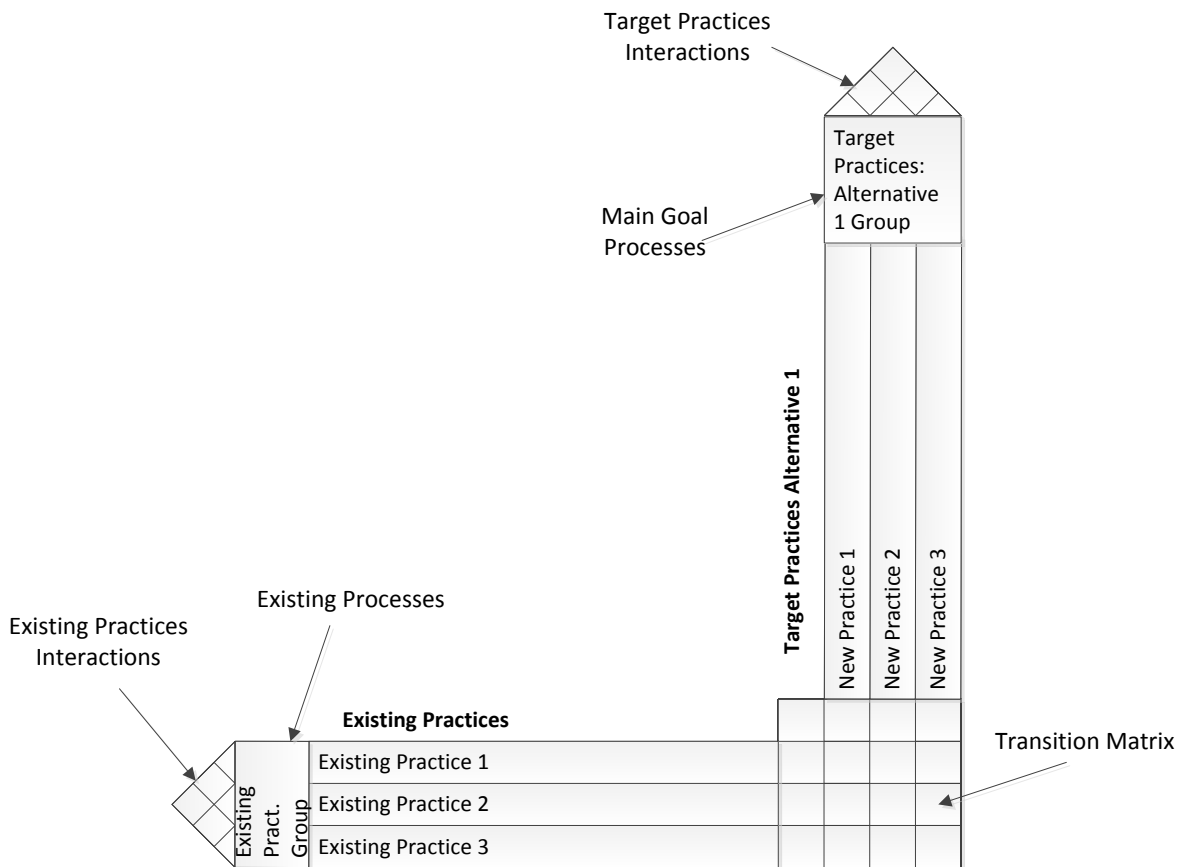


Figure 13. The Matrix of Change. Adapted from *Introducing the Matrix of Change*

The Matrix of Change is a method that has been applied in a number of different fields such as healthcare, manufacturing, and retail. But in our case we are apply the Matrix of Change to the organization’s dynamics itself, and the leader which we would like to see at the helm of this organization.

The important thing about the Matrix of Change is that we can use it to better visualize how we can align those goals with the organization's managing body, which in our example will have to change.

Later in this study we will expand on the Matrix of Change and look at how it can be used to compare multiple scenarios. The Matrix of Change is a small tool from MIT but it holds the potential to grow and to be integrated with other useful tools.

A good example to use for the Matrix of Change is to look at the situation when Apple decided to make a transition from outsourcing their Maps app to Google and instead decided to implement their own Apple Maps services.

Senior management at Apple decided to design a new generation of Maps services and quickly realized that they needed to rethink their marketing strategy and customer relations. The Matrix of Change is used here to visualize the various factors that had an effect on Apple's implementation of their own Maps services.

The first step we take in developing a Matrix of Change for Apple's situation is to list the organization's current practices; these are the factors which come into the picture as a result of Apple's usage of the Google Maps app. These practices are also put into groups for better organization and easier future discussion; in the following example the groups are items that pertain to the Corporate End of the business and items that pertain to the Consumer End of the business.

Utilization of Google Maps	
Consumer End	Customer's utilize familiar map service
	Synchronization with Google Maps desktop version
	Stronger overall integration of third party software
	Weak integration with iPhone, iPad
Corporate End	Google gains customer usage information
	iPhone user info used by Google to improve Android OS
	Apple pays Google licensing fees
	Apple unable to customize Google Maps

Figure 14. Organizing the existing traits/practices.

Next these traits are given a level of importance, highlighted to the right of the listed traits as, +1 or +2, indicating that these are valued traits which the organization would still like to see still there after the transition, -1 or -2, indicating that these are problematic traits which need not be eliminated when the transition takes place, or 0, indicating that there is not real preference regarding this trait during the transition. On the right side of the listed traits, we begin to

compare these traits to one another observing whether they complement each other, indicated by a “+” sign, interfere with each other, indicated by a “-“ sign, or whether the organization is unsure how a certain trait impacts another one, in which a “?” is assigned.

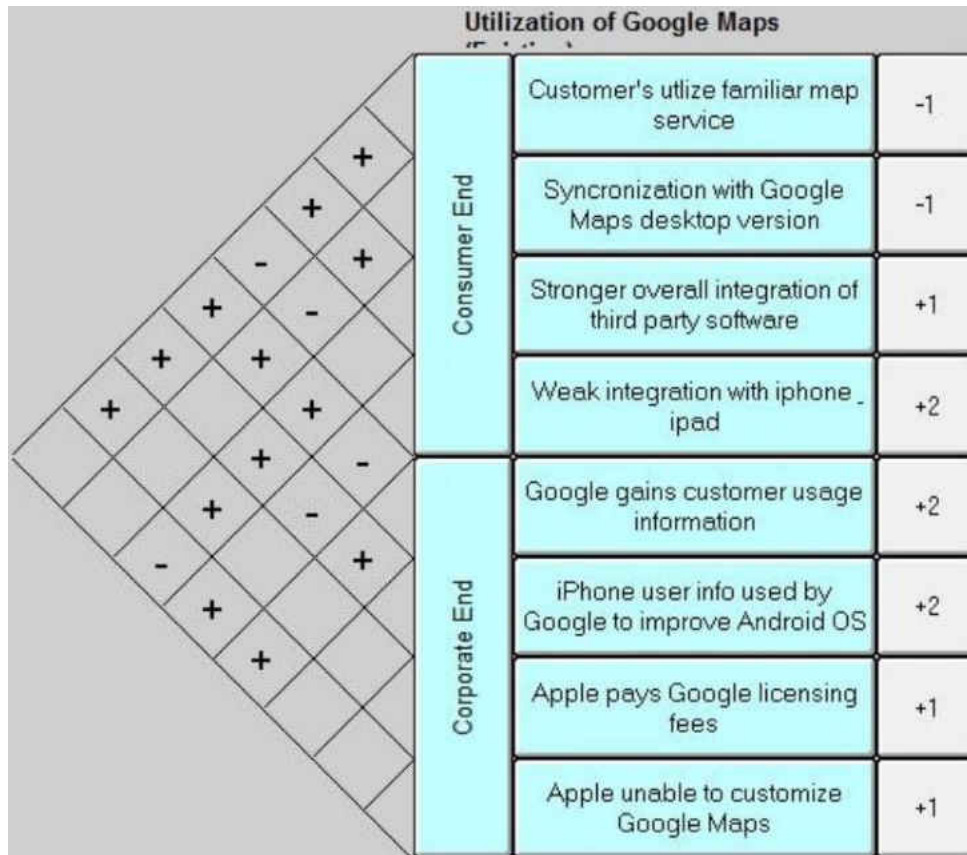


Figure 15. Including the current trait interactions and rankings.

The same procedure is then applied to develop the future state. All the desired traits are listed on the upper right side of the matrix and they are also organized into general groups.

Utilization of Apple Maps (Target)	Consumer End				Corporate End			
	Customers less confident using new Apple maps service	No desktop version for easy synchronization	Weak integration with third party software	Strong integration with iphone - ipad	Apple maintains customer usage information	Apple continues to strengthen its own devices	Apple saves cost by avoiding Google licensing Fees	Apple has full customization of own maps service

Figure 16. Organizing the future state/practices.

As was done for the list of current traits, the desired traits will be ranked and the level of their importance will be noted. We will also begin to compare all the desired traits to one another in order to determine whether they interfere with each other or whether they complement each other, and their status will be highlight by either a positive or negative sign.

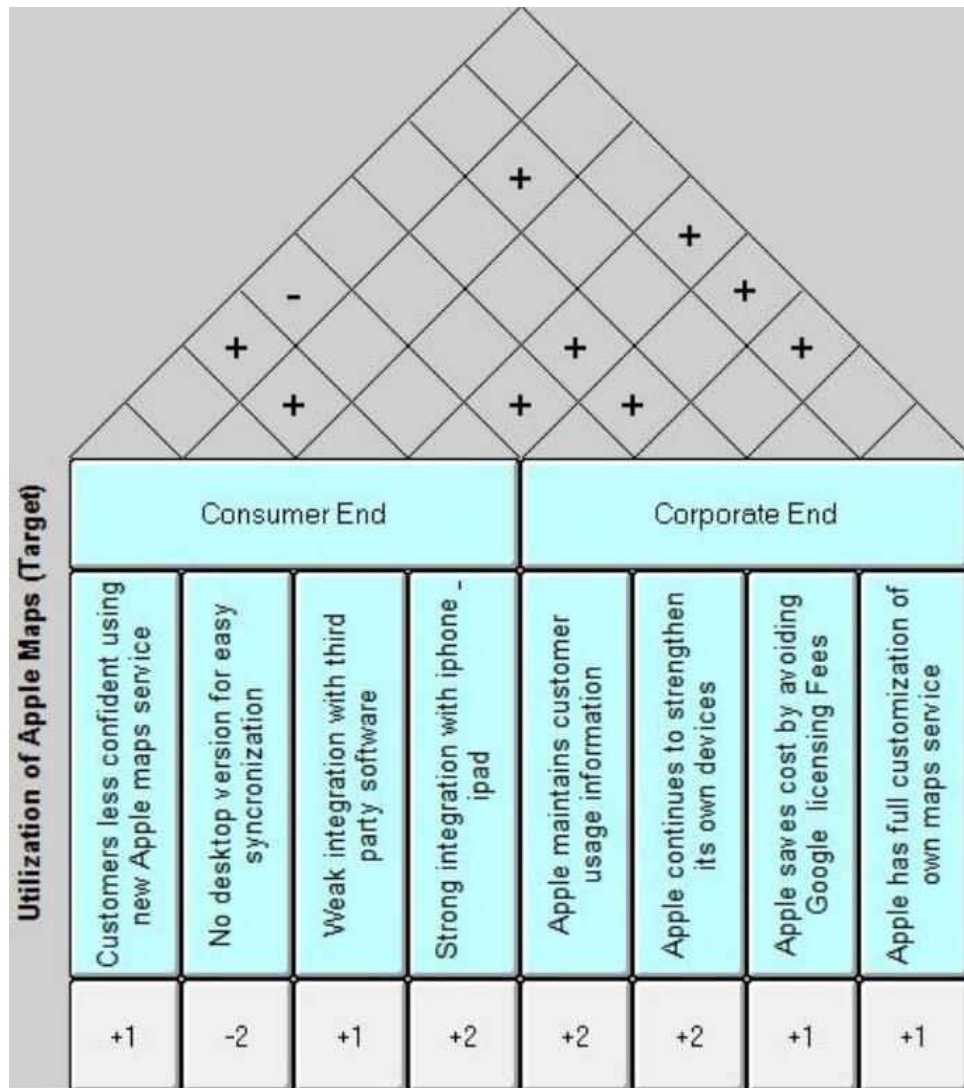


Figure 17. Including the future trait interactions and rankings.

At this point we can see the full list of the current traits that come as a result of Apple's utilization of Google Maps and how they interact with one another, and we also see the desired traits of how things will be once Apple Maps is installed as the default maps app at the end of the designated transition time. What is now missing is how the current state affects the future state.

This is what is represented in the final diagram below, and what is now considered a complete Matrix of Change. Each of the traits from the current state are compared to every single trait in the future state and studied to understand whether they interfere or reinforce the future state. As was done with the traits in their respective states, a positive or negative sign is placed in the center matrix to represent the interaction between the traits.

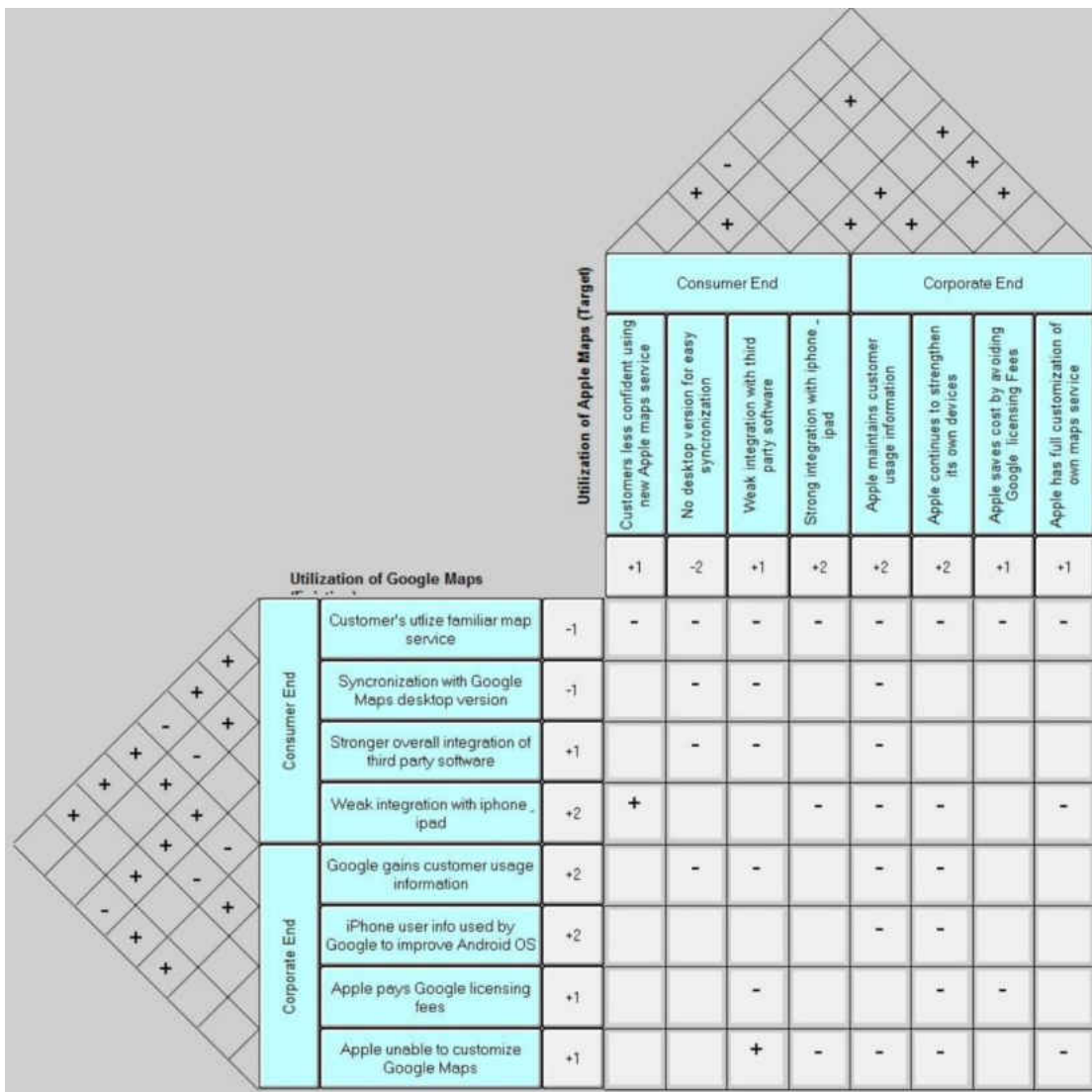


Figure 18. Adding the center matrix.

The completed Matrix of Change displays a list for the current practices of the organization; and a list of all the traits that Apple desire in the future as it changes the default apps which come as a part of its mobile software. These traits are compared to one another in their respective states, and then compared once again to each other across states. Seeing the Matrix of Change in its completed form an organization can utilize it as a tool to determine the scope of this transition project. If the center Matrix, where the present state and the future state are compared, is filled with a large amount of negative signs, this indicates that the transition procedure will be a complicated one. When the future state differs greatly from the way things are being done today, then an organization will be faced with a very big learning curve which it will have to overcome, this will take a greater deal of planning, will include many more compromises, and will be a greater undertaking that will require all affected parties to be on board and dedicated to reaching the desired goal.

On the opposite end of the spectrum, if the center Matrix appears to be flooded with many positive signs, then this indicates that the future state is not very different from the current state. The organization is not very far from where it wants to be in regards to the type of manager they have leading them, as a result there will be fewer risks, and the transition will be manageable.

It is important to remember that the Matrix of Change does not actually provide a solution to problems in transitional management, rather it paints a picture of what the transition process may be like and allows stakeholders to better understand the sort of undertaking that will

be required for a successful transition. The Matrix of Change can be considered the first step of the planning processes for change management.

4.1.2 The Theory of Constraints

The next model we will use to study transitional management is the Theory of Constraints. This is a very efficient method that looks at what changes need to be applied in an organization by identifying the problem, what the solution is, and how to execute it. The process of the Theory of Constraints is best described by the use of three questions:

1. What to change?
 - Identifying the Core Conflicts. Which is the primary problem for all observable symptoms of a broken system?
2. What to change to?
 - A strategic solution to the Core Conflict is identified, and all its potential side effects are highlighted.
3. How to cause the change?
 - Taking into consideration the unique culture which exists in every organization, a plan for successfully implementing the solution is created, and it includes what actions must be taken, by whom, and when.

The Theory of Constraints is composed of five key steps, these are:

1. *Identify* the constraint
2. Decide how to *exploit* the constraint
3. *Subordinate and synchronize* everything else to the above decision
4. *Elevate* the performance of the constraint
5. If in any of the above steps the constraint has shifted, *go back to Step 1* (AGI – Goldratt Institute)

These key steps listed are ways for an organization to find where certain bottlenecks or constraints lie, they then see how they can separate this constraint from the rest of the system and work hard to insure everyone is onboard in regards to fixing this bottleneck. Once they have full support, the organization implements their change and observes the system closely to make sure that the constraint has not shifted to some other part of the system.

In the situation of managerial transitions, the Theory of Constraints can be applied when a board of directors begins to look at personal traits or the decision making skills of an executive. A negative trait is identified as this individual's constraint. The rest of the executive's traits (the system) are looked at to identify any other constraints. These constraints are brought to the attention of the board and full support is sought out. A decision then has to be made on how to rectify this constraint. It needs to be determined whether these traits can be improved through

workshops and educational initiatives, or whether a new executive will need to be hired to replace the unfavorable one.

This all becomes relevant when looking at the organization itself and trying to align the best executive for the situation. If the organization is lacking in a certain division, say marketing as an example, the Board of Directors can look at the company's executive and assess his or her marketing skills. They can begin to understand why they are lacking and if the executive is directly related to this, or if there is something else that they will need to observe.

The Theory of Constraints complements the Matrix of change as it also identifies the problems faced during managerial transitions, but it goes one step further by allowing the person using it to work on a solution and aids in finding a means to rectify the problem. The Matrix of Change primarily outlines the transitional situation.

4.1.3 System Dynamics Modeling

System dynamics is a methodology and computer simulation modeling technique for framing, understanding, and discussing complex issues and problems. It was developed in the 1950's to aid corporate managers and executives in improving their understanding of industrial processes and routines. It is an aspect of system theory and is used as a method for understanding the dynamic behavior of complex systems.

System dynamics was originally created at the Massachusetts Institute of Technology by Jay W. Forrester, who spent some time working with managers at General Electric struggling to improve the organization's business cycle and employment instability. It was here that engineering and management theories came together and the early development of System dynamics began to take form.

Forrester worked on hand calculations of the stock-flow-feedback structure of the GE plants and studied the existing decision-making structure for hiring and laying off employees. He was then able to show the company's executives that the instability of GE employment was a result of the internal structure of the firm not because of external forces such as the business cycle (Radzicki & Taylor, 2008).

In this study we will utilize two concepts from Systems dynamics to model transitional management. The first is the development of Causal loop diagrams and the second is the use of Stock and flow diagrams.

Causal loop diagrams work as feedback loops showing cause and effect scenarios. They depict how certain variables affect one another and consist of a set of nodes that represent these variables. The relationships between the variables can be labeled as positive or negative relationships. A positive relationship means that the two nodes change in the same direction, if the value of one node decreases, the value of the other node also decreases. A negative relationship means that the two nodes change in opposite directions, if the value of one node decreases the value of the other node increases (Sterman, 2000).

There are also two different types of loops, reinforcing loops and balancing loops. Reinforcing loops are when one goes around the loop and at the end is left with the initial assumption. A balancing loop is when one goes around the loop and at the end is left with a contradicting assumption.

An example of a reinforcing and balancing loop is shown below:

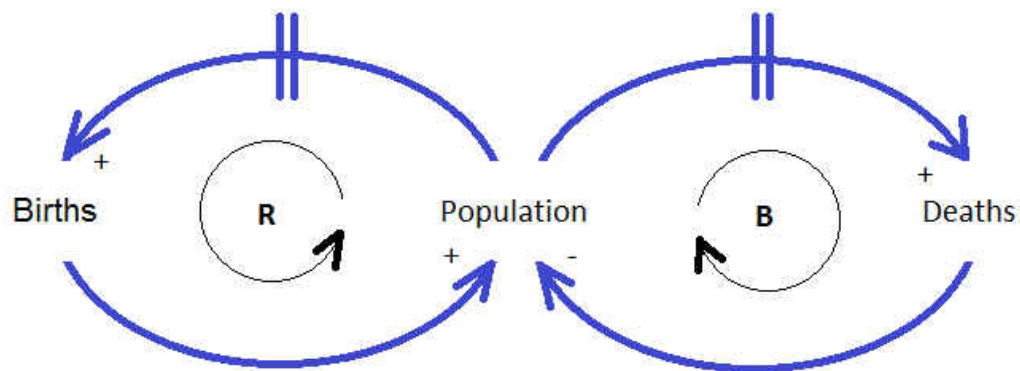


Figure 19. Balancing and reinforcing loops. Adapted from *Learn to Read Causal Loop Diagrams*

The first loop in the above causal loop diagram, labeled “R”, is the reinforcing loop. It states that, as the population increases, births also increase, and as births increase, the population will continue to increase. Logically, the opposite would also apply, if the population was to decrease, births would also decrease, and when births decrease, the population will continue to decrease. Each action in this loop will reinforce the other action.

On the opposite end of the spectrum we look at the next loop, labeled “B”, which is the balancing loop. This loop states that, as the population increases, deaths will also increase, but

as deaths increase, the population will decrease. Contrary to the reinforcing loop, the balancing loop simply means that more leads to less, and less leads to more, and as a result the cycle begins to balance (Frangos, 2012).

Stock and Flow diagrams work in a different manner than Causal Loop diagrams, in which the in-flow and out-flow rates are examined and compared in order to determine the remaining stock with is the total supply or amount of some commodity of interest. The flows are just changes in those stocks. The flows are variables and this is usually indicated by a valve in the diagram.

We can look at this case using the births/deaths example again

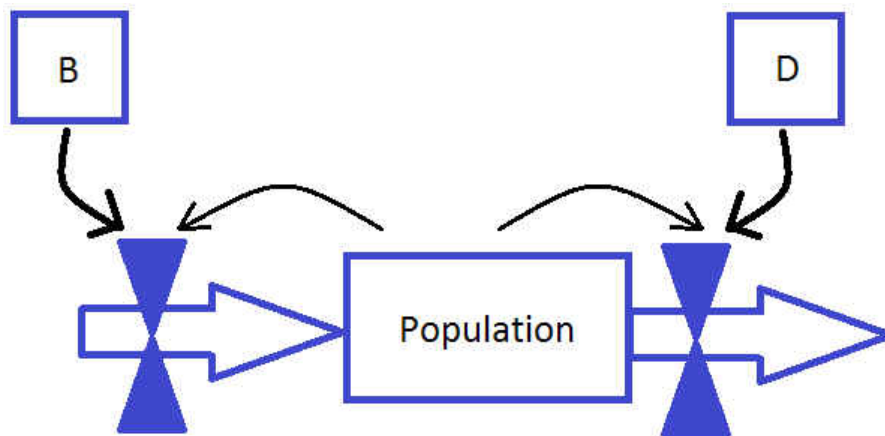


Figure 20. Stock and Flow Diagram. Adapted from *Stock and Flow Models*

As can be seen in this diagram, the population is represented as the stock, and it is determined by the difference between the rate of births (the in-flow) and the rate of deaths (the out-flow). We also notice that in this example, the in-flow is dependent on the stock, since, naturally, the rate of births is dependent on the population, and this is represented by the small curved arrow from the population to the rate of births. The same is applied regarding the rate of deaths. This example represents a totalitarian population and as an equation, this situation would be represented as: $Stock_{i+1} = P_i + BP_i - DP_i$ (Ryan)

System Dynamics modeling allows us to give quantitative values to otherwise qualitative items that may be difficult to measure. It also provides us the opportunity to continue our study from Matrix of Change of examining how certain workplace practices and traits affect one another. Only with System Dynamics modeling, we are actually able to develop solutions and results. The Matrix of Change merely opens up a doorway for discussion and the exchange of ideas.

A good example of how System Dynamics modeling yields useful results can be demonstrated using the relationship between an organization's working capital and its sales. Naturally, if everything else is in order and the organization is profitable, as sales increase, the organizations working capital also increases.

Now in our example we will assume that profits are not distributed to the shareholders and instead are re-invested into the organization, this re-investment is used as working capital and leads to the development of other products, which lead to more sales. So in essence, an

increase in working capital also results in an increase of sales. We demonstrate this as a Causal Loop in the following diagram:

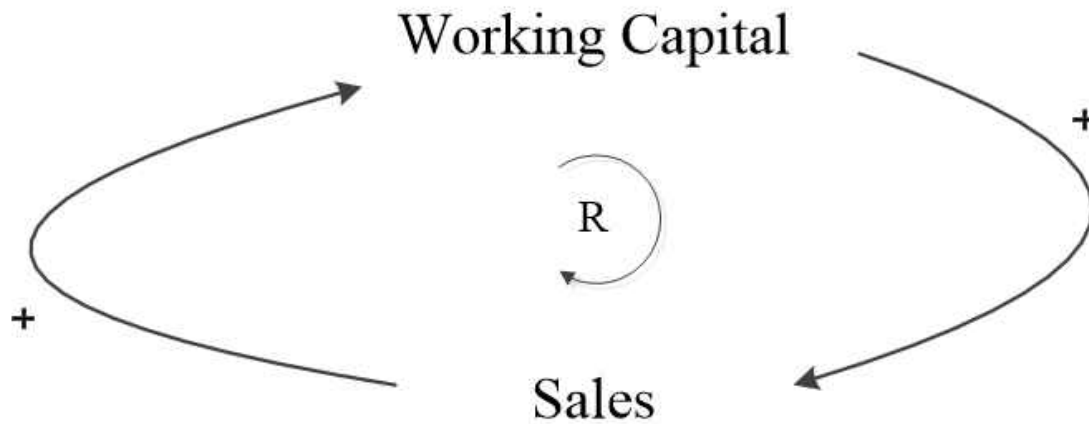


Figure 21. Causal Loop Diagram for an Organization

Now, for this example we can assume that there is a steady rate of sales increase, so as a formula:

$$\text{Sales} = \text{Working Capital} \times \text{Rate of Sale}$$

On the other end, to model Working Capital as a formula it would look like this:

$$\text{Working Capital} = \text{Sales} + \text{Value of Working Capital at previous Time Period}$$

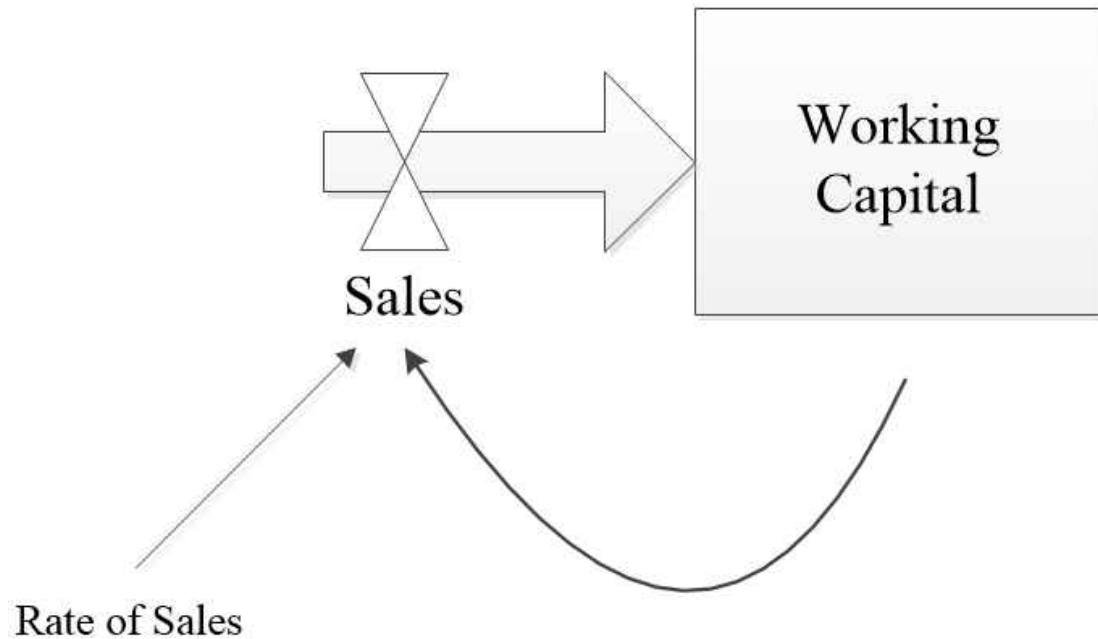


Figure 22. Stock and Flow Diagram for an Organization

The example being used here only has an inflow of sales into the stock (the working capital). There is no outflow because profits are not being distributed and instead being re-invested in product development which in turn increases sales. Sales are based on working capital being re-invested into product development and on the rate of sales. The working capital is based on an accumulation of sales over time.

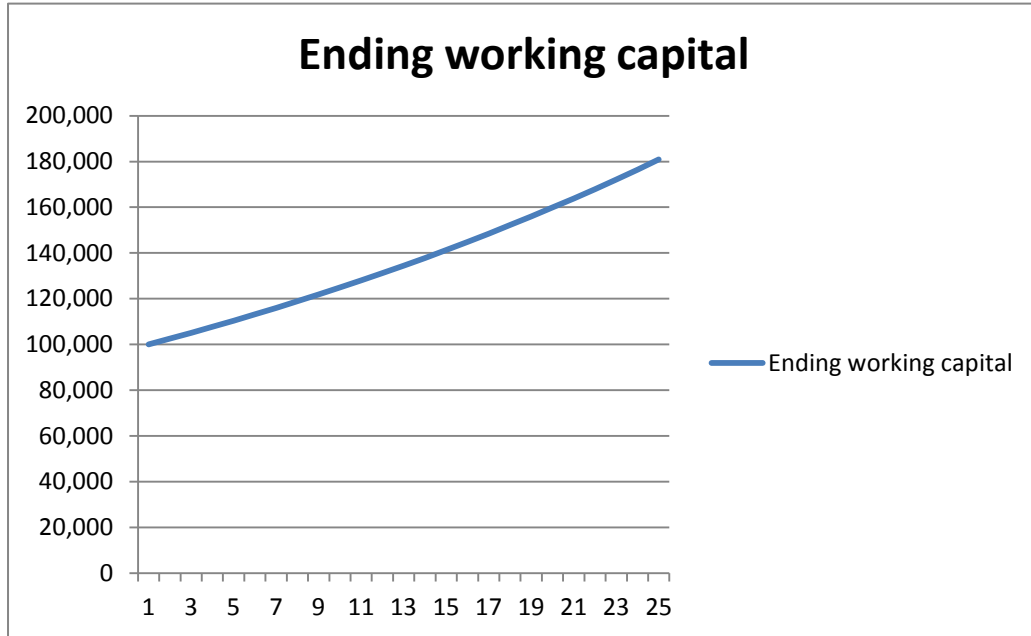
A Stock and Flow diagram like the one in this example can be easily modeled in a program such as Excel to examine the results. In our example we can assume that the rate of sales is a standard 30%. If our initial capital starts at \$100,000 and we monitor it over two years our set up in Excel will appear as follows:

Table 1. Stock and Flow Diagram for an Organization set up in Excel

<i>Constants</i>							
Rate of Sales	30%	per year					
Time in months	0	1	2	3	4	5	6
Beginning working capital		100,000	102,500	105,063	107,689	110,381	113,141
Sales		2500	2562.5	2626.563	2692.227	2759.532	2828.521
Ending working capital	100,000	102,500	105,063	107,689	110,381	113,141	115,969
Time in months	7	8	9	10	11	12	13
Beginning working capital	115,969	118,869	121,840	124,886	128,008	131,209	134,489
Sales	2899.234	2971.714	3046.007	3122.157	3200.211	3280.217	3362.222
Ending working capital	118,869	121,840	124,886	128,008	131,209	134,489	137,851
Time in months	14	15	16	17	18	19	20
Beginning working capital	137,851	141,297	144,830	148,451	152,162	155,966	159,865
Sales	3446.278	3532.435	3620.745	3711.264	3804.046	3899.147	3996.625
Ending working capital	141,297	144,830	148,451	152,162	155,966	159,865	163,862
Time in months	21	22	23	24			
Beginning working capital	163,862	167,958	172,157	176,461			
Sales	4096.541	4198.955	4303.928	4411.527			
Ending working capital	167,958	172,157	176,461	180,873			

Obviously, we see the organization's working capital increase in two years from \$100,000 to \$180,873 and the sales increase from \$2,500 to approximately \$4,411. It's a reinforcing loop that sees both values grow. The organization's working capital can then be displayed in graph form as follows.

Table 2. Stock and Flow Diagram results in graph format



In this dissertation, Causal Loop Diagrams and Stock and Flow Diagrams will be used in conjunction with the Matrix of Change to model the various situations, better understand them, and reach a conclusion regarding the particular transition. Using the inputs and practices decided on within the Matrix of Change, we will simulate their impact towards each other using the system dynamics modeling.

Vensim is alternative Systems Dynamics development software to design both Causal Loop Diagrams and Stock and Flow Diagrams. This will be the software used from here on out in our study to model and simulate the transitions in our case studies.

4.2 Summary of Framework

It is quite often the case that organizations are blind to the changes being implemented at their core divisions. Global companies today have grown to be so massive, offering a wide array of products and services, employing hundreds of thousands of personnel, and dealing with budgets reaching billions of dollars, and yet it is expected that the CEO put in charge has a firm grasp on all the operations taking place. But such expectations are not that realistic, when changing executives it is hard to imagine how certain changes will impact certain sectors of the business. But it is because of this fact that the Matrix of Change proves to be an excellent tool for looking at multiple parts of the business and seeing how they impact the bigger picture as well the future state.

The theory of constraints is also a strong tool that can be put in place to organize what could rather be considered a very haphazard process. The bigger the organization, the more factors that come into play and effect change dynamics. These constraints need to be properly identified and controlled one by one until the system is running as close to optimal as it possibly could be, only then can the change be considered successful.

But as the problem of transitional management remains to be a very ambiguous situation, the introduction of system dynamics modeling allows for some quantification of an otherwise qualitative process. Using Causal Loop diagrams and Stock and Flow diagrams our problem is able to be simulated, its results compared, and a solution can be derived.

CHAPTER 5

At this point, the steps of our framework are clear and easy to follow. But to test them in real world scenarios we use this example to apply them to past case studies of some of the most notable transitions to occur in the business world in recent times. One example used shows a struggling company trying to rebuild itself, another shows a successful company that hired the wrong CEO causing it quickly lose its value

Examples such as those can be considered two different sides of the same coin. Both companies are at a critical point and in urgent need of a new CEO. But they need to make this change for different reasons. Albeit, the desired outcome for each company is to be successful, but it's their starting points that differed greatly.

We also decided to test the Framework on the Virtual Leader simulation software to allow us to experience the effects of these transitions. Unlike, the two case studies utilized, Virtual Leader puts us in the driver's seat and gives us the chance to be the ones to make decisions with respect to our employees and other business circumstances.

As stated earlier, we utilize the models in our framework separately for some of the examples and holistically for others in order to accurately assess and compare how each of its parts function in various situations.

5.1 Framework applied to Yahoo

The first case study we apply our framework to is that of Marissa Mayer's introduction to Yahoo. This is an example of a struggling company needing to change in order to recover from a troubling downward spiral. We specifically utilize this example to observe how a Matrix of Change can be used to help organizations get a better sense of their current situation and where they can be in the future if they take the proper actions.

5.1.1 Yahoo Case Study Description

Yahoo! is a well-recognized brand worldwide. Its products, services, and content enable the company to attract, retain, and engage users, advertisers, publishers, and developers. Yahoo! is positioning its products and services to be at the center of the world's digital daily habits. In addition, the company provides communications tools to connect the world, as well as User-Generated Content products. Many of its properties are also available in mobile-optimized versions for display on mobile phones and tablet devices, or available as native applications for iOS, Android and Windows phones.

As one of the Web's largest publishers and the owner of leading properties across multiple content categories, Yahoo! provides contextually-relevant content and experiences where advertisers can connect with users effectively. It also brings quality publishers together

like AT&T, Verizon, Rogers, Monster, and Comcast. Agreements with Microsoft and AOL allow ad networks operated by them to offer each other's premium non-guaranteed online display inventory to their respective advertising customers.

Yahoo! continually launches, improves, and scales products and features to meet evolving user, advertiser, publisher, and developer needs. Most of the software products and features are developed internally. Yahoo!'s employees and culture are fundamental to the company's success, and attracting the best people to Yahoo! is critical. It includes a broad array of engineering talent that spans the breadth of our technology infrastructure, primarily located in California, India, and China.

Finally, Yahoo! has the capital available for further growth. In September 2012, Alibaba Group Holding Limited repurchased 523 million of ordinary shares of Alibaba Group owned by Yahoo!, resulting in a pre-tax gain of approximately \$4.6 billion for Yahoo!.

On the other hand, Yahoo! main weaknesses are its inability to defend its market position in the search marketplace and an unstable management during the last five years. The development of Yahoo!'s search engine technology can be described as inconsistent, hampering the enhancement of its own search engine capabilities. At the beginning, Yahoo! began to use Google's search technologies to fully exploit the Internet booming. By 2004, it changed back to its own search technologies. The further effort to compete with Google in the search market with the Panama project in 2006 did not give the expected results and Google maintained its superiority. Then, the Search Deal with Microsoft made Microsoft Yahoo!'s provider of search technology and advertising. This arrangement resulted that Microsoft became the #2 search engine behind Google, gaining Yahoo's market share.

Adding this to the unstable period in the executive board, where there has been around five to seven CEOs in the last five years, Yahoo! has shown weak performance compared to the competition, reporting stagnant revenues. A last weakness is the inappropriate handling of Asian partnerships, especially with Alibaba, that has shown a poor leadership and lack of diplomacy.

Scott Thompson was the CEO at Yahoo from January 2012 until mid May 2012, a very short tenure in which Thompson initiated a 14% reduction in the company's workforce (Efrati & Bensinger, 2012).

This was a decision that did not sit well with several executives and they themselves resigned right before the layoffs started. His 130 day tenure provided him with over \$7 million in compensation.

Thompson was temporarily replaced by Yahoo Vice President Ross Levenisohn who served as interim CEO until Marissa Mayer took over the position in July 2012 (Efrati & Letzing, 2012).

5.1.2 Preliminary Analysis

For the purpose of this study we begin by examining Yahoo's advantages by using Porter's five competitive forces:

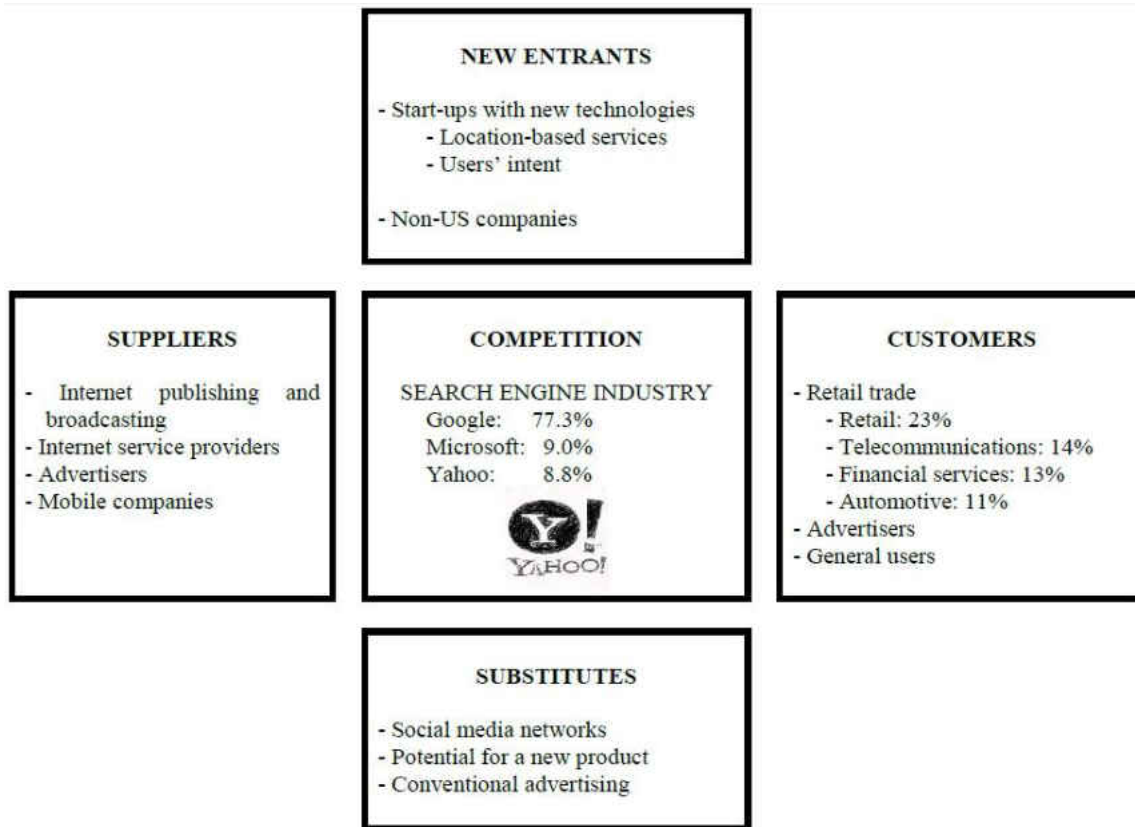


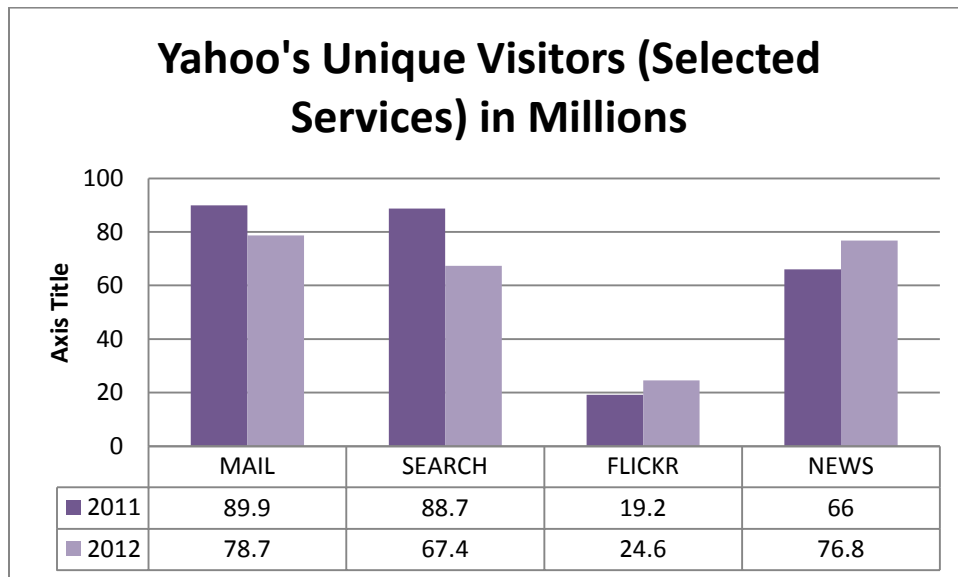
Figure 23. Porter's five competitive forces as applied to Yahoo

Barriers to entry are high and steady. New entrants, generally start-up with new technologies around the world and they will require access to skilled human resources, as well as substantial computing resources including sophisticated software algorithms (capital and time requirement, economies of scale). The dominance and strong branding of incumbents characterize the industry.

However, opportunities exist for those that have a narrow focus on the new applications of search technology or on developing new technologies that enhance existing functionality (location-based services, users' intent). Industry giants usually acquire these new entrants.

Competition is high and the trend is increasing. Concentration has increased steadily, primarily driven by Google’s growth and the decline of smaller search engines (Ask.com and AOL). The market share of the search engine industry is distributed in the following way: Google (77.3%), Microsoft (9.0%), and Yahoo (8.8%).

Table 3. Yahoo’s market share distribution. Adapted from *The Wall Street Journal*



The competitive factors for both user and advertiser levels are described in the table below:

Table 4. Yahoo’s competitive factors

Users	Advertisers
Relevant search results	Size of user base
Aesthetics	Cost per click charged
Speed of service	Number of affiliated websites
Branding	
Free services, software or online storage	

Globalization in the online services industry lies on a medium scale and the trend is increasing. All US companies have 50% of their revenue from outside the US, whereas non-US companies are entering the US market. On the other hand, the level of regulation is light but it is expected to increase.

‘Substitutes’ also tend to lie on a medium scale and the trend is increasing. Increased external competition from social media networks will challenge the industry over the next five years. The integration of search engines and social networks seems inevitable to enhanced users’ search experiences. Some examples of this new “social search” are Google+ with its search engine and Microsoft with Facebook.

But the bargaining power of customers remains high. The availability of several alternatives at no cost for the customers and undifferentiated services give customers more room for negotiations and for choosing which direction they want to head towards.

Bargaining power for the suppliers lies on a medium scale. Numerous suppliers, programmers, advertisers can work with different customers at the same time. However, the preference to do business with the giants of the industry (Google or Microsoft) affects the bargaining power of suppliers negatively.

In order to understand Yahoo’s standing in the market we developed a SWOT analysis to see what factors the company takes into consideration when organizing its management.

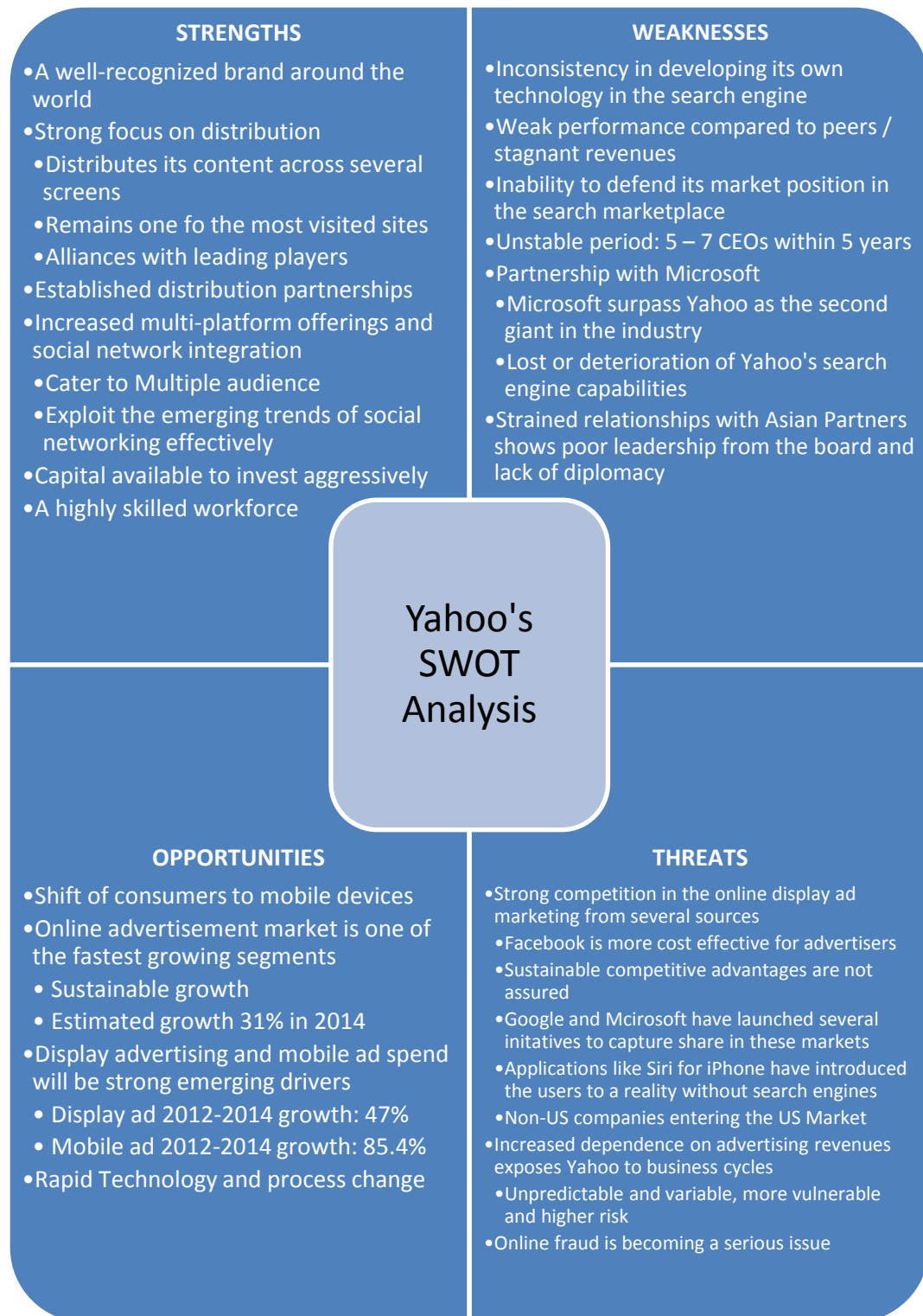


Figure 24. Yahoo's SWOT Analysis

The opportunities for Yahoo arise from the shift of consumers to mobile devices and the fast growth pace in the online advertisement market. It is expected that the display advertising and mobile ad spending will be very strong emerging drivers within this industry.

The main threats are a strong competition in the online display ad marketing from several sources and an increased dependence on advertising revenues that exposes the company to vicious business cycles. This would make Yahoo more vulnerable and exposed to higher risks. Another issue that is getting importance is the growing concern of online fraud, and this is where companies are going to invest in order to insure their credibility in the market.

5.1.3 Yahoo's Matrix of Change

In order to expand on this study, we decided to develop a Matrix of Change based on Yahoo's situation. We will use the information provided by the Porter's Five Competitive Forces and the SWOT Analysis to begin building the actual state of the Matrix of Change for Yahoo. The Actual State has four main areas: Operations & Leadership, Human Resources, Growth Capacity, and Innovation & Product Development.

In the Operations & Leadership area, the practices are:

- One of the most visited and trusted websites
- Content, communication, and community platform
- Operations mainly in the US
- Eroded confidence in the board

- Inconsistent regional strategies

Yahoo!'s Human Resources are characterized by:

- Highly talented workforce
- Low employee morale
- Work-from-home arrangements
- Employee Stock Purchase Plan

The Growth Capacity area can be described by:

- Capital available to invest in future growth
- Low market share
- Financially stable

The Innovation & Product Development practices are:

- Weak R&D in Search
- Acquisition and joint-venture approach
- Mainly a desktop platform

Existing Practices		
	Operations and Leadership	One of the most visited and trusted websites
	Content, communication, and community platform	
	Operations mainly in the US	
	Eroded confidence in the board	
	Inconsistent regional strategies	
	Human Resources	Highly talented workforce
	Low employee morale	
	Work-from-home arrangements	
	Employee Stock Purchase Plan	
	Growth Capacity	Capital available to invest in future growth
	Low market share	
	Financially stable	
	Innovation and Product Develop.	Weak Research and Development in Search
	Acquisition and joint-venture approach	
	Mainly a desktop platform	

Figure 25. Yahoo's existing practices

As can be seen in the matrix, the presence of the same amount of reinforcing and interfering interactions between the existing practices makes evident that Yahoo!'s Actual State is unstable.

We then developed a future state based on the interviews conducted by Yahoo's CEO.

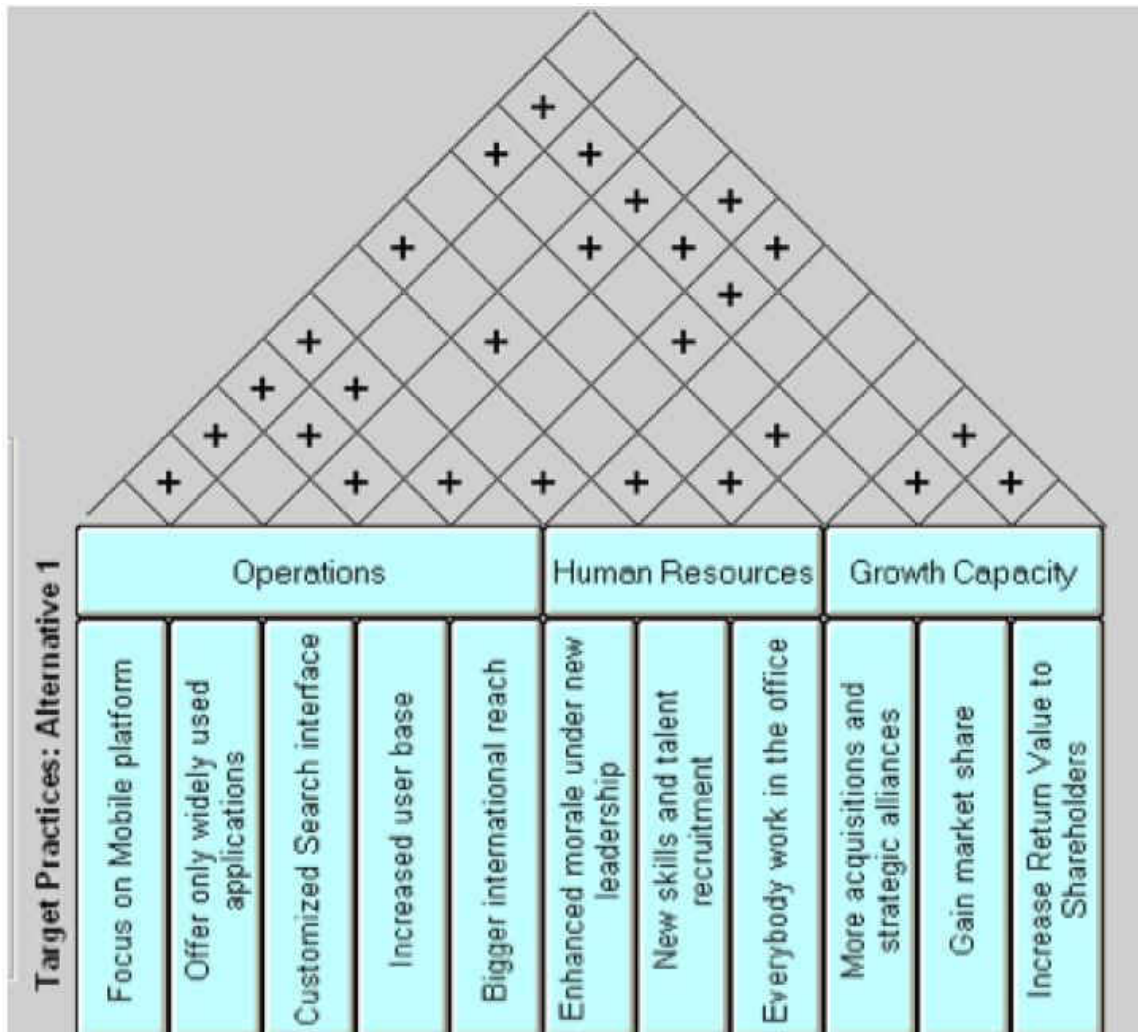


Figure 26. Yahoo's target practices

When looking at the target practices we can see that they are grouped in three categories: Operations, Human Resources, and Growth Strategy.

In the operations area, the desired state is:

- Focus on Mobile platform
- Offer only widely used properties
- Customized Search Interface
- Increased User Base
- Bigger International Reach

The company's goal is to have 50% of operations focused on Mobile applications. The team is already working in fast, small teams focused on IOS and android platforms. Also, the team is now selling ad space ahead of time for their Mobile applications and searching for ways to monetize Mobile properties fast. The goal is to offer only widely used properties, their focus being every 'digital daily habit' and the teams will only give the 'go-ahead' to projects that can scale a 100 million users. Yahoo's core priority is to customize their Search Interface, by innovating at the user level, searches now will be personalized, the engine will know where you are, the context where you are doing the search and who you are communicating with. There will be improvements in the areas of voice recognition, image recognition and translation. All these efforts will help to Increase the User Base, another main goal of Yahoo and achieve Bigger International Reach, since 75% percent of Yahoo's Revenue comes from the America Region and there is great opportunity to increase Market share as they expand.

The goals for the Human Resources area are to enhance morale under the new leadership, develop new skills and recruit top talents, and put everybody to work in the office. The latter would enhance a collaborative culture and improve employees' productivity.

For the Growth Capacity area, the targeted practices are:

- More acquisitions and strategic alliances
- Gain market share
- Increase Return Value to shareholders

Yahoo aims to be a more global engine that users touch every day; its team will be continually innovating in order to increase customer satisfaction and therefore, gain lost Market Share, increase Revenue and Increase Return value to stakeholders. Yahoo strategy will also involve making key acquisitions and alliances in order to be competitive. Partnerships are key to their future success.

The dominance of positive interactions between these target practices makes the desired state for Yahoo! stable.

Next we will look at the transition matrix which will help determine the degree of difficulty in moving from the current state to the future state. The proportion of positive and negative signs in the transition matrix indicates how disruptive the change process will be. A transition matrix with a comparatively large number of complementary practices and few conflicting practices indicates that the change will be relatively incremental and non-disruptive.

In the case of Yahoo!, the transition matrix has slightly more reinforcing than interfering interactions. This means that the transition will not be so smooth.

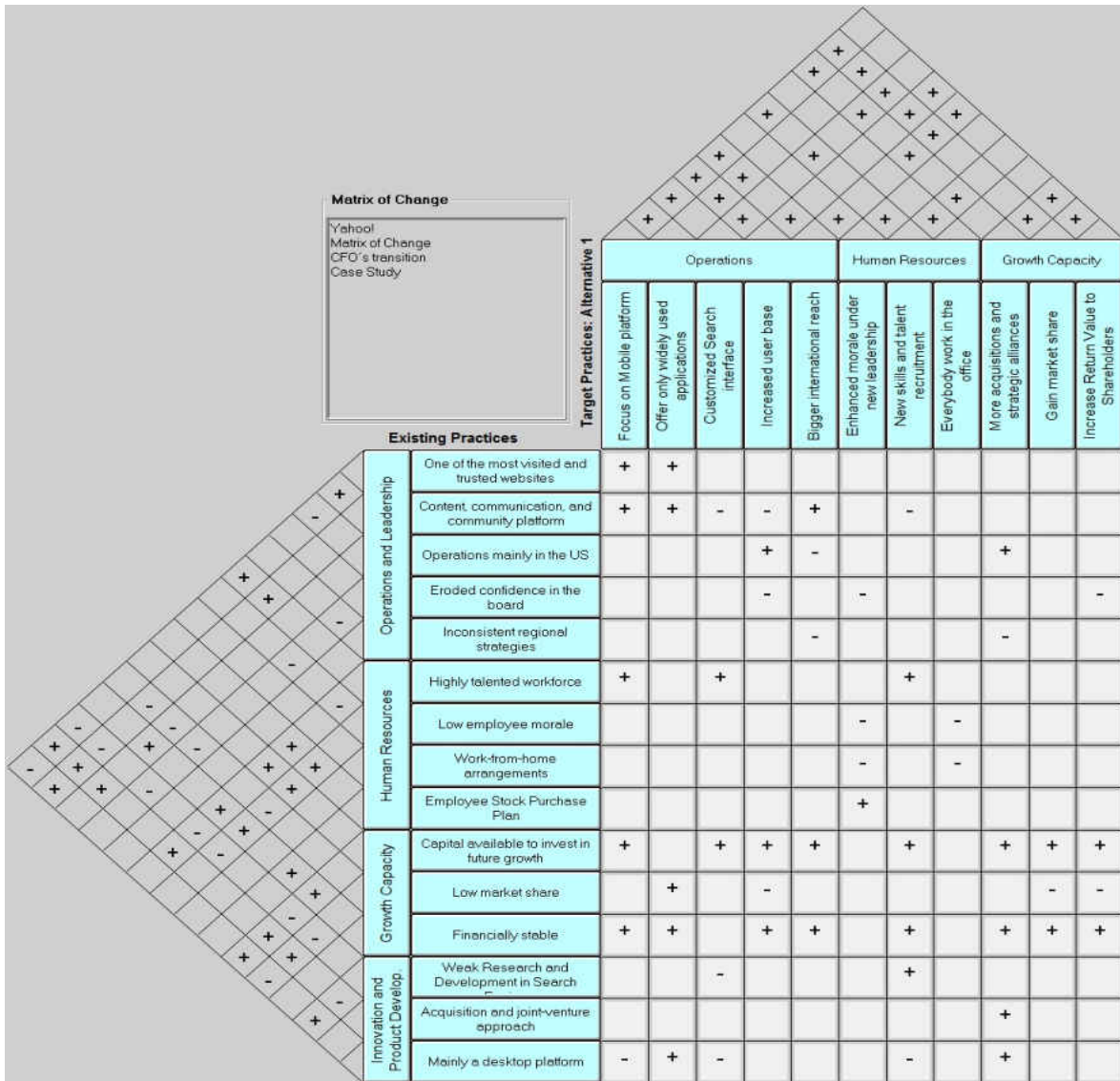


Figure 27. Yahoo's completed Matrix of Change

5.1.4 Case Study Findings and Analysis

When Google came into the picture it went head to head with Yahoo and came out on top from a number of different angles. Google provided a faster and more accurate search engine while adding a number of features, it developed its own email system providing a much larger allowance with respect to attachments and actual mail storage, and the icing on the cake was the launch of their custom web browser and their own operating system which in a matter of years grew to be the number one mobile platform in the world. Yahoo was quite limited in resources and could not be competitive; the endless cycles of CEO's did nothing but cause disruptions and lower employee morale. These chief executives all provided various opinions but none of them were able to actually look at the heart of the problem.

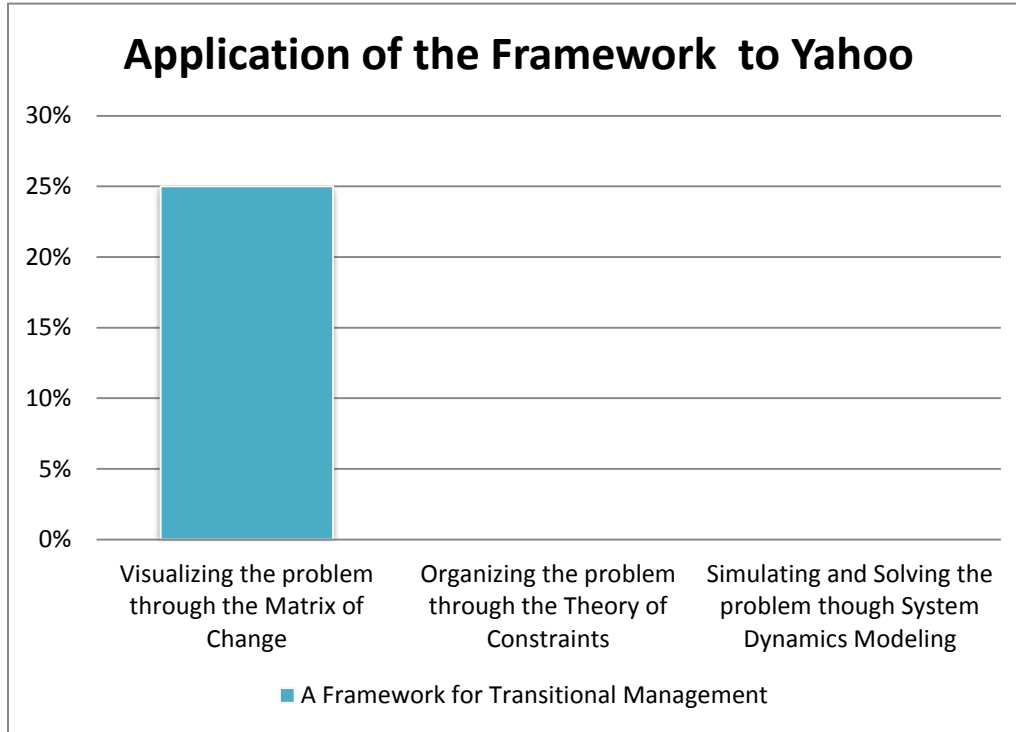
One major advantage that Marissa Mayer had as she came into Yahoo was obviously the fact that she was coming from Yahoo's chief competition. In other words she knew exactly why Yahoo was failing and why Google was consistently overtaking them. Marissa Mayer did not shy away from taking any actions. Yahoo's major pitfall at the end of the day was a lack of productivity; this stemmed from a number of different factors including the organization's work from home policy, its lack of presence in major international markets, and a dire need for a more diversified portfolio. Mayer focused on the company's strengths and added more fuel to the Flickr division through its very expensive acquisition of Tumblr and she improved the aesthetics revolving around the company's main website and their mail system. In a very short amount of time, these actions were financially proven to be absolutely the right decisions.

Yahoo's case study was a perfect example for the utilization of the Matrix of Change. It is a tool that would've actually been very beneficial for Yahoo's board of directors to use themselves in order to understand where their company needed to go. Despite the fact that it has been stated countless times in this research that the Matrix of Change is not a conclusive tool; it is only an initial visualization for corporate positions. Our application of the tool in Yahoo's example illustrates the fact that no conclusions can be made based solely on the use of the Matrix of Change; it is only a first step to give stakeholders a better idea of how to implement certain changes.

Instead of going through multiple CEO's giving no results, utilizing the Matrix of Change would have given them a better idea of the right person needed to take the company in the right direction. Marissa Mayer may not have been available when Yahoo had gone through the first of 5 CEO changes, but it would have definitely provided the board with insight on the mistake the company was making by choosing any one of them.

If the utilization of the Matrix of Change represents 25% of the framework, the utilization of the theory of Constraints represents another 25%, and the utilization of System Dynamics Modeling (Causal Loop Diagrams and Stock and Flow Models) represents 50%, then this framework as applied to Yahoo is only a quarter of the way completed. For a better assessment there needs to be further utilization of the supporting tools.

Table 5. Application of the Framework to Yahoo



5.2 Framework applied to HP

This next case study we apply our framework to is that of HP. This is a situation that differed greatly from Yahoo as the company was very successful when it needed to make the transition. But the poor and quick introduction of a new CEO shook the company's success and left them in an awkward position needing to make yet another change not even one year later. This example was used to show how a Matrix of Change can compare multiple alternatives and

how Causal Loop Diagrams allow problem solvers to better understand which relationships amongst organizational practices impact the decision making abilities of the CEO.

5.2.1 HP Case Study Description

As was discussed previously, HP's case is a very interesting one. This is a situation where the board of directors did not want the status of the company to change, at least not to the degree in which it did. Due to Mark Hurd's actions, the board had no other choice but to let him go, at the same time this gave them the chance to reevaluate the organization. As great as things were under Mark Hurd's control, there were certain departments that were lagging. The Enterprise resource planning division had been overshadowed by the PC and Printer division, and if HP wants to compete more aggressively with a company like IBM this was something that they would have to change. At the same time with all the cost cutting initiatives that Hurd was putting into place, the Research and Development division was starting to lose some strength. Many companies such as Apple, Motorola, and Samsung were starting to gain a lot of grounds in the field of mobile devices with a wide array of cellular phones and the new introduction of tablets PC's. HP had dabbled in the cell phone market a few times with some Windows Mobile devices but they had never reached the same levels of success that their competitors were reaching.

One of Mark Hurd's final acts as CEO was the acquisition of Palm, a long time successful PDA and cell phone manufacturer. HP believed that this was the key to getting the boost the company needed in the mobile market, bound to give them the right tools to face off against Apple and the likes. HP acquired Palm for \$1.2 Billion but Mark Hurd would not be around to see the first of its products take to the market, with the way things turned out, it was probably a good thing he didn't.

With all the success that HP had been facing there still wasn't complete unity amongst all the employees. With Hurd's downsizing efforts there were a good number of employees who got laid off, and the ones that were still around were often stuck working with limited resources and with a very tight budget. This continually hindered their creativity and freedom to make decisions.

The board took note of these items and saw Mark Hurd's departure as an opportunity to improve them while still hoping to maintain the core foundation which Hurd had laid out. The case of HP's managerial transition from Mark Hurd to Leo Apotheker was one in which the board did not want major changes to take place. And sometimes these are the hardest transitions to oversee.

5.2.2 Preliminary Analysis

As a result of his strong history at the helm of SAP, Leo Apotheker cannot be considered a bad CEO, although many analysts tend to disagree with this statement due to his unpleasant departure from HP, his credentials on paper are absolutely mind blowing. A more accurate representation of the HP-Apotheker relationship is that Apotheker, contrary to what the board had imagined, was just not properly aligned with the company's goals and their vision for the future.

In trying to strengthen HP's Enterprise solutions division Leo Apotheker convinced the board to acquire Autonomy, an Enterprise Software company founded in the United Kingdom. The cost of this transaction was over \$10 Billion and it eventually proved to be a disastrous move.

Being asked to oversee a brand new mobile division also appeared to be a problem. Leo Apotheker really knows nothing about the mobile industry. His entire background has always been in the field of Enterprise solutions and now he was to head one of the biggest ventures that HP was about to undertake. As could be expected the endeavor was a complete failure. The first and only product to come of the HP-Palm marriage was the HP Touchpad. A Tablet PC that was running Palm's WebOS software. But at launch, the product was overpriced, lacked in hardware quality, and the software proved to be unpolished and still filled with a number of bugs, add in the fierce competition brought on by Apple's market-dominating iPad, and Google's fast spreading Android OS, and the picture comes out to be very bleak.

HP put up its white flag regarding the Touchpad in less than two months after the product hit the market. They announced that they would discontinue production and launched a fire sale that saw prices of the Touchpad slashed from \$499 to \$99.

HP's retail partners became very skeptical in going forward with the supplier. For a long time before the fire sale HP was unclear on the direction of where the Touchpad would be headed, many retailers had overstocked their shelves with the products and they were just not moving. Some retailers also faced great difficulty trying to return them back to HP, and one could only imagine their disbelief when, after their major investment into HP's product, they would announce that they'll be killing off the Touchpad after only 7 weeks. This became something that would be very hard for retailers to forget.

The icing on the cake regarding HP's partnerships comes by way of Leo Apotheker himself and is a result of his terrible relationship with Oracle, coincidentally, one of HP's biggest partners. Oracle provides the software for a number of HP's Linux servers, and Leo Apotheker was at the helm of an ongoing lawsuit between Oracle and SAP prior to his move to HP. The whole thing was clearly one very big mess.

The company's finances were in shambles because of failed acquisitions, weak partnerships, and ongoing court battles between the CEO and one of the company's biggest partners. How the board of directors ever saw Apotheker as a good match remains to be a mystery.

5.2.3 HP's Matrix of Change

The below Matrix of Change shows the current state being HP under Mark Hurd's control, and it indicates two future states, the first is HP's Target State (what they were hoping to achieve), and the second is HP's Actual Future State (What actually happened when they finalized the transition from Mark Hurd to Leo Apotheker).

As what has already been stated and can be clearly seen from the Matrices, the Current state and the Target state are not greatly different from one another. In theory and according to the rules of the Matrix of Change, such a transition should not be difficult, the number of positive signs outweigh the negative signs. So what exactly went wrong? Why did the transition end up being a disaster for HP? The answer to that lies specifically in the successor chosen to replace Mark Hurd, Leo Apotheker.

Taking a look at the Matrix of Change we begin by analyzing the current state and where HP was lagging in strength. The most notable of these weaknesses was HP's subpar Enterprise Solutions division. Now, as much as HP's board boasted about Apotheker's incredible credentials, no one can deny that the primary reason he was brought on board was his 20+ years of experience at SAP, a company entirely devoted to Enterprise Solutions. Apotheker saw no reason that HP could not be just like SAP, or more accurately, just like IBM, this is why in just a matter of months after joining HP Apotheker began ranting about selling off HP's PC division and stating that the company could be entirely sustainable focusing only on Enterprise solutions

(Just like IBM). But HP's profits were primarily coming from the PC division, and this was something Apotheker kept overlooking. According the company's initial goals, yes, they did want to strengthen the enterprise division, but there was nothing in their plan (or in the Target State) about eliminating their most profitable sector. This should have been the first indication that Apotheker's tune was not moving to the same beat as HP's. But as in many situations, the board of directors was not all in agreement about such a rash decision, and some of those who were against it did not want to seem like they were not team players, and as a result they stayed silent.

The next item visible in HP's current state which lacked strength was HP's involvement (or lack thereof) in the mobile devices market, something companies like Apple saw as the new wave of the future. Mark Hurd had taken the first major step to try and rectify this situation by acquiring Palm, but it was Leo Apotheker who took control of what this division would end up doing.

HP's venture into the Mobile devices market with the palm acquisition and its move to strengthen the enterprise solutions division with the Autonomy acquisition, both gave a major blow to HP's finances. This was very different than Mark Hurd's fundamentals regarding keeping costs down and profits high, an item also highlighted in the Matrix of Change.

This all leads to another key item also displayed in the Matrix of Change, and that is the importance of maintaining strong relationships with HP's partners. When HP announced its fire sale, their call centers and purchasing website exploded with heavy traffic from tech junkies wanting to jump on such great deals. HP's servers became overloaded and eventually crashed

causing a major headache for customers and frustrated call center reps. HP blamed this on the overwhelming demand, but the only problem is HP sells these IT infrastructures to their customers and partners. How would they expect their customers to have faith in their systems if HP themselves are unable to manage them on their own home turf.

For everything that the board saw right about Leo Apotheker, they overlooked the most important factor when it came to transitioning from one CEO to another, and that was the fact that Leo Apotheker was just not properly aligned with HP's goals. The end result of the transition or the actual future as represented by the Matrix of Change is not a good state for the company, not in the least bit. The fact that there are many positive signs when comparing the current state to the actual future states, shows that the unwanted aspects of the current state are complimentary to the unfavorable actual state. And it is the favorable aspects of the current state that are conflicting with the actual future state. Essentially the undesired factors went from bad to worse, and the desired factors were lost in the transaction. HP under Leo Apotheker was a lose-lose situation and this is all too evident in this Matrix of Change.

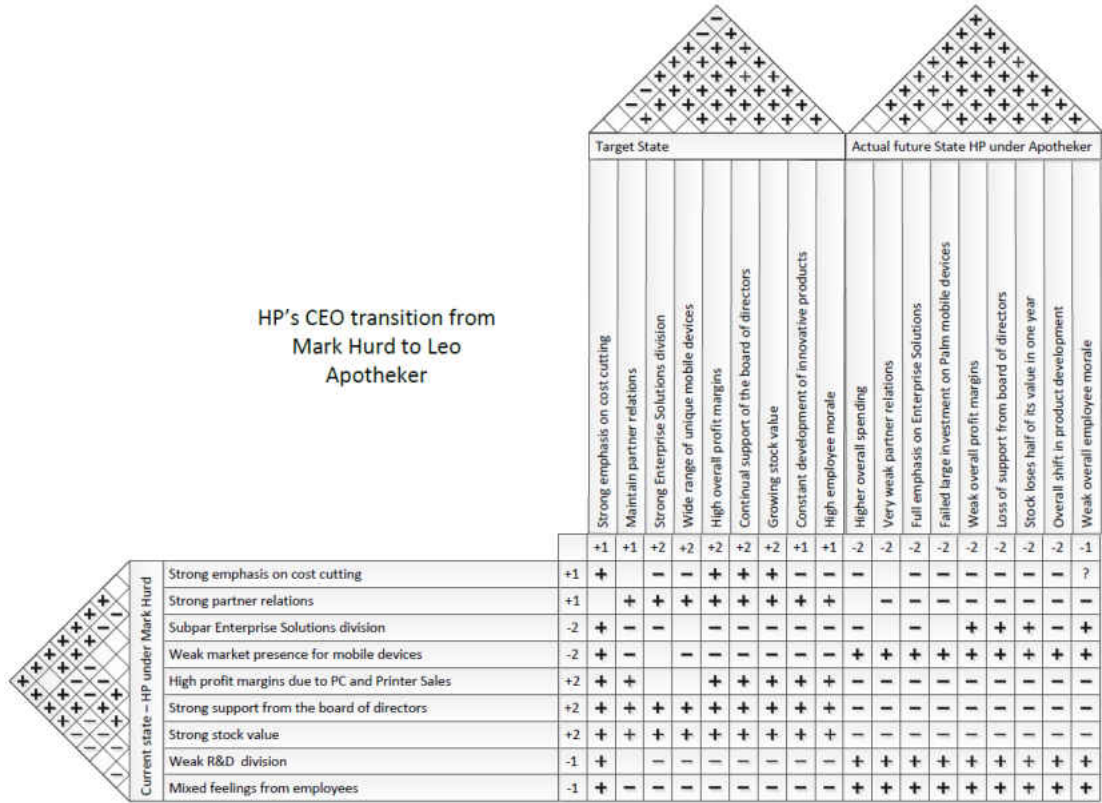


Figure 28. HP's Matrix of Change

5.2.4 System Dynamics Modeling applied to HP

We take this study one step further by designing a causal loop diagram for the HP scenario. We want to look at what actually happened after this transition, and how going with the wrong CEO affected the company's financial performance.

In the included causal loop diagram we developed seven loops to understand the actions within HP. There were three balancing loops that were for the Product Sales. The remaining four were reinforcing loops and they covered; the CEO's knowledge of mobile platforms, the CEO's partner relations, employee morale, and financial performance.

Under the Product Sales balancing loops (B1,2,3) we see how expanding the capability to develop an Enterprise Solution Product negatively affected the sales of HP's other products such as Printers and PC's. Since Leo Apotheker was starting to put all his focus on strengthening the enterprise solution division and wanting to completely dissolve the PC division by selling it. This obviously affected a number of other factors such as causing the company's partners to lose trust in HP, dropping sales and profit margins, and negatively impacting the company's stock, which in return also negatively impacts the CEO's approval.

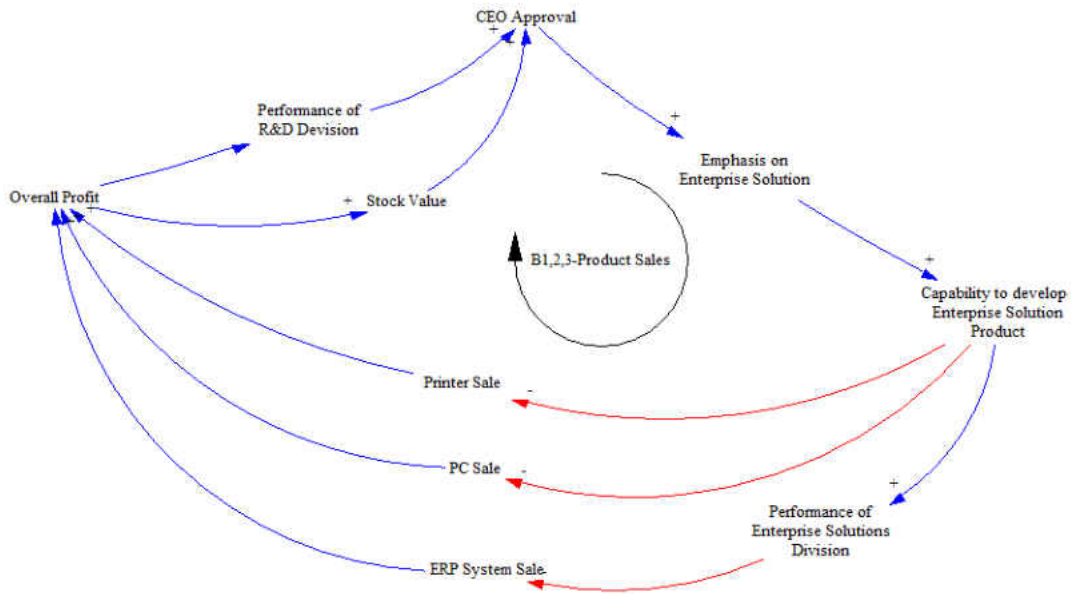


Figure 29. HP's Product Sales Loop

Looking at the CEO's knowledge of mobile platforms represented in the reinforcing loop (R1), we know that this was an absolute disaster for HP, and although the acquisition of Palm was finalized under Mark Hurd, it was Leo Apotheker who guided that ship into the iceberg.

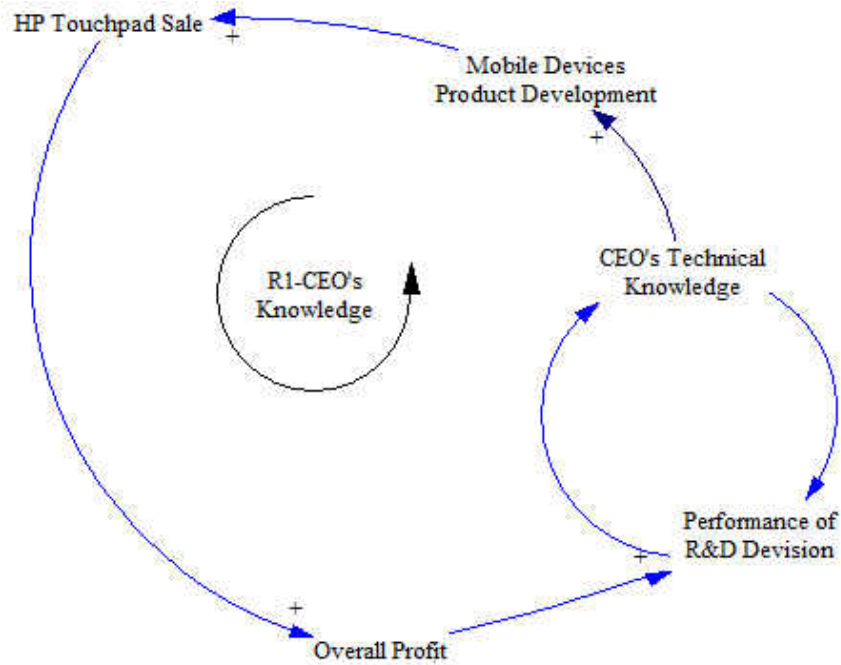


Figure 30. HP's CEO Knowledge of Mobile Platforms Loop

Countless reviews stated that the HP Touchpad was launched too early and its software was still clouded with a number of bugs. We represented this in the causal loop diagram as the Mobile Devices Product development which was lacking due to the CEO's poor knowledge of the field, and as a result it drove the product to have poor sales, resulting in poor overall profit margins, further weakening the organization's less than stellar R&D division, and finally reinforcing the CEO's poor approval rating.

The second reinforcing loop (R2) focuses on the CEO's partner relations, another very sour spot for HP. As stated earlier, Leo Apotheker came to HP with a firestorm looming behind him that he caused between SAP and Oracle. This bad blood spilled over and was starting to

affect the relationship between HP and Oracle, who were once very close partners. In this loop we see a number of factors being effected which include HP's ability to cut cost and non-productive tension that developed as a result. But HP's partnerships were not just bad with Oracle, but they were worsening with retailers. First with the company's poor support for the HP touchpad, the shoddy delivery practices, the haphazard price changes, and the surprising product line elimination. Things really got bad when rumors starting spreading of the companies ideas on selling off the PC division entirely.

The third reinforcing loop highlighting Employee Morale (R3) shows how things just got progressively worse under Apothker's tenure. HP's poor financial performance and the disastrous feedback coming from customers regarding the HP Touchpad really did not help the company progress in anyway.

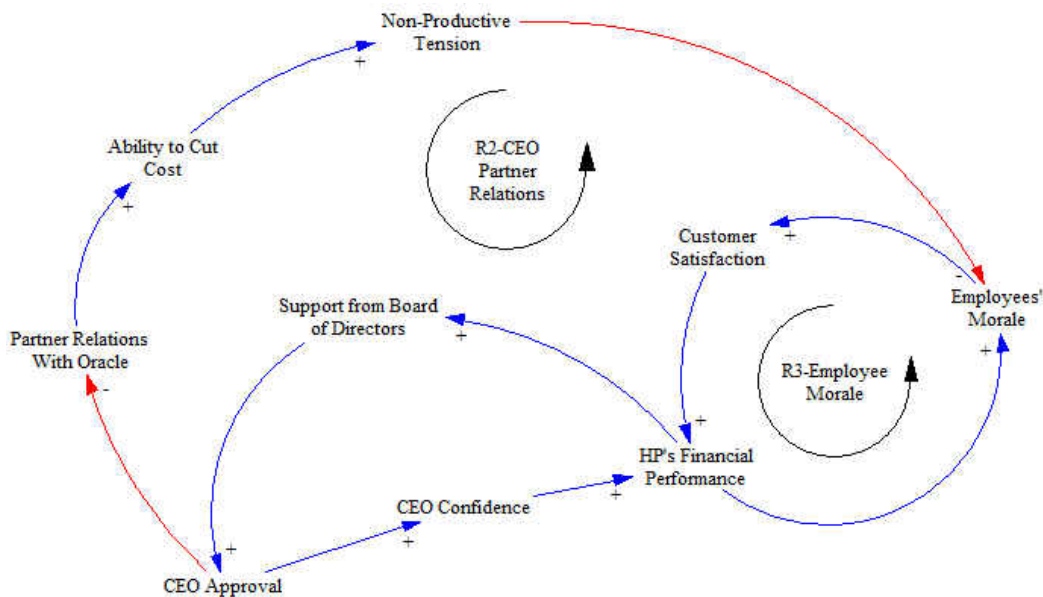


Figure 31. HP's CEO Partner Relations and Employee Morale Loop

Finally, reinforcing loop number 4 (R4) shows the company's financial performance under Leo Apotheker, and as can be seen it was practically made up of the accumulation of the other loops and their impact on the company's overall financial performance.

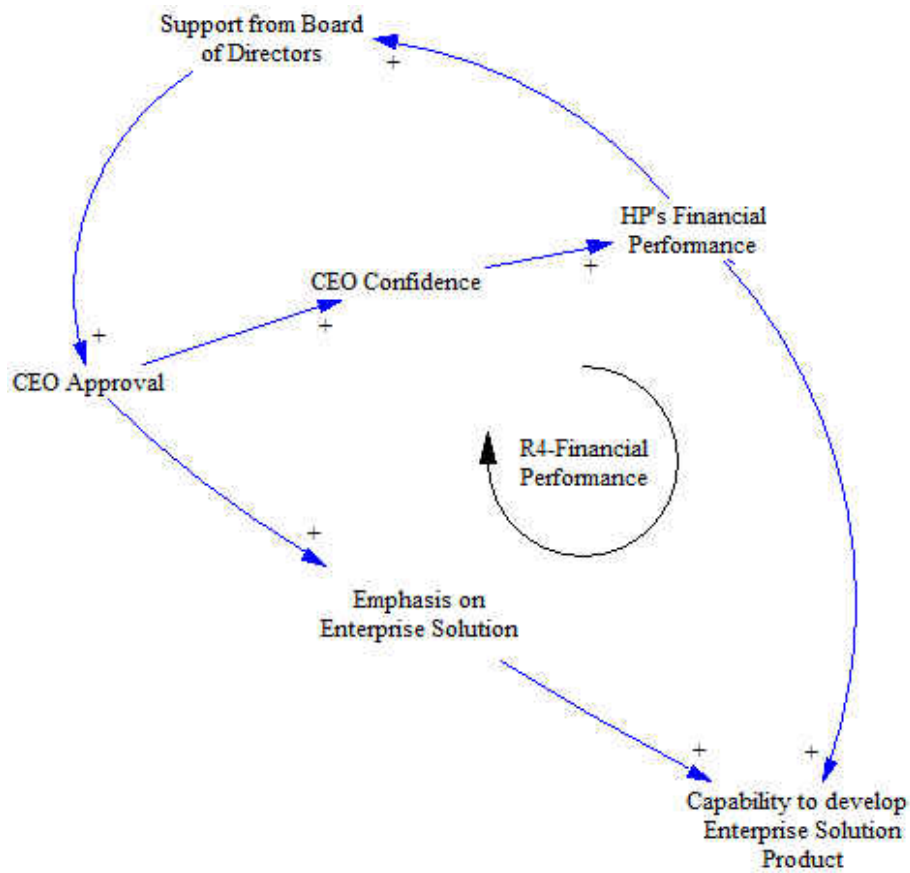


Figure 32. HP's Financial Performance Loop

By laying out a systems dynamics model in this manner we are able to take everything we put together in the Matrix of Change and set it up as a simulation which can be run for further analysis to develop a better understanding of how certain decisions affect the business.

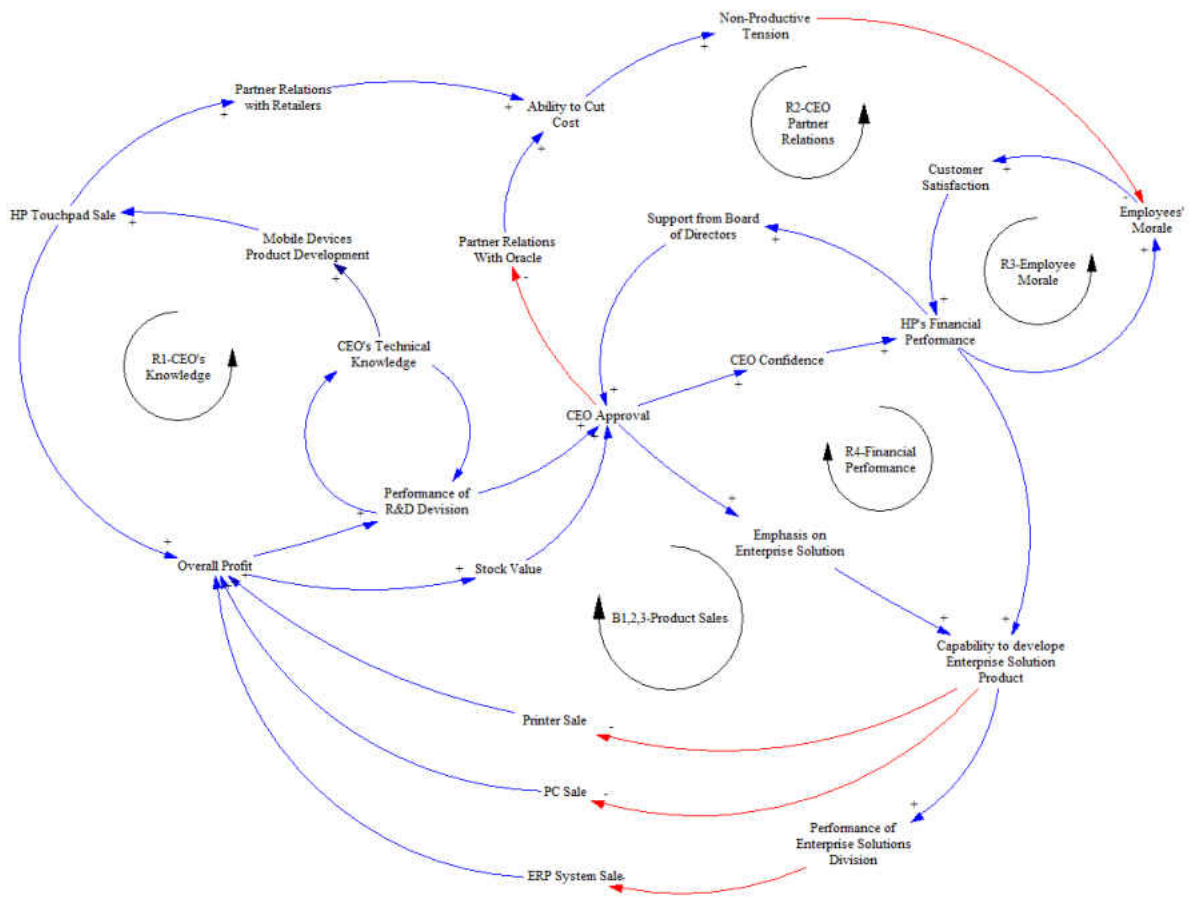


Figure 33. HP's Causal Loop Diagram

5.2.5 Case Study Findings and Analysis

As stated earlier, one of the greatest advantages of System Dynamics modeling is the ability to develop Causal Loop diagrams as a way to better understand cause-and-effect scenarios. This works hand in hand with the Matrix of Change to show how certain factors within a business impact one another.

HP's situation was problematic from multiple dimensions and the use of a Causal Loop Diagram is an excellent way to begin simulating the organization's business dynamics. It's exceptionally hard when a company loses a very good CEO and they end up hiring someone very different but hoping for minimal to no changes. Although change tends to be eventually inevitable for any business, there are certain key times when change needs to be performed. Anytime is not always a good time for change, it has to be the right time. Stability and continuity are aspects that are sometimes needed, and sometimes come only as a result of not having any changes. Meg Whitman's introduction to HP was really a return to form, instead of applying drastic and unique changes, her efforts were concentrated on bringing the company back to how things used to be under Mark Hurd. This is what the company needed at the time, and what brought them stability and profitability.

Utilizing a 1X2 Matrix of Change helps us to look at, not just where the company wants to be in the future, but in a case like HP which did go through an unsuccessful transition, it allows us to look at what actually happened and as a result we are able to compare three different states: Where the company once stood, where it wanted to be in the future, and where it actually

went. In combination with Causal Loop diagrams our understanding of HP's change scenarios is more organized and viewed from an analytic perspective.

The example of HP works in contrast with Yahoo purely based on their current standings. One can look at it in the following way to get a better understanding:

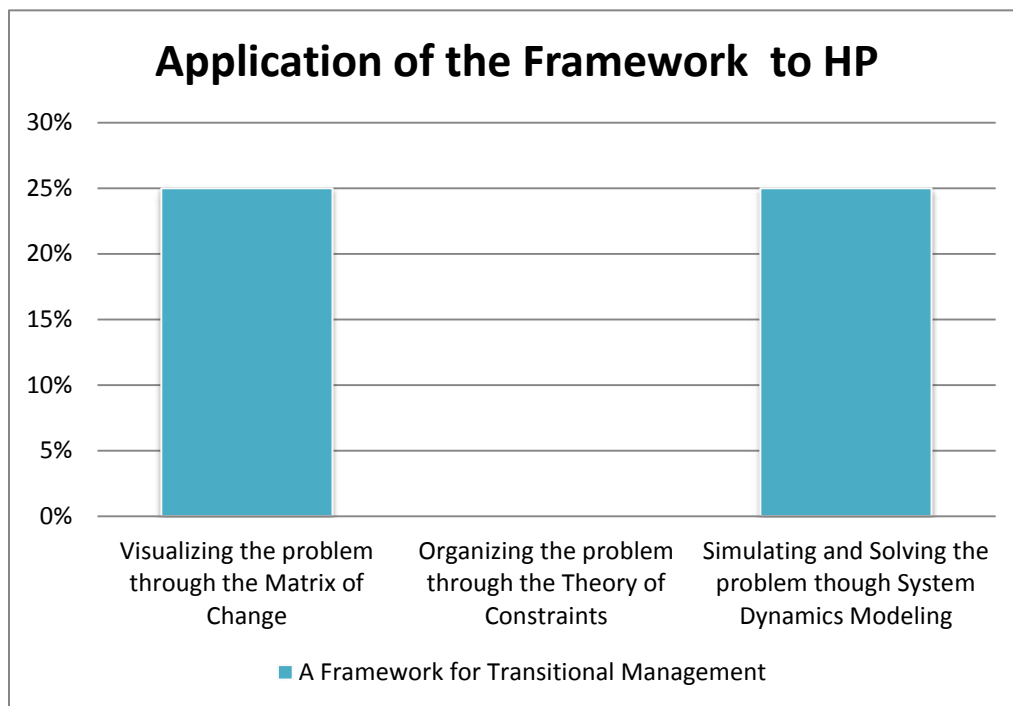
- Yahoo *needed* to change in order to become successful. They willingly made the choice to hire Marissa Mayer with the hopes that she would take the company from a negative current state to a positive future state; and that is exactly what has happened.
- HP on the other hand did *not* want nor need to change. They were already successful but the change was forced upon them when their CEO was fired. HP acted quickly and recklessly by hiring Leo Apotheker. They had hoped that Leo Apotheker would maintain the company's positive current state and build upon it, but that did not happen and Apotheker ended up taking HP from a positive current state to a negative future state.

As with the Yahoo case study, the partial application of the framework cannot be considered conclusive. The use of both models did not leave us with a concrete outcome that allows us to state who the right CEO is for HP. What we were able to determine is that it appears from the Matrix of Change that transitioning to Leo Apotheker reinforced HP's poor traits while undermining the successful aspects of the business. The Causal Loop diagram illustrates the utter mess Leo Apotheker created through multiple decisions, each of which had a

severe impact on other operations further reflecting on the initial poor decision made by the board of directors to hire him as CEO.

With respect to the overall framework we have only applied 50% of it to the HP case study. We utilized the Matrix of Change, and although we did also utilize System Dynamics Modeling, it was an incomplete attempt since we did not implement a Stock and Flow Model. Our managerial transition process has become better and more thought out but it is still not decisive.

Table 6. Application of the Framework to HP



5.3 Framework applied to Virtual Leader

Finally, Virtual Leader is used to bring the entire framework together. All the models of the our framework are applied to this simulation software which is used to illustrate the importance of visualizing the transition from the current state to the future state, organizing how the transition will take place, and simulating the problem to eventually develop a conclusive solution.

5.3.1 Virtual Leader Description

Developing a Matrix of Change and a Causal Loop diagram are all steps in the right direction when trying to decide on an executive to take the helm of your business. These are tools that provide excellent insight when used individually, but they don't necessarily paint the entire picture. Using them together gives added strength to the argument laid out on the table.

Adding a third procedure further legitimizes the methodology being put together. This additional step is the implementation of the Theory of Constraints, which will allow for further organization of the transition objective, identification of constraints which can be causing problems, and can be expanded in order to find ways to eliminate these constraints and help the organization move forward.

Virtual Leader is an intelligent-avatar based leadership environment developed by Simulearn Inc. Virtual Leader is a simulation designed to allow participants to practice their relationship building and influencing skills in a realistic gaming environment. The environment allows participants to practice and users to make significant improvements in their influence and relationship building skills (Aldrich, 2003). Students can practice and learn skills such as verbal and non-verbal communications, active listening, situational awareness, teamwork and collaboration, motivation and persuasion, effective communication and decision making aligned with strategic business objectives. A very important aspect is that students can practice these skills using directive (A management style in which the manager is very strict with her decisions and does not take into consideration the opinions of her employees), participative (A management style in which the manager and the employees find middle grounds on certain decisions and work together to find the best outcome), or delegative decision making (A management style in which the manager delegates much or all the decision making to the employees allowing them to have the freedom to do as they please). This intelligent avatar environment helps increase the incidence of behaviors such as:

- Treating others as equals
- Helping others do better
- Persuading other efforts toward cooperation
- Openly asserting and expressing ideas
- Directing the positive energy towards results

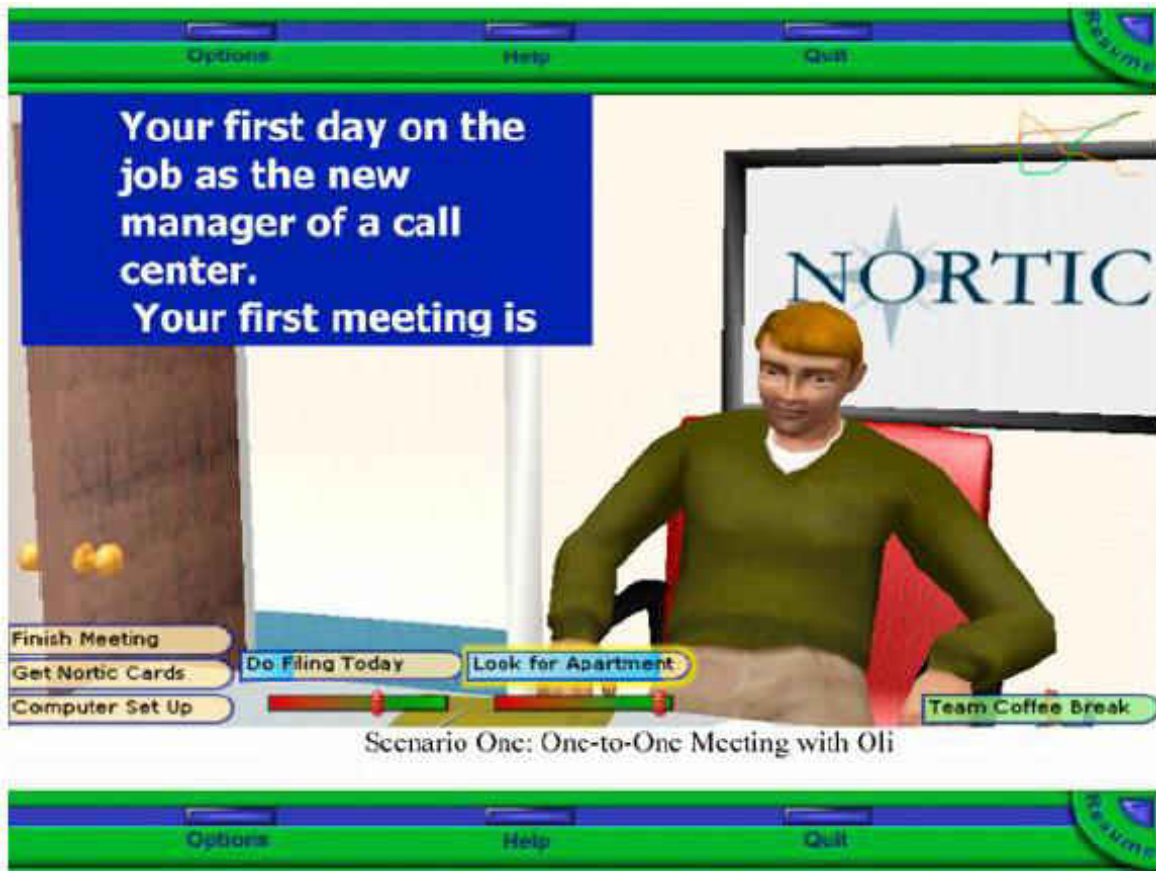


Figure 34. Virtual Leader Scenario 1 One-to-One Adapted from www.simulearn.com

5.3.2 Preliminary Analysis

When we initially ran through the software, our instincts were to use a style that we thought lies somewhere between a participative and delegative manager. Our thoughts were that we are new managers in the organization and we assumed that our employees could be relied on to make sound decisions since they have assumed their roles longer than we have assumed this

management position within the organization. This may not be the best thing to do, but as managers we also wanted to be liked by the employees and attempted to be flexible with their requests.

We ran through a number of scenarios and found that when we were flexible with one decision, the employee (whose name is Oli) expected us to be flexible with other decisions that were completely unrelated. It was as if Oli becoming overly confident when he approached us with a problem that they were facing or with something that they wanted.

The decisions which needed to be made were basic ones such as asking the IT department to setup your office computer so you can begin your work, or requesting that the marketing department print you business card so you can begin holding meetings with external partners. As a manager you also have to decide the working hours for your employees and make decisions on certain personal problems that the employees approach you with.

It wasn't necessarily a surprise to see the final score show up as a poor 70% our manager was clearly taken advantage of by the employees. The final score in Virtual Leader is primarily based on the task completion rate, as in how efficiently the employees get things done.

The software does not give its users a background story on how the division was run before you become the manager as not to give any pretenses. The user is expected to make his or her own assumptions on how to approach the situation and what they believe is the right way to start off on the right foot and continue a working relationship.

Although our performance as a manger was quite poor, this was a good place for us to start and test out the methodology outlined in this dissertation. If we consider the results of our first run as the current state, we can then compare it to different styles of management, a more directive style, a participative style, or keeping things as they are which can be considered a delegative style since the employees clearly got to have their way in nearly every decision.

5.3.3 Theory of Constraints applied to Virtual Leader

We use Eli Goldratt's Theory of Constraints to begin organizing this problem, starting by answering the theory's three initial questions:

1. What to change?

- Employee behavior in which they take advantage of the manager causing poor performance with respect to the tasks which need to be completed.

2. What to change to?

- A stable workplace in which employees respect their manager and work efficiently to complete tasks on time.

3. How to cause the change?

- Utilize a more efficient management style.

Now that we have a general understanding of the problem, we begin by following the five key steps outlined in the theory of constraints and applying them to our main problems starting with the first one which is the task of asking our employee to print our business cards:

1. *Identify* the constraint

- Oli delays the printing of your business cards which in turn impact your performance as you are unable to professionally hold external business meetings.

2. Decide how to *exploit* the constraints

- Utilize assertive commands when you request your business cards from Oli.

3. *Subordinate and synchronize* everything else to the above decision

- Explain to Oli that his work priority at the moment is to finalize and deliver your business cards.

4. *Elevate* the performance of the constraint

- All other tasks can wait until this task is finalized. Continue to follow up with Oli if needed.

5. If in any of the above steps the constraint has shifted, *go back to Step 1*

- When the constraint has been elevated and the task of delivering the cards has been completed, look at the other tasks which need to be finalized and prioritize them based on what is impacting the business the most, do so until all constraints have been addressed and the work place is functioning optimally.

Although not necessarily a big step the Theory of Constraints works very well with the Matrix of Change to help organizing the problem and allowing a company to go from an undesired future state to an optimal future state.

5.3.4 Virtual Leader's Matrix of Change

In order to compare the current state of the Virtual Leader scenario to the three different future states we utilized a 1X3 Matrix of Change where we treat the current state as a very easy going attitude in which Oli, the artificial-intelligence employee, gets his way on a number of the decisions, and takes advantage of you, the user, as you are a newly employed manager. As stated above, the three future states consist of;

- The directive style is where the manager looks past Oli’s requests and sets his or her own requests as the priority.
- The participative style is where the manager opens up a communication channel with Oli and attempts to find different solutions in order to meet both of their requests.
- The delegative style is where the manager puts all decision making power in Oli’s hands giving him complete freedom

Current Style	Directive Style					Participative Style					Delegative Style				
	2	2	2	1	2	2	1		1	1	-1	2	2	2	
Employee will get your business cards as soon as he's free	-1	-		-	-	-					+			+	
Employee will inform IT to set up your computer tomorrow	-	-		-	-		+	-				+		+	
Employee will leave early tomorrow to look for an apartemnt	2	-		-	-		+	+				+	+	+	
Employee wants the freedom to make all the decisions	2		-		-				+		+	+	+	+	
Employee manages his own hours at the office	2			-	-			+		+	+	+	+	+	

Figure 35. Virtual Leader’s Matrix of Change

As can be seen from the Matrix of Change, the directive style would be the hardest of all the transitions (Based on all the negative signs displayed in the center matrix) as it is the most different from the current state. This does not necessarily mean that it would be a bad choice; it just means that it would be a harder transition that may require more planning and more time.

The participative style is a bit of an easier transition than the directive style as the manager works in cooperation with Oli to try and find a middle ground.

Finally, the delegative style appears to be a seamless transition, since it is practically an identical situation to the current state where Oli is free to do as he pleases.

5.3.5 System Dynamics Modeling applied to Virtual Leader

As we have outlined the dilemmas faced in Virtual Leader, we now work to model it using a Causal Loop diagram. Virtual Leader bases its final score on both qualitative metrics and quantitative Metrics. The Leadership Aspect is the qualitative metrics and it's a result of how well you prepare your team for successful actions. It is made up of:

- Power
- Tension
- Ideas

On the other hand the quantitative Metrics are based on Business results with respect to the organization's performance in the next business quarter. These are made up of:

- Financial Performance
- Customer Satisfaction
- Employee Morale

Virtual Leader's scorecard is displayed in the below diagram:



Figure 36. Virtual Leader's scorecard. Adapted from www.simulearn.com

Using these factors we are able to use tangible values as measures for our performance from multiple dimensions as a manager newly hired to oversee this division. The Causal loop diagram of the leadership framework provides a high level of leadership attributions in terms of a cause and effect relationship and reflects on the success of a business over time. When the reinforced management loops are diligent and goals are met, the cycle generates growth and success.

The casual loop diagram of effective leaders is illustrated below and it includes five loops:

1. The reinforced employee morale loop-R1
2. The reinforced customer satisfaction loop-R2
3. The reinforced financial performance loop-R3
4. The reinforced power loop-R4
5. The reinforced generating ideas loop-R5

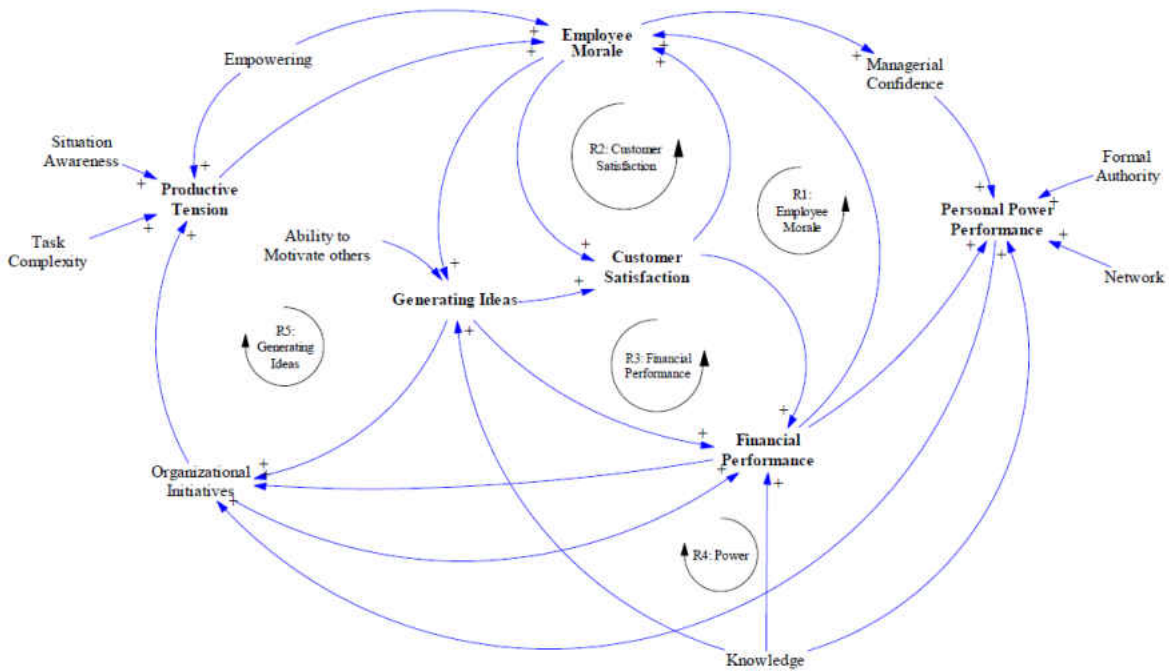


Figure 37. Causal Loop Diagram for Virtual Leader

The employee morale loop-R1 represents a reinforced behavior which can be increased by enhancing and empowering generating ideas and financial performance. Customer satisfaction is one of the important elements that can reflect leadership and organizational performance. This study shows that the customer satisfaction loop-R2 positively impacts employee morale. Employee morale has significant impact on the level of customer satisfaction. Therefore, leaders should be aware of this factor in order to improve or sustain business performance. The financial performance loop-R3 has a positive relationship with generating ideas, customer satisfaction, employee morale, knowledge, organizational initiatives and

productive tension. Therefore, leaders should take into consideration these elements in order to enhance financial performance.

The power loop-R4 represents the leader's personal power which has a positive relationship with formal authority, network, employee morale, managerial confidence, knowledge, and financial performance. This loop also reflects the type of administrative leadership which defines the activities of individual leaders in managerial roles. Formal authority power and network have become key factors impacting the personal power performance and organizational initiatives. Finally, the generating ideas loop-R5 can be increased by improving employee morale, ability to motivate others, knowledge. Generating ideas positively impacts organizational initiatives, financial performance, customer satisfaction and productive tension. The generating ideas loop is one of the elements that reflect the leader's performance. In order to increase the effectiveness of leaders, they should be able to motivate or encourage employees to be innovative and generate ideas. In addition, productive tension is directly affected by empowering, situational awareness and task complexity. When organizations are faced with a complex system due to rapid changes in environmental demand, leaders must have situational awareness which allows them to manage organizational strategy/crisis, plan, guide and share visions with the organization. It is also important for them to acquire resources, interact and encourage employees to collaborate and engage discussion amongst different teams. As a result, the interaction between leader-followers is a critical issue that requires leaders to be clear with direction and empower others toward the goal. (Marion and Uhl-Bien, 2001)

Effective leadership characteristics are represented in the reinforced management loop-R1, R2, R3, R4 and R5. This causal loop of effective leadership reflects the type of adaptive leadership which refers to leaders who can coordinate, self-manage, and adapt to changes in circumstances by engaging and interacting with others. (Uhl-Bien, Marion and Mckeley 2007)

As a result, leaders are self-managed, innovative and system thinkers. They have the ability to produce productive tension, empower, and motivate people to change. They also tend to coordinate and influence people to generate ideas in order to accomplish organizational goals. The outcome of effective leadership is an increase in productivity, financial performance, customer satisfaction and overall business performance, among other things. These five reinforced management loops present exponential growth behavior. It can be interpreted that these variables have a positive impact on business performance. This model represents essential leaders' attributions and potential consequences which can support leaders to make appropriate decisions to lead their business. The implementation of this model may have short term and long term impact depending on the leader's personality, experience, and communication mechanism between them and their followers.

A preliminary system dynamics model of effective leadership is presented to reflect the fundamental effective leadership attributions. The model attempts to enhance leadership performance (personal power performance) by increasing organizational initiatives (task completion rate). The task completion rate depends on the number of generating ideas, level of employee morale, productive tension, financial performance, available knowledge, task complexity, empowering level, customer satisfaction level, formal authority power level and

their ability to motivate others. There are two variables that have a negative relationship with leadership performance; these include task complexity and the number of assignments (projects). Furthermore, the level of authority power can have both a positive and negative impact on the collaborating rate of employees. As a result, leaders should be able to self-manage, especially using formal authority power.

The number of generating ideas is based on the ability to motivate others, increasing that will increase generating ideas. The employee morale level is determined by the collaboration rate which is based on authority power level, empowering level, and customer satisfaction. The productive tension level has a positive relationship with the task completion rate. The tension rate can increase by increasing the empowering factor and decreasing task complexity. Thus, personal power performance represents leadership performance which is the difference between the task assigned rate and task completion rate. The higher the task completion rate provides the higher personal power performance of leader. The interaction of the different elements and the integration of this dynamics with the MOC can help to see the importance of this type of leader to be hired.

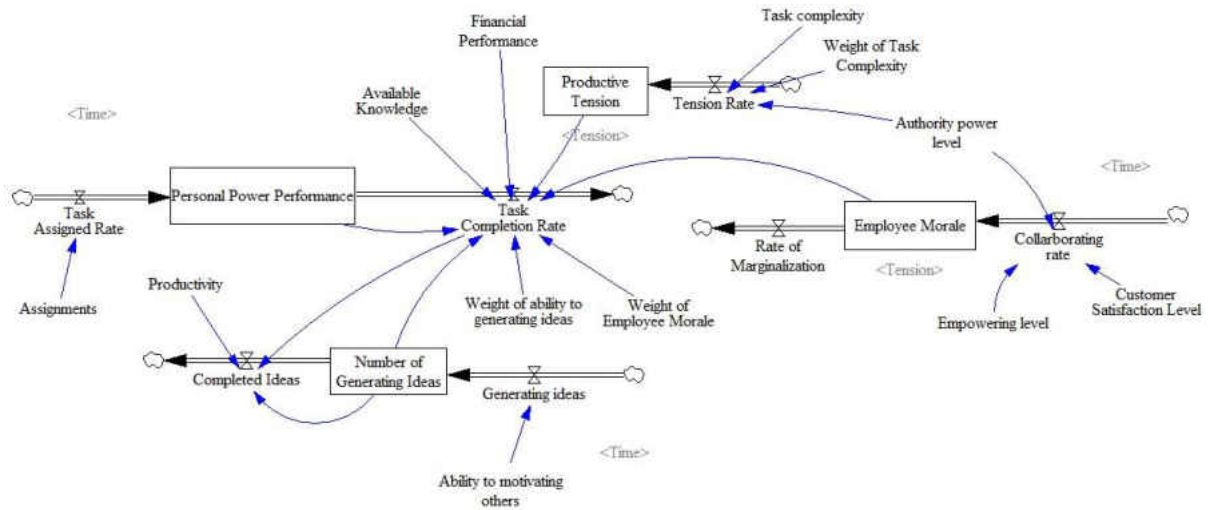


Figure 38. Stock and Flow Diagram for Virtual Leader

Since we developed the Matrix of Change using three different types of leadership styles, we set different levels of authority power to represent them. The delegative leadership style has an authority power of level 1, the participative leadership style has an authority power of level 3, and finally, the directive leadership style has an authority power of level 5.

5.3.6 Virtual Leader Findings and Analysis

The results below show that the value of the task completion rate significantly changes with the directive leader (Authority Power level 5) allowing for a much faster task completion rate in comparison to the other two management styles. As is the case for the task completion

rate, it is no surprise that productive tension also increases in the same manner with the delegative leader having the lowest influence on the factor.

What appears to be very interesting is that employee morale decreases as the authority power level increases, this is understandable because the employees (according to Virtual Leader) were so used to doing what they wanted and having their way on everything, that when a manager starts to get tougher in the way he or she works with them, it's natural for them to be somewhat discouraged, but nevertheless their performance on the required tasks still increased. It's no surprise that the changes in personal power performance are not drastically different but the delegative leader (authority power level 1) slightly edges out the other two.

Table 7. Task Completion Rate Results

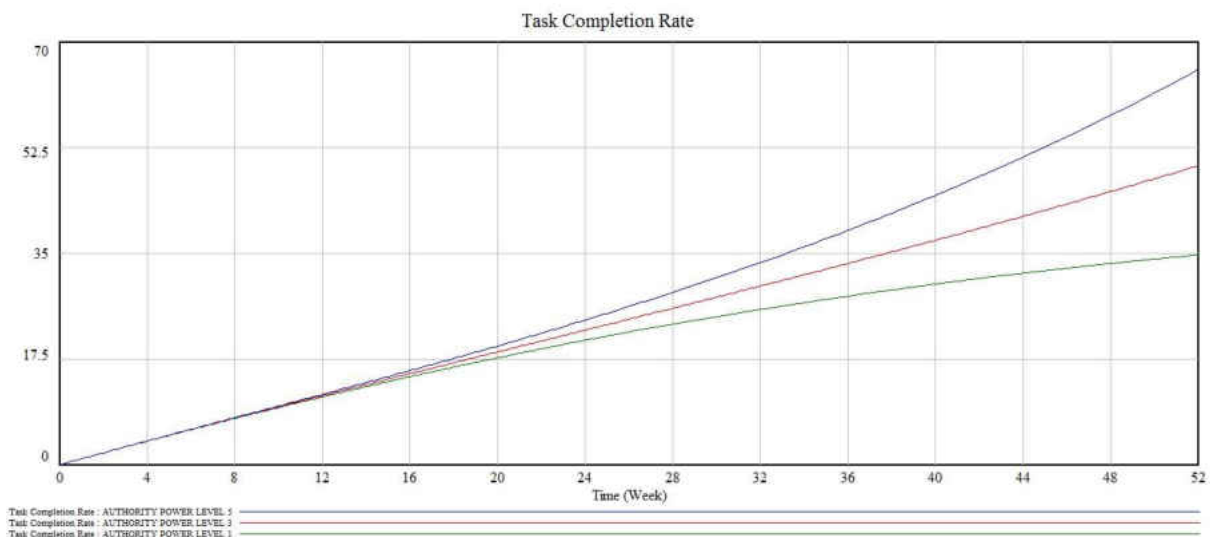


Table 8. Productive Tension Results

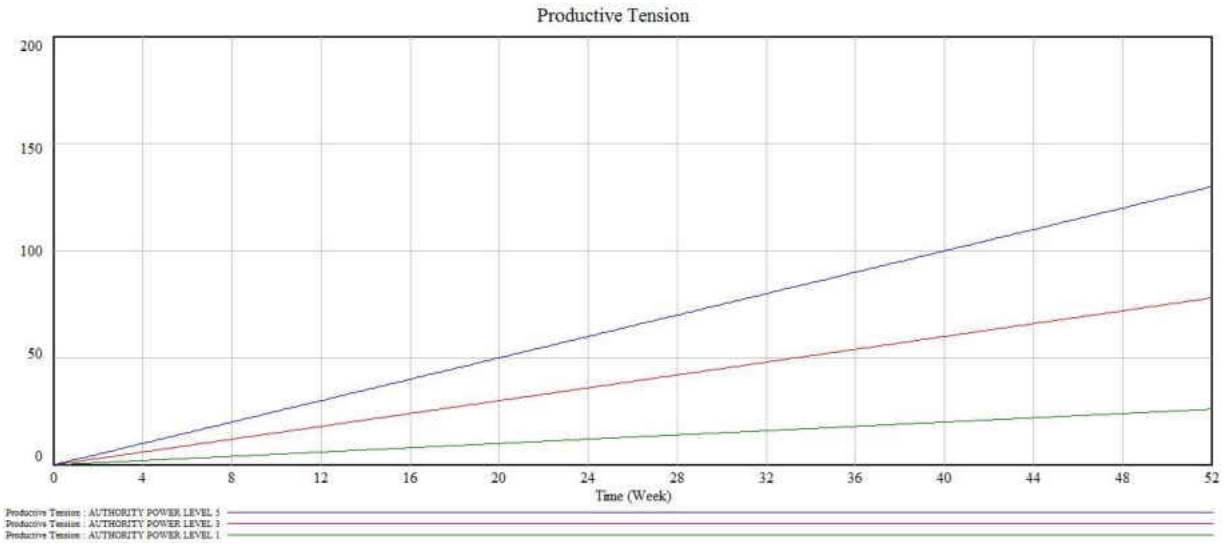


Table 9. Employee Morale Results

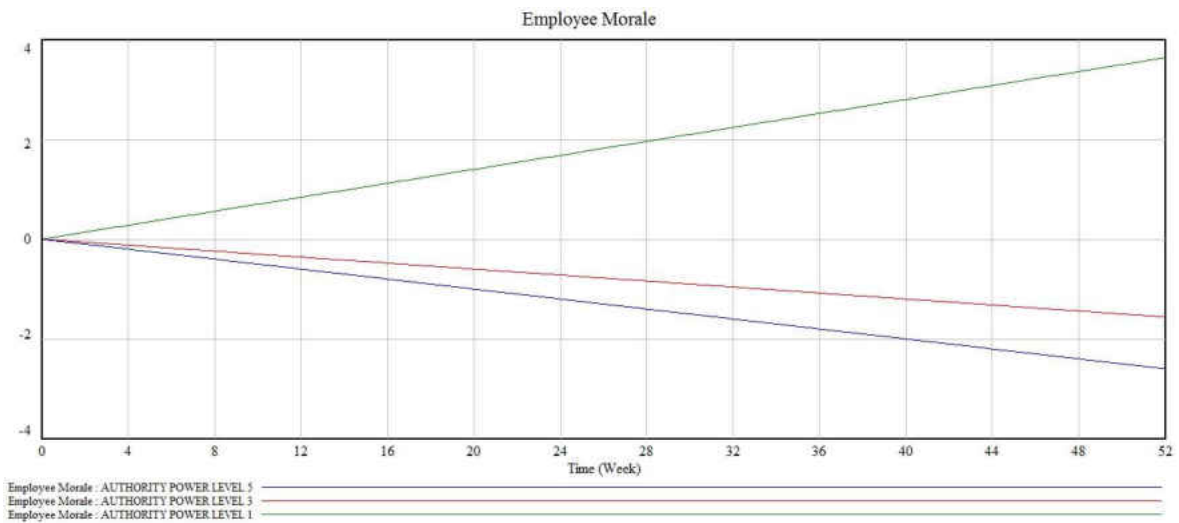
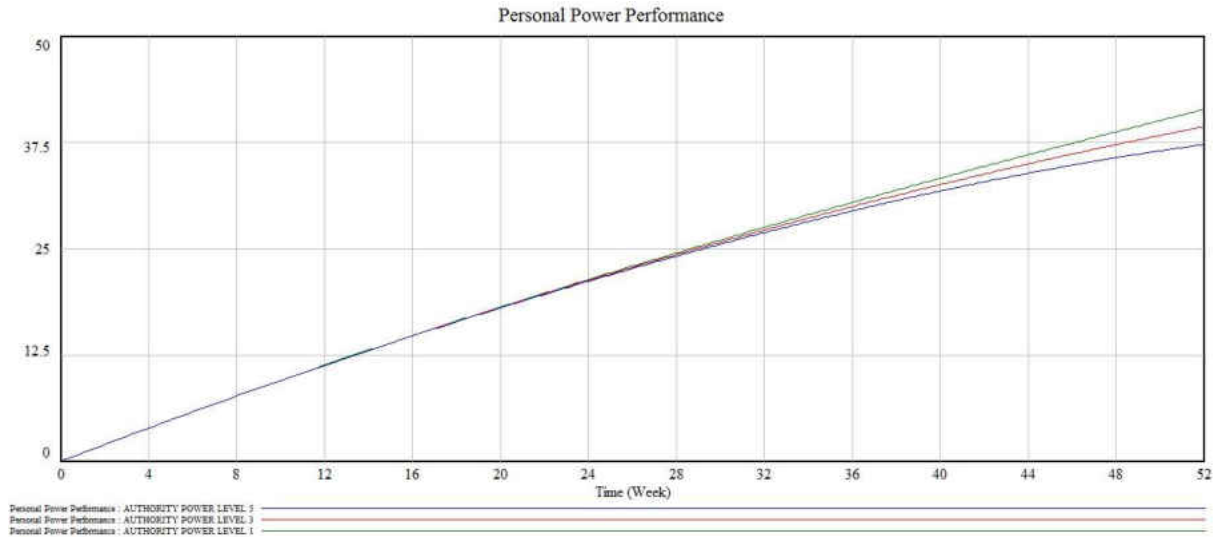


Table 10. Personal Power Performance Results



Upon completing and running this Systems Dynamics model we arranged for a group of users to play the simulator as directive decision-makers, others as delegative decision-makers, and the third group as participative decision-makers. The results of 15 people (5 for each behavior and the score in the first scenario – with a maximum of 100) and the particular statistics are depicted below. It is important to see that the directive style was the highest score for this simple exercise validating the answers for our Systems Dynamics model.

Table 11. Results of Virtual Leader Group Tests

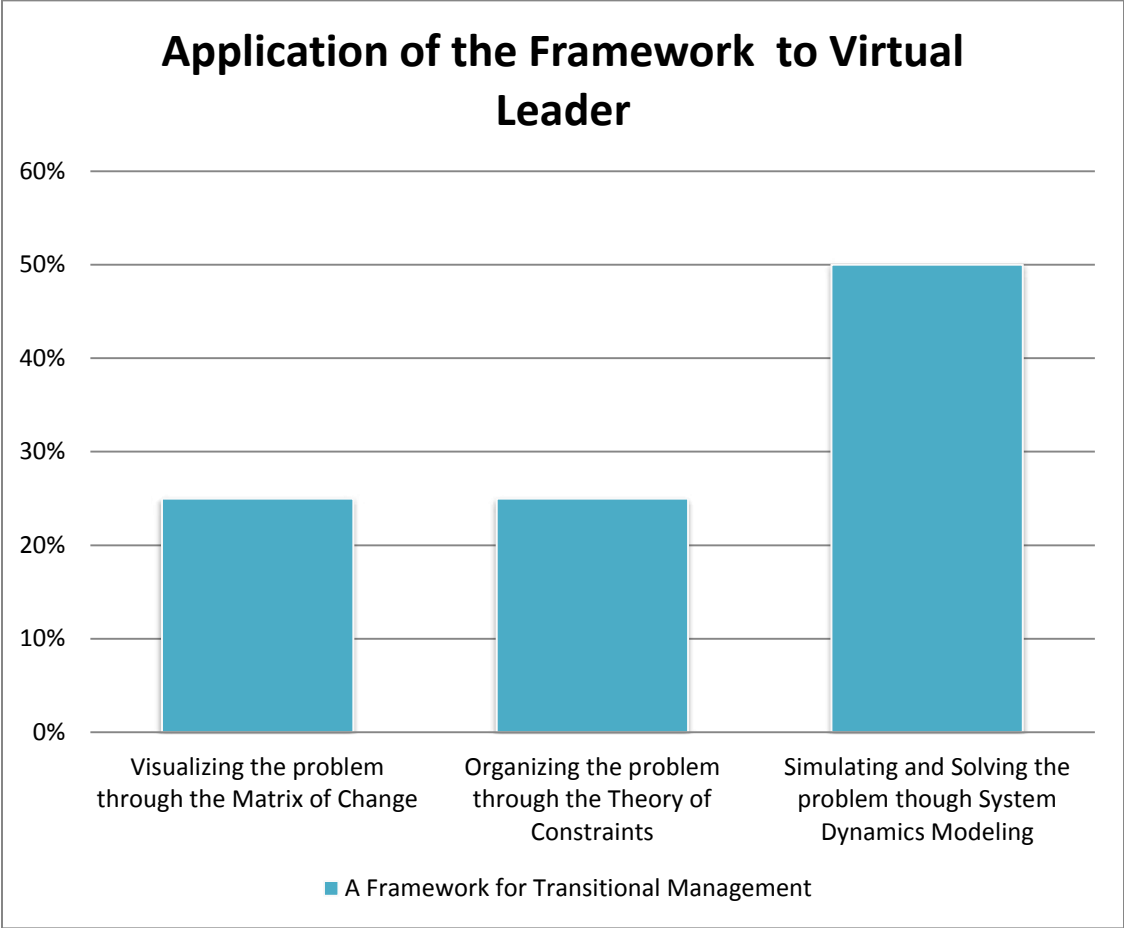
Decision Making Style	Mean Score	Std Deviation
Directive	91.94	3.16
Participative	84.64	3.5
Delegative	78.01	5.22

Virtual Leader provided a different perspective than that of HP and Yahoo. Based on our initial performance in the software we brought the company into a negative current state, and it was up to us to find out how we can transition it to a positive future state. Unlike the Yahoo and HP cases, this transition was under our control and as the simulation was happening in real time, so was the transition.

The HP and Yahoo examples were both based on events that had already occurred; Virtual Leader was an event happening right before our eyes and as a result this was the best example to apply all three models to. This makes our Framework is now complete. We have utilized 100% of it in the Virtual Leader Example. We used the Matrix of Change to visualize the problem, laying out our current standing as an inadequately performing manager and comparing it to three different future states. We then utilized the Theory of Constraints to organize our problem and develop a step by step guide on how to initiate this change from poor performing delegative manager to high performing directive manager. Finally, through the use of, both, Causal Loop Diagrams and Stock and Flow models, we were able to use System

Dynamics Modeling to simulate the three different alternative management styles and decide which one would be best utilized for our business.

Table 12. Application of the Framework to Virtual Leader



5.4 Panel of Experts Analysis

As discussed earlier, in order to validate our framework we utilized a nominal consensus technique where we presented our research to a Panel of Experts. The individuals on this panel come from many different walks of life, with different experiences, and different perspectives regarding our framework. Those individuals consisted of:

1. Mr. Sherif Afifi – Senior Assistant Brand Manager at Procter and Gamble (Fast-moving consumer goods / Manufacturing)
2. Dr. Richard Ajayi – Professor of Finance and International Business at the University of Central Florida (Education)
3. Mr. Jeff Bryson – Systems Architect Engineer at QinetiQ North America (Government / Defense Contracting)
4. Mr. Mark Calabrese – President and CEO of John Galt Inc. (Consulting)
5. Mr. Darius Ferdows – Change Management Consultant at Competitive Capabilities International Inc. (Consulting)
6. Mr. Javier Guzman – Vice President at Deutsche Bank Securities (Banking)
7. Mr. Atef Iskander – President of Technical Programming Services Inc. (Technology Solutions)
8. Dr. Jennifer Pazour – Professor of Industrial Engineering and Operations Research at the University of Central Florida (Education)

The members of the Panel of Experts were given a one hour presentation on the Framework discussed in this dissertation. Upon its completion they were then asked to answer five questions about the presentation in order to gauge how they felt about the research and whether or not they believed it could be effectively applied in real world scenarios. The members were asked to first answer the questions individually, and once all members had submitted their replies, their answers were then shared with all the other members, and after careful evaluation they were asked to answer the questions a second time to see if their opinions had changed based on reading the other responses.

The five questions presented to the Panel of Experts were:

1. Do you believe this is an effective framework for transitional management?
2. Do you believe that this framework can be applied without precedence at multiple levels in an organization (Example: Changing CEO's or changing a line supervisor)?
3. Do you believe that this framework is most effective using all three steps (The Matrix of Change, The Theory of Constraints, and Systems Dynamics Modeling) or can /should one or more of them be removed?
4. Is there evidence of any major potential problems that can be faced by someone utilizing this framework?
5. Are you aware of any other method or model that can / should be added to replace or complement the included methods?

For the most part there seemed to be an initial consensus amongst the responses of the Panel of Experts. Although many of the replies did not take a firm stance regarding some of the questions, either favorably or unfavorably, the below table shows where most of the opinions generally stood:

Table 13: Panel of Experts Individual Results

Individual Results									
		Calabrese	Pazour	Ajayi	Ferdows	Iskander	Bryson	Afifi	Guzman
1	Do you believe this is an effective framework for transitional management?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2	Do you believe that this framework can be applied without precedence at multiple levels in an organization?	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
3	Do you believe that this framework is most effective using all three steps?	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
4	Is there evidence of any major potential problems that can be faced by someone utilizing this framework?	Yes	Yes	Yes	Yes	No	Yes	No	No
5	Are you aware of any other method or model that can / should be added to replace or complement the included methods?	Yes	No	No	Yes	Yes	Yes	No	No

Regarding the first question, all members of the Panel of Experts were in agreement that this was indeed an effective framework for better understanding transitional management. Many of the members voiced their opinion that this framework is definitely a step in the right direction when it comes to tackling such an ambiguous topic. However, they also voiced their concern that it is not a conclusive framework due to the nature of the problem, it's almost impossible for it to be entirely conclusive, but it can help bring organizations closer to a more analytical method in choosing future executives. The fact of the matter is that many of today's corporations are so different from one another; one panel member explained that, success in one area may not translate into success in another area. The application of the framework presented will be applied in different ways to different companies, and results are bound to vary. But it was stated that it can be successful in narrowing down on the specific qualities needed for success.

Question two presented much disagreement, a few of the members of the Panel of Experts believed that although this framework could potentially be applied without precedence at multiple levels of an organization, transitional dynamics are very different at the lower levels of an organization (Line supervisors for example) in comparison to those at the executive level. Those members believed that this framework would be more effective when used at the executive level as there are many more factors that must be taken into consideration and the process is just not as complicated and not particularly necessary at a lower level. But as the framework primarily lays down a foundation for transition it can be considered to be successfully versatile and it does help decision makers at any level determine the areas that they will need to focus on.

For the third question, most individuals believed that the three steps of the framework work best when used together. One member did not see the need for all three steps; they believed that as the framework was broken up and its steps used separately in some of our example case studies, although not entirely conclusive, they were still effective on their own as a systematic approach. Others believed that although the combination of the three steps adds strength, they do vary in complexity and may cause those using them to put forth more efforts in one of the model as opposed to the others.

Although, the consensus was stronger for the use of all three models together, it was the Matrix of Change that garnered the most attention, both in discussions during the presentations and in the individual replies. Many of the members believed that the Matrix of Change really addressed a big problem faced by companies today and that is the step of actually identifying what the core problems of a business are and how they are affecting other parts of the business. The members of the Panel of Experts saw the Matrix of Change as a very simple yet extremely effective tool for promoting stakeholder awareness and discussions, identifying key conflicts in business operations, and prioritizing future goals.

Question four was the question that presented us with the most diverse replies. Once again, for the most part there was a consensus that there were indeed some gaps in the framework that could lead to some potential problems. But it was the nature of those problems that differed in the eyes of the members. One member believed that some difficulties could be faced when applying the framework in some international companies as the entire mentality and ideologies behind transitional management vary with different cultures. While Western cultures

tend to focus more on performance and output, other cultures may value age and experience, and as a result they may base their decisions instead on those factors. But it's not just global culture that affects how the framework is applied; corporate culture will also play a role. One of the members had informed me that the company they worked for (Procter and Gamble) only promotes from within, it's almost unheard of to have an executive at the company who did not come from inside, and items like the Matrix of Change would need to be tailored to ensure it did not conflict with this corporate strategy. Deciding whether to promote from the inside or to hire outside individuals for an executive role is always considered a double edged sword. On the one hand promoting from the inside allows a company to have personnel who very are familiar with the operations, products, or services of their company. Much less time will be wasted in training these individuals and getting them acquainted with the business. But on the other hand, hiring externally brings in a new fresh set of eyes, provides a different perspective on the business, and opens the door for new ideas with respect to how the business can be run.

Other concerns that were mentioned were in respect to the input factors for the Matrix of Change. As was stated by one of the members, the output of the Matrix of Change is really only as good as its input. There is some concern over who, at a company, would be choosing these input factors (The list of organizational practices or traits at the current state). It has constantly been stated that relevant stakeholders at a company would be the ones to choose what goes into the Matrix of Change, but that could mean a lot of different things to a lot of different organizations, is it the members of the board of directors? Managers of different corporate departments? Or would it be best to let the outgoing executive lay down his or her thoughts into the Matrix of Change? Should the company hire external consultants to develop a Matrix of

Change for them? These scenarios would obviously vary from company to company, but it seems that the concern, according to the Panel of Experts, is that the definition of “stakeholder” is too loose and could be misrepresented or misconstrued during actual implementation.

With respect to expanding on this framework, question five was met with some very interesting ideas. While some members stated that they were unaware of other methodologies that could work in parallel to the steps laid out in this research, others believed the material could be greatly complimented with the use of other change management ideologies. One member believed that Lean principles could work very well with this framework and could offer contributions to the initial assessment. A Loss and Waste analysis could be implemented and used as a guideline in helping top level executives zero in on where their company is losing profits, and who they best believe could help them mitigate these losses.

One member believed it would be beneficial to include some studies on Theory-X and Theory-Y principles in order to understand individual motivation and the response that’s given to them based on personal interaction. This is a great idea that could be built up on in future research, it moves away from much of the engineering methodologies presented here and begins to touch on human resource factors and organizational behavioral. This type of psychological analysis is somewhat lacking in this research but deems to be an important factor. Its principles would also work well for those who want to utilize the Virtual Leader software even further to gain a deeper understanding of their own management style and how to improve certain skills such as interpersonal communication and critical decision making.

During the next round of the nominal consensus method, all replies were shared with the Panel of Experts and it was interesting to see the agreements amongst some of the members. For the most part most individuals were satisfied with their answers and decided that they did not want to change them. Others stated that they did not want to change their answers but commented on how they found the other replies of interest because of the different perspective they provided. One reply that was of particular interest came from a panel member who stated that, although, he had addressed the same concerns another member addressed, it turned out that his reply was in support of the model where as the other member's reply did not support it. Other members changed their replies by adding parts from another person's answer which they thought were interesting and which they found supported their own arguments. None of the answers caused any of the members to make any drastic changes or completely change their opinion on the topic since, as stated earlier; there was evidence of an initial consensus from the very start.

CHAPTER 6

The framework presented in this study is heavily based on the organization's goals and where they want to be after a certain period of time.

Utilizing the included engineering tools has allowed us to formulate a systematic framework to address the problems which arise in transitional management. The Matrix of Change allows key stakeholders to better visualize the problem at hand, the Theory of Constraints is there to better organize the problem and give one's self a realistic step-by-step guide to tackle the problem, and System Dynamics modeling has been proven to be able to allow us to simulate and essentially solve this problem.

6.1 Overall Analysis

The Framework for transitional management is a necessary tool if corporations aim to give their decisions regarding choosing certain CEO's scientific support. Decisions as important as those should not be left to chance. Past research on the topic provided an outline of the problem, or used statistical assessments to compare transitions. Some developed a plan based on their own opinion and what needs to change, but this was done blindly without a relevant framework. The idea of simulating the problem of transitional management was not something

on anyone's mind, and if it was it was not efficiently implemented. As was made apparent, this framework holds strength in numbers, it utilizes the right tools at the right time, to bring together a completed whole.

The case studies we used gave us the opportunity to test out the framework as a whole as well as in segmented pieces to see how the models work individually. Comparing the different models with failed transitions and successful transitions also sheds some light on how the models can be altered to meet the needs of the current corporate situation. For Yahoo's case the company was in a downward spiral and it needed a change that would bring it back to the top. They needed to go from a negative state to a positive state. HP's scenario was a bit different, they were actually very successful prior to Mark Hurd's unexpected ousting and they needed someone to keep them on the same successful path. But Leo Apotheker's introduction as CEO did the exact opposite, the company lost 50% of its value in one year; it went from a positive state to a negative state. The Matrix of Change developed for HP does a great job to show that Leo Apotheker's biggest downfall was that his actions reinforced whatever bad traits were there when Mark Hurd was the CEO, and interfered with the positive aspects of Hurd's tenure.

Virtual Leader provided a more dynamic exercise. We set our baseline as our initial run through the software and based on this outcome we developed a Matrix of Change and System Dynamics models to interact with the situations and simulate various scenarios. This was all organized using the Theory of Constraints. We were further able to verify our results from the System Dynamics model by conducting more trial runs which then matched up with what we had simulated.

6.2 Conclusion

Running a business is no easy task, getting it started and building it up successfully is even harder. 70% of new firms survive for at least two years, and roughly half of those will not make it to the fifth year (Henricks, 2010). But it's the process of stepping away from this business that is an exceptionally difficult, and usually, overlooked task. Turning over the business is so daunting in nature that many business leaders tend to avoid it all together or delay it as much as they possibly can in order to save themselves from the burden of moving it to the next generation and passing on the torch.

The entire process of transferring corporate leadership can never be considered easy, but matters are made even harder when other factors are there to impact this state of change, these other factors can include complications due to the fact that the business is a family owned entity, or that the current head executive is also the founder of the company, or even if the current CEO decides not to leave the business entirely but merely moves his or herself to a position such as chairperson of the board then hiring someone to replace them as CEO but still meddling in their everyday decisions.

A proper plan, when developed at an early and appropriate stage, can better prepare the successor, as well as, the current leader for the transition. The succession plan should be thorough and detailed and will continue to evolve as the future successor progresses within the organization and as the organization continues to expand and develop.

A thorough and efficient plan conducted at an early stage can be considered the single most important factor within the succession process as it lays down the foundation for the actual transition and pushes the current leader into actually thinking about it and starting to take action.

It is then the successor who has to embrace this plan and begin following through with it. But choosing the right successor is a task carried out by the current leader or by those who have worked with the current leader such as the board of directors. It's up to them to look deep into their potential successors, deciphering and analyzing their actions and skill sets in order to efficiently define for each of them their appropriate positions. Aside from this decision, the current leader must also provide their successors with the appropriate tools for them to take their place, and this is a task that goes hand in hand with the planning process.

It is vital that all concerns of stakeholders are taken into consideration and handled in the appropriate manner. The stakeholders play a key role in the succession process. If they were pleased with the current leader of the business, they may be hesitant about the transition and may hold certain concerns. But if they were displeased with the current leader, they may value the transition and push for it to happen at a much faster pace. Regardless of the situation, their reactions are not always going to be black and white, different stakeholders will have different opinions, and the successor must walk along the stakeholders' side listening and understanding the guidance they may offer, and in response, do whatever he or she must do to better improve the organization.

After reviewing the available literature and analyzing various case studies, a simple but very important aspect of transitional management that comes to light is goal alignment. If we

look at the case of HP, as much hatred as Leo Apotheker faced, one cannot say he is really a bad executive, as was stated earlier, his credential are extremely impressive and he moved very swiftly up the ranks at SAP. But at HP his goals were just not aligned with those of the company. Deciding to disintegrate the company's most profitable division as well as one of its more expensive ventures (the Palm acquisition) was in no way advisable. But this is as much of a reflection on Apotheker himself as it is on HP's board of directors. HP's sole decision for choosing Apotheker was based on his experience in the enterprise solutions sector and as important as it was to strengthen this division, it did not need to be done at the expense of HP's core foundation, the PC and Printer division, nor did it need to be made at the expense of a total neglect for the potential opportunity which could've been had if the Palm Web OS program was further expanded upon. There seemed to be great disagreements amongst the board members with respect to the company's direction, or in another words the company's *goals* and this is where they needed to start.

As companies continue to get bigger and as different technologies continue to become easier to attain, it becomes extremely important for these companies to have a systematic approach to transitioning their most important assets, their leaders, only then will these companies be able to adapt alongside a global economy that is also changing at an exponential rate.

6.3 Framework for Transitional Management

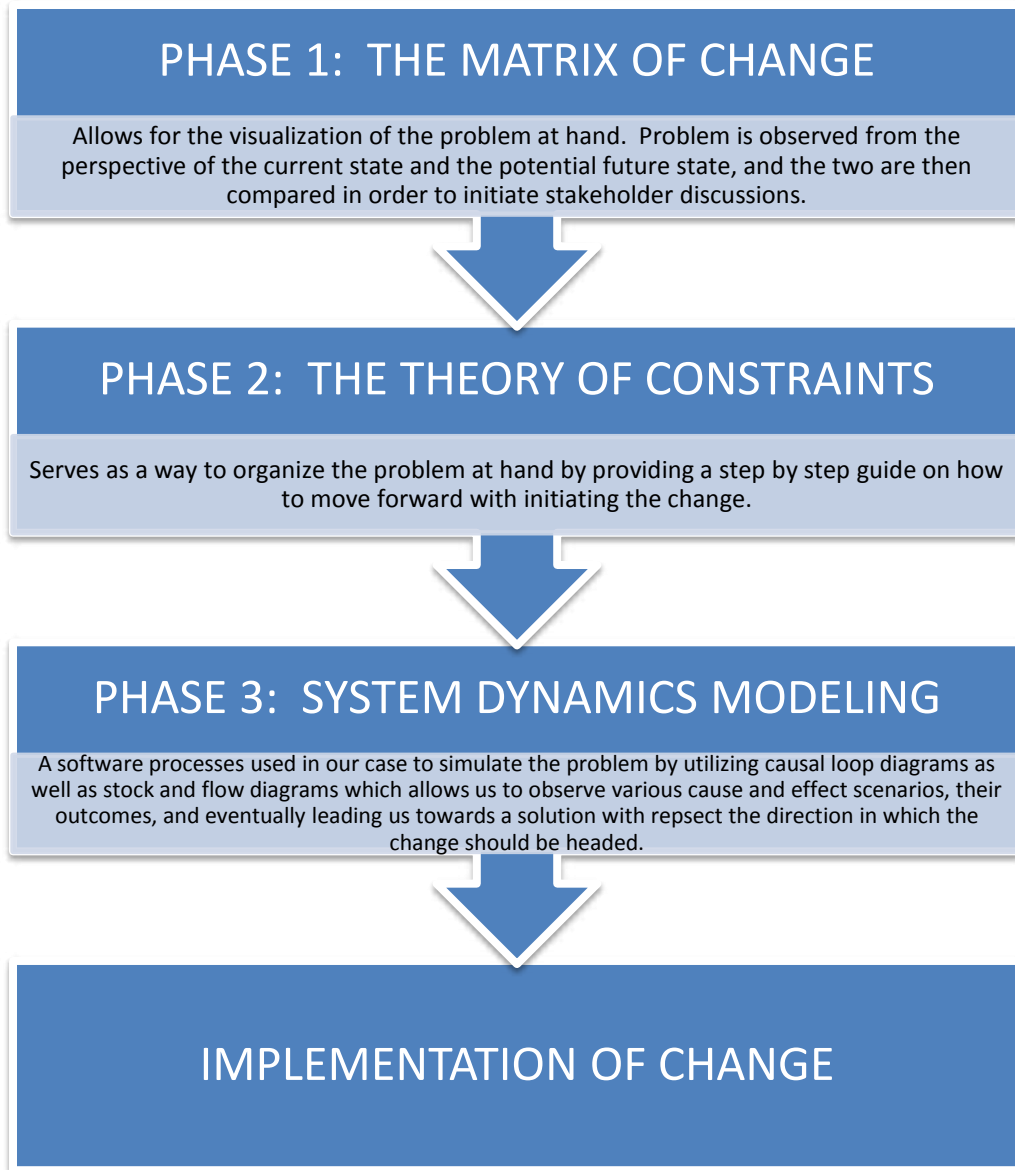


Figure 39. Framework of the Transition Process

Each of the tools we have utilized in our framework can and have been used separately. They each have their values and they can each be expanded upon even further. But when it

comes to the problem of transitional management they provide the most value when they are utilized together.

To offer the best guidance when it comes time to change an organization must begin with the Matrix of Change, they must list out their current organizational practices, rank and compare them to understand whether the aspects of their business, as it stands, complement or interfere with one another. Once this step has been completed the same action must be taken for the future state, this is where companies lay out their vision of where they want to be after a certain period of time. Once the center matrix has been developed bridging the two states, stakeholders are brought in to discuss the state of the transition. Will it be a hard change or is the state of affairs not as gloomy as they had imagined? The value of the Matrix of Change is that it presents an overall picture. Division leaders may not be aware of the importance of certain aspects in other divisions, and it may take the Matrix of Change to bring their attention to it.

Once the stakeholders have reached an agreement with respect to where they want the change to take them, they must then figure out how they will make this change. They are then asked to utilize the five key steps of the Theory of Constraints as their how-to-guide in this situation. Some of the questions of the Theory of Constraints may have already been answered in the Matrix of Change, and those would be the first steps which are; identifying what needs to be changed or in other words what are the organization's constraints. Then explaining what they need to change to. Next the stakeholders need to subordinate everything else in the organization to the previously mentioned decision by aligning the system to support this change. Once this is done, they need to elevate this decision to change which may mean making other changes in the

organization to meet the demands of the change. Finally, once the change has been made, the stakeholders need to reassess the situation and identify if other problems were developed as a result of the change, and if so the entire process needs to be repeated for this new issue.

At this point organizations should have a clear vision of where they want to be in the future and how they are going to get there. But it would be too much of a risk to implement this change without testing it, and this is why we have included System Dynamics Modeling. In our framework we utilized two key concepts from the practice; the first was Causal Loop Diagrams and this is to be used by organizations in order to understand relationship dynamics of different practices within their business. Every action has a reaction, and such a notion is clearly highlighted in Causal Loop Diagrams. Stock and Flow Models is the next practice of System Dynamics Modeling that organizations will have to utilize in order to simulate the steps outlined in the other models of our framework. It is here that companies will be able to compare various alternatives and reach a point where they are presented with evidence telling them it would be more beneficial to choose a certain executive over another candidate. Unlike past studies, corporations will be able to do so now confidently because they have the support of a holistic analytical framework.

6.4 Contributions to the Body of Knowledge

No matter how much planning goes into transitional management, if the process is not systematic and analytical it may very well be left to chance. There must always be clearly indicated reason as to why a certain organization is making a change. This reasoning must be proven and justified. In the past there haven't been any frameworks that justify why companies are choosing certain executives to take the helm. It is not enough to list why a certain executive is chosen, a scientific process must be used to verify that this is the right choice. This is exactly what this research is presenting to the academic and corporate community. It is a better way to tackle a very old problem.

When companies can *visualize* the problem that they have at hand by using the Matrix of Change, *organize* it by using the Theory of Constraints for a step by step process, then *simulate* and *solve* the problem using System Dynamics modeling, then the dilemma of transitional management becomes less ambiguous and more analytical. Our work shows that qualitative studies can indeed utilize quantitative methods such as System Dynamics modeling and its validation through a Panel of Experts who used the Nominal Consensus Technique to add value to the research and present a unique study that is a first of its kind.

Aside from our contributions to the field of change management, our research is also adding contributions to the development of the used models themselves. In essence, parts of our

research have come around an entire 360 degrees. By this I am referring to System Dynamics Modeling.

As was stated earlier in this research, the philosophy of System Dynamics modeling began in the mid 1950's when Dr. Jay Forrester was approached for support by General Electric due a high number of employee turnovers. The company was regularly losing a number of its personnel in key positions and they needed to find an analytical way to mitigate this problem. From there, the practices of System Dynamics modeling evolved and were introduced into a number of different fields; these included sociology, economics, manufacturing, and environmental studies.

But at its core, the ideology was originally developed to analyze employee transitions. Our study brings it back to this field and expands on it from different perspectives. Our framework allowed us to look at the upper helm of the organization rather than the general labor body and this provides a new contribution to Forrester's original concept.

It is important to note that our contribution essentially lies in the application of the framework itself. We did not *create* any of the models utilized, nor did we expand on their core functions. What we did was find an optimal combination of models and integrated them as required to holistically address the main problem. The models we put into our framework have, in the past, been used separately to solve problems similar to what we we've mentioned in our study, and they may have even been considered effective, but they did not offer an accurate final resolution. One part of the problem always remained apparent because any of those models used on their own are just not enough to cover the entire scope of the problem

Our identification of the scope of this problem is also in itself a contribution. This is the first time the problem of transitional management has been highlighted in this manner. Step by step guides have been published plenty of times to combat this issue, but as important as the issue is, there was never an engineering/systematic foundation. When a scientific idea was put together, it did not often begin at the right stage because the organization that would use it did not have a clear visualization of where they currently stood. Their position in the market, as a corporate entity, greatly impacts where they want to be 5, 10, or even 15 years from their current state, but without a start point there can be no end. And the analytical approach cannot be conducted unless it is set up at the right stage.

Past ideas that were used to tackle this problem were also never validated in the same manner as we validated ours. The difficulties in transitional management vary in complexity, scope, and type; as a result it was important for us to utilize such a diverse group of individuals for our Panel of Experts who participated in our Nominal Consensus Experiment. Each member is involved in a unique field with respect to their professional career and each of them offered contributions to this research that have not been previously presented in a study of this nature.

There is a unique mix of qualitative and quantitative factors in the problem, and it is for that reason that our framework must also contain models of a similar composition. This makes the identification of the problem itself, the approach used to develop and apply a framework to combat it, and the validation procedure, all firsts of their kind with respect to transitional management.

6.5 Future Research

As one member of the panel of experts stated, the output of the tools utilized in this framework, such as those of the Matrix of Change are essentially only as good as the input they are given. This is primarily one of the main areas which can be given further attention when taking into consideration future research.

Many of the answers presented by the members of the Panel of Experts indicate that there is so much more than can be added in future research, from the psychological aspects as well as from an engineering perspectives. Markov Chains can be developed to add a further analytical approach to actual relationship interaction; this would be a technique that would work well with the causal loop diagrams for a better understand of the cause-and-effect impact generated by these corporate transitions.

Our study proves that the problem of transitional management cannot adequately be handled with just one model. The strength of the solution comes when we find the proper combination of models, integrate, and utilize them at the right times to develop a complete framework for transitional management. It would be expected of future researchers to look for other effective models and determine where they could potentially fit in our current framework.

As was stated countless times throughout this study, the problem of transitional management is not a new problem; it has been discussed and debated many times without a final consensus being reached.

Harvard University Professor John Kotter presented an idea regarding change management in his book *The Heart of Change* (Kotter, 2012). It was here that he discussed his 8 step change model which was made up of the following:

1. Increasing the urgency for change.
2. Building a team dedicated to the change.
3. Creating the vision for the change.
4. Communicating the important for the change.
5. Empowering employees with the ability for them to change.
6. Creating short term goals.
7. Staying persistent.
8. Making sure the change stays permanent. (Kotter, 2012)

But Kotter process fell to criticism in the Journal of Management Development, he was criticized for not having many studies to validate his eight steps except for his own work, and although he had highlighted that the order of the steps was a vital point, the reasoning for this was never properly proven (Appelbaum, Habashy, Malo, & Safiq, 2012).

It was indicated that Kotter's target audience had been stakeholders at corporate organizations, which caused him to overlook scholars in the field and resulted in the development of a major gap in his validation process.

Although the primary target audience of our study is also various stakeholders at corporate organizations, we made it a point to include individuals from academic backgrounds in our panel of experts who were there to validate our research. This was done specifically to avoid the similar criticisms faced by Kotter.

But this is not to say that Kotter's 8 step process would not be a beneficial addition to our framework. As with our implementation of the Theory of Constraints, Kotter's 8 step process serves the framework from an organizational perspective. Kotter's ideologies work from a psychological perspective as he drives home the message; See, Feel, Change, we are once again left with the notion that this is not a systematic process, but merely a guide. Nevertheless, his methods have been frequently utilized at many large corporations and it focuses on tackling the hurdles of causing large groups to buy into change, this is something briefly touched on in our application of the Theory of Constraints, but it could prove to be useful if it's elaborated on further. It is a similar ideology to that of the Kaizen theory, and although that is primarily a process improvement procedure for manufacturing, it too highlights the importance of *seeing* change, and as the Matrix of Change is primarily used as a visualization tool, it seems that adding both those concepts around our first step could prove to be beneficial.

But just as ambiguous as the problem of transitional management is, parts of the solution itself stands in somewhat of a state of limbo. Future research will need to answer a number of questions; how does one ensure that the original input, which weighs so heavily on the results and the decisions to be made, is the correct one? In cases similar to that of HP how can an organization better understand what their actual goals should be before undertaking the listed

framework and applying it to their own situation? Would a Delphi method need to be utilized prior to taking the first step in the framework and producing the Matrix of Change, not only in order to ensure an agreement amongst the board of directors, and possibly the current head of the organization with respect to the company's direction, but to also ensure that this direction is indeed the right one to be taken?

The framework presented in this dissertation was tested and validated using past case studies, a nominal consensus method derived from our panel of experts, and simulation software focused on managerial practices. Although, it is still not a concrete and exact method to tackle this problem, it is a very systematic approach and it does bring us one step closer to better understand how to completely solve this dilemma.

At the moment, our resources are too limited for such an undertaking but, ideally, our framework is best validated and tested on actual organizations going through a change in their management. This could ideally be a unique step for future research. Multiple tests could be conducted, results would be derived after a certain number of years, and the model can be reworked to address any issues which arise unexpectedly. The testing of the framework itself would essentially be run through the process of the Theory of Constraints, and with time its own constraints would begin to fade.

Our studies can further be expanded and organized in a number of different ways. One example can test multiple past transitions at the same company, like comparing the organization's past 5 to 10 CEO's and analyzing why some were able to succeed while others failed.

One other way to tackle this study is to analyze the transition of CEO's amongst direct competitors. Did the more successful competitor utilize a method that the other was unaware of? Or were the results more circumstantial? Or what if we were to utilize one competitor's current state and another competitor's future state? How would these implementations impact the Matrix of Change as well as the remainder of the study?

Although it was mentioned in the literature review, our examples, due to their nature, did not factor in the events where current CEO's stay on as the chair of the board and oversee their successor. Future research can be used to model the effects of such a relationship.

One interesting addition from a member of the Panel of Experts was bringing to my attention the process for promotions utilized at Google. Overall the process is based on feedback and scoring given through self assessments, peer reviews, and managerial input, but it generally follows a tenure process similar to that used at universities. This sparked an idea for future research which could analyze how the transition processes from different sectors, such as academia or government, could be implemented in the corporate setting, and what the outcome would look like based on such a technique.

APPENDIX A: MR. SHERIF AFIFI'S PANEL OF EXPERTS ANSWERS

1. Do you believe this is an effective framework for transitional management?

Yes, especially the Matrix of change which really defines the scope of the change.

2. Do you believe that this framework can be applied without precedence at multiple levels in an organization (Example: Changing CEO's or changing a line supervisor)?

It can be applied for most position, but it would seem easier for CEOs.

3. Do you believe that this framework is most effective using all three steps (The Matrix of Change, The Theory of Constraints, and Systems Dynamics Modeling) or can /should one or more of them be removed?

The 3 together works well, another model that could work alone is The Matrix of Change.

4. Is there evidence of any major potential problems that can be faced by someone utilizing this framework?

No evidence of any potential problems.

5. Are you aware of any other method or model that can / should be added to replace or complement the included methods?

No.

APPENDIX B: DR. RICHARD AJAYI'S PANEL OF EXPERTS ANSWERS

1. Do you believe this is an effective framework for transitional management?

I do believe that this is an effective tool for transitional management.

2. Do you believe that this framework can be applied without precedence at multiple levels in an organization (Example: Changing CEO's or changing a line supervisor)?

This framework is better applied at the senior level or most senior levels. Better suited for the movers and shakers.

3. Do you believe that this framework is most effective using all three steps (The Matrix of Change, The Theory of Constraints, and Systems Dynamics Modeling) or can /should one or more of them be removed?

I like what I have seen with the three step approach with each step reinforcing the other.

May be difficult to isolate the steps.

4. Is there evidence of any major potential problems that can be faced by someone utilizing this framework?

Potential problems may be faced if the framework is implemented across diverse cultural, economic and political environments.

5. Are you aware of any other method or model that can / should be added to replace or complement the included methods?

None at this time.

APPENDIX C: MR. MARK CALABRESE'S PANEL OF EXPERTS ANSWERS

1. Do you believe this is an effective framework for transitional management?

I do believe there is validity to the approach. It is applying logic and process to a management process that defies logic, but it drives out problem areas and issues. While I feel there is no “model” that will allow blind solutions to transitional management issues, I believe you are using the tools correctly to “guide”.

2. Do you believe that this framework can be applied without precedence at multiple levels in an organization (Example: Changing CEO’s or changing a line supervisor)?

Yes, as stated in #1 above, it is a general methodology to guide, so any level is appropriate.

3. Do you believe that this framework is most effective using all three steps (The Matrix of Change, The Theory of Constraints, and Systems Dynamics Modeling) or can /should one or more of them be removed?

Yes, they are all inter-linked and related. While Systems Dynamics Modeling alone is a great tool that cannot be applied to personnel and management-style issues, it works well with the “data collection” tools of Matrix of Change and Theory of Constraints.

4. Is there evidence of any major potential problems that can be faced by someone utilizing this framework?

Yes, engineers sometimes fall into the trap of building models and believing they actually work (or work under all conditions). Transitional Management is not an exact science, with outcomes that repeat themselves across the board. Thus, a major problem could be faced by someone thinking they can blindly use such a model for exact outcomes. Your framework is a “guide”, and that’s the best one can expect from a non-exact science such as Transitional Management. Thus, the model should not be seen by engineers as a plug-in-x-get-y useful tool.

5. Are you aware of any other method or model that can / should be added to replace or complement the included methods?

I think incorporating some of the Theory X-Theory Y (or Theory E-Theory O) principles would be helpful. What I mean is that some CEO’s are ruthless and are adored by their employees and shareholders. Others are Consensus Managers who are also adored by their employees and shareholders. There are differing styles that work in differing (and unpredictable) environments. This should be explored and perhaps added as a variable.

APPENDIX D: MR. DARIUS FERDOWS' PANEL OF EXPERTS ANSWERS

1. Do you believe this is an effective framework for transitional management?

From the onset, I believe it could be an effective framework. It shows a systematic method of assessing potential pitfalls and challenges which could occur during a transition of management. It has a clear way of addressing the issue from organizing it, visualizing, and execution. I think with a strong foundation, there could be ease of implementation.

In my consulting experience, the two most consistent problems I have experienced are the following: first, a clear miscommunication with top management and employees with no forum set in place to voice concerns, second, top management does not understand the daily issues concerning its own employees, this framework addresses that.

When there is a transition in management these issues are even more exemplified. Employees become uneasy during this period, this proposed framework will allow them to make better decisions especially when downsizing occurs or cutting budgets.

I have seen methodologies such as these used with many of my clients, but I am always weary of their accuracy or impact on the overall mission. The foundation of how these frameworks are built will determine its success. This framework is a nice blend and there is a way to pinpoint the issues immediately.

2. Do you believe that this framework can be applied without precedence at multiple levels in an organization (Example: Changing CEO's or changing a line supervisor)?

Yes, this is the first thing I notice; once I understood the framework. What is so nice about the framework is that it is very customizable. I think it can be used for large to small organizations.

I believe the way it is executed is also very important. If top management does not buy-in, it will fail and this goes with the line employees too. There needs to be total buy-in from the organization, but this starts at the top. Nonetheless, it will be most effective with a more educated workforce or a team who is willing to change.

There are several factors which will determine the framework's success.

- *Size: The size of the organization also plays a huge role, at a larger one it will be a lot more challenging, at a small one it may be easier.*
- *Culture: Depending on how much autonomy and how empowered people feel will help accelerate or decelerate its success.*

3. Do you believe that this framework is most effective using all three steps (The Matrix of Change, The Theory of Constraints, and Systems Dynamics Modeling) or can /should one or more of them be removed?

I believe the model is effective. There needs to be a process whenever you are implementing change, either with looking at a variety of departments/best practices or at when looking at the organization from a more macro level.

In terms of senior management at the executive level, this could be an effective way of doing it. The process of looking at the problem and then going into detail execution works well; of course there are many ways of doing this.

This is not to say I completely agree with the framework, I would have to see it in practice and see how it would mature within an organization before giving a full assessment. The potential pilot would have to account for external and variable factors, which could have critical impacts on the framework's effectiveness.

4. Is there evidence of any major potential problems that can be faced by someone utilizing this framework?

The only problems I see lie with the Matrix of change.

(1) It is complex, there is learning curve to just understanding the matrix. The line employees or even mid level managers, who may have not learned this concept in their formal education, may have trouble understanding the matrix. Something that is not easy to use will not be used especially if it takes more of their valuable time. An employee with business or engineering background will be best suited to use this, which I assume is the main target.

(2) Second, the inputs into the vertical and horizontal cells are critical for its success. Who decides this is going to determine its ease of use and how it will be used. We need to understand what to change and why.

5. Are you aware of any other method or model that can / should be added to replace or complement the included methods?

Basic change management concepts could be used and lean principles. From what I have experienced to be most effective, I would start off with the following procedures.

Initial Assessment- Conducting an assessment offered by a consulting firm could give senior management a good overview of major underlying issues. My approach to an assessment would go through several high level best practices (such as Leading and Managing Change, Human Capital, etc.). From there, there would need to be an implementation plan, although many consulting firms offer intensive consulting support [sometimes with no clear direction but rather individual focused improvement projects].

Loss & Waste Analysis- Another good way to get a good picture of what is happening, this allows top management to see where the immediate gaps are and a direction to start work. This requires a lot of research and willingness from all levels of the organization to conduct the L & W analysis. This pinpoints areas of immediate attention.

These are merely suggestions as starting points for this transitional management framework. There are many other projects that could be incorporated in this framework which would help make it more impactful. I do not think anything needs to be necessarily replaced, but adding to the framework will help. Especially if the organization has its own [production] system in place already, using its existing concepts with the framework will ensure that there is a common language within the organization.

APPENDIX E: MR. JAVIER GUZMAN'S PANEL OF EXPERTS ANSWERS

1. Do you believe this is an effective framework for transitional management?

Absolutely, I believe that leadership transition is one of the most important aspects of today's corporate governance, and currently there is a clear lack of systematic approach for selection. One of the most common mistakes, in my opinion, is executing leadership selection based on one or two objective factors (usually economic success). However, today's corporations are very different to each other, and success in one area may not translate into success in another. I believe that this kind of systematic approach could at least, narrow down on the specific qualities needed for success.

2. Do you believe that this framework can be applied without precedence at multiple levels in an organization (Example: Changing CEO's or changing a line supervisor)?

Yes, I believe this framework is sufficiently versatile to adapt to the different hierarchical levels of an organization. Despite the large differences between a line supervisor and a CEO in terms of day to day tasks and qualities needed, a framework such as the one proposed by Mr. Elattar can lay down the foundation for adequate selection, AND help determine the focus areas into which new leadership must fit.

3. Do you believe that this framework is most effective using all three steps (The Matrix of Change, The Theory of Constraints, and Systems Dynamics Modeling) or can /should one or more of them be removed?

I believe that in most cases, all 3 steps are needed in order to adequately assess a particular situation. However, I believe that the level of complexity in each of the 3 steps will vary greatly with each selection process. For instance, the evaluation of a position demanding strategic knowledge of different business units will demand much greater analysis of each of its focus areas, than the evaluation of a position with only 1 or 2 key tasks. That being said, only because the analysis is less complex does not mean that all 3 steps are needed.

4. Is there evidence of any major potential problems that can be faced by someone utilizing this framework?

I believe Mr. Elattar's framework can be applied to any day to day problem requiring thoughtful analysis. The fact that this framework is adaptable to any particular situations, is one of its clearest benefits. I find this framework particularly useful for any problem influenced by several variables, and demanding analysis of different scenarios.

5. Are you aware of any other method or model that can / should be added to replace or complement the included methods?

I am not familiar with other comparable methods.

APPENDIX F: MR. ATEF ISKANDER'S PANEL OF EXPERTS ANSWERS

1. Do you believe this is an effective framework for transitional management?

I do believe that this could be effective framework for transitional management

2. Do you believe that this framework can be applied without precedence at multiple levels in an organization (Example: Changing CEO's or changing a line supervisor)?

Yes, if it works for changing CEO's , it will work for changing line supervisors.

3. Do you believe that this framework is most effective using all three steps (The Matrix of Change, The Theory of Constraints, and Systems Dynamics Modeling) or can /should one or more of them be removed?

From what I gathered from the study, the framework is most effective using all three steps.

4. Is there evidence of any major potential problems that can be faced by someone utilizing this framework?

I don't see any major problems by utilizing this framework.

5. Are you aware of any other method or model that can / should be added to replace or complement the included methods?

I am not aware of any.

APPENDIX G: DR. JENNIFER PAZOUR'S PANEL OF EXPERTS ANSWERS

1. Do you believe this is an effective framework for transitional management?

Given that transitional management often includes changing leadership, and leadership is something that “lacks any true state of being,” transitional management is extremely difficult to model and predict the success of. I believe the framework given provides a useful way to explore and think through many of the important considerations associated with transitional management.

2. Do you believe that this framework can be applied without precedence at multiple levels in an organization (Example: Changing CEO’s or changing a line supervisor)?

I believe this framework could only be applied if you have immense knowledge about the organization’s current state and the environment that the organization operates in. The model’s output is only as good as the input information supplied.

3. Do you believe that this framework is most effective using all three steps (The Matrix of Change, The Theory of Constraints, and Systems Dynamics Modeling) or can /should one or more of them be removed?

I struggle with the interactions between the three steps. It is stated that the matrix of change is to understand the big picture, the theory of constraints is to better prepare an organization for the change, and the systems dynamic modeling to simulate various scenarios in regards to the change. Yet, it is not clear if these have to be completed sequentially and if so, what specific information is fed into the other methodologies.

Given many of the examples use different combinations of the steps, this leads me to think that they are not forced to be sequential. This, then leads me to ask, what is the value of presenting them as a model with three steps? Three steps is more complicated than just having one or two; therefore, the value of including all three steps needs to be justified.

4. Is there evidence of any major potential problems that can be faced by someone utilizing this framework?

As all of the methodologies are descriptive in nature (i.e., they do not prescribe a course of action, just describe what to expect if you do something), this framework is only a tool to help approach the decision of transitional management.

5. Are you aware of any other method or model that can / should be added to replace or complement the included methods?

No.

APPENDIX H: MR. JEFF BRYSON'S PANEL OF EXPERTS ANSWERS

1. Do you believe this is an effective framework for transitional management?

Yes

2. Do you believe that this framework can be applied without precedence at multiple levels in an organization (Example: Changing CEO's or changing a line supervisor)?

a. I believe it could but would want to see examples of the framework applied at multiple levels within an organization.

b. There may also be some characteristics of an organization what would conflict with the activities in the framework. I would like to have these clearly identified

3. Do you believe that this framework is most effective using all three steps (The Matrix of Change, The Theory of Constraints, and Systems Dynamics Modeling) or can /should one or more of them be removed?

Yes, but I see these activities as producing three 'Views' of the 'change activity'. I would like to understand the patterns they are using. Specifically what are the goals/objectives of each activity and how are these goals related to each other, the goals and objectives of the change and the characteristics of small, medium, and large organizations

4. Is there evidence of any major potential problems that can be faced by someone utilizing this framework?

It is unclear how choices and data provided in these processes can be verified. Even unintentional prejudice could cause false results.

5. Are you aware of any other method or model that can / should be added to replace or complement the included methods?

- a. A complete model of the organization and activities with identified goals and requirements could possibly be created. Analysis conducted to identify areas of problems or failure. Then an effort to refactor both the analysis and the organizational structure.*

This could be a very large effort, but once done it could be maintained and used for future improvement.

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