

TechnoStar's Search for a New CEO: When Do You Break Tradition?

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ABSTRACT: *This case examines the challenges of CEO selection. While based on an actual company, the names have been changed. This case is suitable for both undergraduate and graduate courses in management, strategy, corporate governance, organizational behavior and leadership.*

INTRODUCTION

It was a little after 8:00 a.m. on what started out as a typical morning at work for Anna Stewart. She was sitting at her desk at TechnoStar, Inc., enjoying her usual morning café latte while she checked her e-mails. Ten, twenty, thirty, forty, fifty, sixty. It stopped at 68 messages. Not bad for a Tuesday. She quickly scanned the subject lines. It looked like the usual: daily jokes, her horoscope for the day, an e-mail from her best friend, divisional e-mails and an e-mail from corporate. But this was not the usual corporate announcement. This e-mail came from the CEO, Martin Sinclair. Anna anxiously clicked on the e-mail, scanned the message and quickly realized that this Tuesday, March 2, 2009, was not so typical after all. The message stated that the CEO was stepping down after seventeen years with TechnoStar. Anna was not shocked because there had been rumors that a new CEO might take the helm, but she had mixed feelings about the decision. She had worked at TechnoStar since 1994 and recently had been promoted to Senior Enterprise Architect. Anna had grown accustomed to the corporate culture at TechnoStar. It was one of the major reasons she had stayed with the company when her colleagues at other technology companies were jumping from one firm to another during the late 1990s in order to get great sign-on bonus and double their pay.

The philosophy of innovative and generous relationships with employees, uncompromising integrity, and business excellence began with TechnoStar's founder, Jim Evans, withered under CEO Adam Walker, and was reinvigorated under CEO Martin Sinclair. However, even before the current recession, earning growth had declined and there was a series of embarrassing product delivery delays and shortages. The company's culture was viewed by outsiders as promoting quality, fairness, and trust, but lacking the urgency needed in today's digital revolution. Maybe a new CEO would be a good way to jumpstart TechnoStar's businesses. But who would replace Sinclair and what would that mean for TechnoStar and its employees?

CEO SUCCESSORS: CHANGING TIMES

Jim Evans, the founder, loved gadgetry. As a child, he was notorious for disassembling and then reassembling clocks, radios and record players. It was no surprise to anyone when he pursued electrical engineering as a student at Caltech. After graduating at the top of his class, job offers poured in. Evans worked for the Lockheed Corporation for several years before the outbreak of World War II. He enlisted with the Army-Air Force in 1942 and spent most of his time in the military working with avionic instruments. Upon his return to civilian life, he decided to pursue his entrepreneurial dreams and design sensors and circuitry. This watershed moment in his life marked the birth TechnoStar.

TechnoStar originally designed and manufactured a wide range of electronic products for clients ranging from Honeywell to Walt Disney. In the late 1960s, Evans decided to focus on designing high-

quality semiconductors for the rapidly expanding computer industry. TechnoStar quickly became a leading developer of all aspects of computer hardware and peripheral devices.

Balancing people and profits was the cornerstone of Evans' business philosophy. From its inception, TechnoStar fostered a unique culture that would catapult the company into a major industrial force and a household name. At a time when many organizations were hierarchical and bureaucratic, TechnoStar embodied a progressive culture of teamwork, creativity, and dynamism.

The formulation of TechnoStar's values statement is legendary. One day, while Evans and his two employees were munching on cream cheese and toasted raisin bread sandwiches in the garage, they decided to formally articulate their core values. They scribbled their ideas down on a paper bag. Their words became TechnoStar's Credo, a credo that is still endorsed today.

THE CREDO

We conduct our business with the utmost integrity.
We are committed to excellence in all our products and services.
We respect and value all individuals.
We work together as a team to achieve our mission.
We promote adaptability and innovation.

Adam Walker (1978-1992)

When Evans retired as CEO in 1978, Adam Walker was picked as his successor. Walker had a B.S. in electrical engineering and an MBA from Stanford University. He steadily rose through the company's ranks after joining the finance department in 1958. He was considered an ideal internal candidate because understood both the technical and business aspects of a high-tech company. He had successfully run the Semiconductor Division in the 1960s and the Storage & Memory Division in the 1970s.

While Walker grew TechnoStar into a major computer giant, the company experienced troubles during his tenure. TechnoStar fell into a financial slump along with the rest of the electronics industry during the recession in the mid-1980s. It also suffered financially due to costly delays in developing a new line of minicomputers. In 1990, Walker responded to increased global competition with corporate centralization. This organizational restructuring moved TechnoStar away from the decentralized structure that had made it unique from competitors like Digital Equipment Corporation and IBM. In the past, TechnoStar had been described with both derision and envy as "groups of obstreperous, arrogant entrepreneurial engineers running their own show." Walker's efforts to corral the company's independent units resulted in a bogged down bureaucracy of uninspired employees and unimaginative product developments. In 1991, Evans came out of retirement to put TechnoStar back on track. In 1992, Walker retired; and another long-time TechnoStar veteran, Martin Sinclair, took over the reins of the company.

Martin Sinclair (1992-2009)

Sinclair had worked for 33 years at TechnoStar when he became CEO. Sinclair's background included a mechanical engineering degree from Cornell University and an MBA from the Wharton School of Business at the University of Pennsylvania. Prior to his appointment as President and CEO in 1992, he served as head of the Computer Systems Division.

Sinclair brought TechnoStar back to its core values and reinstated its culture of innovation by promoting a decentralized organizational structure, Sinclair believed that true innovation occurred when decision-making was encouraged and rewarded at the lower levels of management where interaction with the customers was the closest. He also believed that enhancing employee benefits and providing employees with a better work life balance would foster a positive work environment that, in turn, would

lead to high performance. Sinclair's approach to business had two prongs. The first was to focus on in-house efforts revolving around decreasing operating costs. The second was externally focused to move TechnoStar into new but related lines of businesses. Sinclair's enacted business philosophy and tactics initially proved successful. In 1996, he was awarded *Industry Week's* "Technology Leader of the Year" award, which "recognized his talent for fostering an environment in which entrepreneurial innovation flourishes." That same year, Martin Sinclair was named *Business Week's* "CEO of the Year." In 1998, TechnoStar was cited as Company of the Year by *Forbes* magazine. Sinclair was recognized by the industry as a man of quiet integrity who was liked and respected for his principled, low-key business practices. John Chambers, CEO of Cisco Systems, declared that "Martin is who I would like to be when I grow up ... We have over thirty partnerships with TechnoStar, but not a single contract."

Sinclair's fans became his critics when TechnoStar's performance began to falter with the new millennium. In 2003, TechnoStar's earnings began to fluctuate considerably. Its reputation as an innovative powerhouse dimmed as the company repeatedly tried and failed to bring innovations to market and create profitable new business units. Analysts seriously questioned Sinclair's effectiveness after TechnoStar's sales went flat in 2006 and expected dividends fell well below predictions.

Although Sinclair was admired for his commitment to the long-standing corporate Credo, he now was faulted for moving too slowly. Many people believed that Sinclair focused too much on maintaining the current business. They felt that time had become his enemy and that external opportunities like the computer networking revolution were not sufficiently recognized or acted upon. The speed and degree of change was the biggest area of contention between Sinclair and his heir apparent, Russell Osaka, who left the company in frustration in 2007.

In March of 2009, Sinclair decided to resign as CEO of TechnoStar. Sinclair stated he would remain at TechnoStar until a new CEO took the helm. Reflecting on his experience during a *Wall Street Journal* interview, Sinclair stated, "In retrospect, I wish I was more rebellious. We live in a world where visibility and what you say have become more important. Leaders in the industry like Jeff Bezos, Michael Dell and Bill Gates generate a lot of interest. There's a positive aura that surround their companies because they're upfront. I was brought up in a world that said, 'Do great things and the world will notice.'"

WHO WILL SUCCEED MARTIN SINCLAIR: SHORTLIST SPECULATION

One month after Sinclair's retirement announcement, the cafeteria was still abuzz about who should be the next CEO of TechnoStar. The rumor mill had narrowed the list of top contenders to four names: Marie Hart, an TechnoStar insider who headed TechnoStar's Software and Services Business; Russell Osaka, the former Executive Vice President of TechnoStar and the CEO of SDI; Sam Petrocelli, a life timer at Xeon who runs their Global Services Division; and Frederick Werner, the Chief Operating Officer (COO) of Jupiter Computer Systems who had worked for several industry leaders throughout his career (See Appendix A for their profiles).

Anna plopped her tray down at her favorite table by the window. Her co-workers Ashley and Brent were already in a heated discussion about who would be the best CEO for TechnoStar. Ashley asked, "So who do you think is going to dig us out of this hole?" Ashley then proceeded to answer her own question. "Hands down, it should be Marie Hart. She wasn't on *Fortune* magazine's list of the 'Fifty Most Powerful Women in Business' last year for nothing. She has her pulse on the industry. Plus, she is a real people person. She is a straight shooter, isn't afraid to mingle with the rank and file, and is willing to hear everyone's point of view before she makes a decision. She'll be great like the CEO of Avon. What's her name?"

“Andrea Jung,” replied Anna. Brent sniped back, “You’re just biased because she is a woman. And don’t tell me that big promotion you got last October isn’t clouding your judgment. Avon sells beauty products, for Pete’s sake. We are a highly sophisticated technology company. The backbone of our company is techno-wizards, not Avon ladies.” Ashley immediately quipped, “Oh stop. You just love introducing non sequiturs when you have nothing valuable to say.”

Brent shot back, “Well, little Ms. Perfect, you just don’t get it, do you? Everyone knows that insiders are a bad idea when a company is stuck in the mud. They want to return to the company’s glory days. You can’t move forward by constantly looking in the rear view mirror. Insiders are too closely aligned with the company’s traditions – good or bad – to recognize when the old ways need to fall by the wayside. Instead, they believe that the key to success is making the ‘same old’ better. TechnoStar has lost its momentum. We need fresh blood.”

“Well, Mr. Visionary,” Ashley said sarcastically, “I think an outsider would be a complete disaster. So you don’t think I’m blinded by gender, let’s look at HP under Carly Fiorina. She was more interested in being a celebrity than taking care of company business. All my friends at HP said that she would only listen to top management. She couldn’t care less about what the rest of the employees had to say, so she made mistake after mistake after mistake.”

Brent quickly defended himself. “I think an outsider is still a better bet. Carly was just a bad pick. On the other hand, look at what Lou Gerstner was able to accomplish at IBM. He wasn’t even from the tech industry. He was an executive at RJR Nabisco running a major consumer products corporation before taking IBM to great heights.”

Ashley then pointed out, “Anne Mulcahy worked for Xerox for twenty five years before she became CEO, and she did wonders for the company. Xerox floundered for decades and was on the brink of extinction before she took the helm in 2002. The company has had a complete turnaround and banked profits of over \$1 billion within the last year or two. In 2008, she was selected as one of America’s best leaders by *U.S. News & World Report*, and the same year was named ‘CEO of the Year’ by *Chief Executive* magazine.”

Brent retorted, “There’s always an exception. Hmm, let’s see. Who also supports your point? Could it be Jeffrey Immelt, Jack Welch’s hand-picked successor at GE? I don’t think so! He tried to do things the ‘Welsh way’ and totally bombed out. He has absolutely no imagination. No inspiring vision. Heck, he’s even taking punches from Jack himself these days.”

Ashley responded, “Al Dunlap, fondly referred to as ‘Chainsaw Al’ and ‘Rambo in Pinstripes,’ was a classic outsider, who drove up profits in the short-run by slashing costs. His first actions when he took over companies like Scott Paper and Crown-Zellerbach were to fire thousands of employees and close plants and factories. I don’t want to be the victim of some CEO who is interested in earning a lucrative multi-million dollar bonus by destroying the strong family culture we have here.”

Brent, the consummate devil’s advocate, replied, “And you accused me of non sequiturs? You are the queen of specious arguments! You just chose one of the ten worst CEOs in U.S. history because of his extreme Ginsu Knife tactics and unethical behavior. He was caught ‘stuffing the channel’ when he was the CEO at Sunbeam by offering retailers huge discounts so that they would buy more gas grills than they needed. Insiders are as likely as outsiders to be ‘bad apples.’ Just look at the business news headlines over the past decade. Bernie Ebbers at WorldCom, Kenneth Lay and Jeffrey Skilling at Enron, and Dennis Kozlowski at Tyco were all insiders.”

“This conversation is absolutely going nowhere,” Anna sighed. “We’ve settled nothing. Maybe Russell Osaka is the best choice. I remember reading an article a few years back in the *Harvard Business Review*, which concluded that smart corporations choose an ‘Inside Outsider’ for CEO. These CEOs understands the company’s essence, but aren’t afraid to sail forth in a new direction. Russell Osaka knows the company well. He was here for 22 years before becoming CEO at SDI.”

“Yeah, but SDI isn’t TechnoStar,” Brent declared. “I don’t care what the spinmeisters say. We were lucky Osaka left our company. He is a techno-dud. He is succeeding as a big fish in a little pond. He doesn’t have the ability to be a big fish in a big pond. Plus, he’s a deserter from my point of view. When the going gets tough, he gets going -- running as far away as possible.”

“May I join you?” Klara, a colleague from the third floor, quietly asked. “Sure,” Anna said, “but be forewarned. When you join this table you are going to have to answer the question of the day. Who do you think should head TechnoStar?”

APPENDIX A

Marie Hart – “Catalyst for Change”

Marie Hart is President of TechnoStar’s Software and Services Division. She joined TechnoStar in 1986 right after she graduated from Duke University with her MBA. Prior to assuming her current position in 2006, Hart held a variety of key management positions in marketing, sales, research and development, and business management. According to *Forbes* magazine, she “has evolved from a cautious practitioner of TechnoStar’s consensus-oriented management into a catalyst for change.” She is credited with steering TechnoStar away from its hardware mentality, sharpening its focus on services, and being the brains behind its e-services vision and strategy. Hart is considered a role model for women in the primarily male dominated TechnoStar organization. She is one of the highest-ranking female executives in TechnoStar and is on *Fortune* magazine’s list of the fifty most powerful women in U.S. business. Hart is characterized by her Southern drawl, relaxed demeanor, and unassuming down-to-earth attitude. She remains true to her South Carolina roots and remains humorous and cordial while commanding the respect of TechnoStar employees and high-powered industry executives through her willingness to make the tough decisions and gutsy calls. She is the type of leader that people inspired to work because she works just as hard they do, which keeps her direct reports motivated to do their best work.

Russell Osaka – “Rocket Russ”

Osaka is Chairman and CEO of Silicon Designs Inc (SDI), a \$100 million computer graphics company. He was recruited by the company in 2007 to turn it around after two years of lackluster performance. While he has been heralded as the right man for this job, a number of analysts are skeptical that anyone can revive SDI. Prior to joining SDI, Osaka spent his entire professional career at TechnoStar. He was known as “Rocket Russ” to his TechnoStar colleagues because of his stellar rise up the corporate ladder. He joined TechnoStar in 1985 as an accountant after graduating from the University of Kansas. He held a wide variety of key management, marketing, and strategic planning positions before becoming head of TechnoStar’s computer products organization. Osaka’s impressive track record at TechnoStar included managing the \$1 billion acquisition of Amerigraphics and developing strategies that made its digital imaging equipment into one of high-tech’s richest gold mines.

Osaka is recognized as a natural leader and for his firm and focused business style. He has a “take no prisoners” approach to winning business and closing deals. At the same time, he is considered a mild-manner gentleman with a talent for dealing with people. Osaka has a sterling reputation in the computer industry and a strong background in finance, operations and marketing. Osaka was considered a leading voice for change within TechnoStar prior to his departure and a key architect in TechnoStar’s past success.

Sam Petrocelli – “The Closer”

Sam Petrocelli is Senior Corporate Vice President of Global Services for Xeon Inc., a Fortune 500 company. His entire business career has been at Xeon. He joined the company in 1980 as a marketing trainee associate in the data-products unit based in Baltimore and spent the next 25 years moving up in the ranks. In 2005, he was personally appointed by Xeon’s famous founder and retiring CEO. He has responsibility for worldwide operations of one of the most diversified IT service organizations in the industry. Petrocelli’s background is not typical of most CEOs. He earned a bachelor’s degree in history from Brown University. He is a skilled musician and once played the drums in a backup band for Sting. In college, he was an outstanding scholar-athlete, who was invited to try out for the Washington Redskins. When Petrocelli’s joined Xeon, he tackled his work responsibilities with the same intensity and focus as he had with music and football.

Petrocelli is as affable and charismatic as he is decisive and competitive. He is not a typical Xeon executive. He has repeatedly challenged safe, conservative thinking and introduced more risky, innovative ideas that have reaped millions in profits. He caught upper management’s attention when he made the XE-7000 one of XEON’s most successful products by taking an unusual and aggressive business approach. He and his team signed up software developers who created over 1,000 applications for that computer before it was rolled out; in the past, applications had followed product launches. Petrocelli’s winning personality, intelligence and drive resulted in his holding the best sales record in Xeon history. He is also credited with securing Xeon’s future by steering and executing its big move into global services. Petrocelli believes in leading by example and taking the “bull by the horns.” He is known for being able to push his employees hard and work them to the bone while maintaining their loyalty and followership. He is a leader that makes things happen.

Frederick Werner - “Fast Freddy”

Fred Werner is Chief Operating Officer (COO) of Jupiter Computer Systems (JCS). He began his career in 1978 as an engineer for Canon. Within five years, he had switched gears and moved into a marketing position. In 1992, he left Canon to become the Vice President of Corporate Marketing at Champion Electronics. He left Champion in 1998, one year before the company was purchased by TechnoStar, to become Vice President of Corporate Marketing for JCS. Werner was promoted to President of JCS’s software branch in 2001 and named COO in 2005. Under his guidance, JCS’s networking software became an industry standard, and the company’s market value increased fivefold. Werner became known as “Fast Freddy” because of his Brooklyn upbringing and tough street smarts. His education includes an electrical engineering degree from Rensselaer Polytechnic (although he admits to being a “lousy engineer”) and an MBA from Northeastern University. Werner is considered an operational and marketing genius who is more practical and less visionary than his current CEO. Employees regard Werner as a no-nonsense manager and an outspoken leader with a rapid-fire style of delivery. He knows how to connect with customers and close deals. Werner’s track record at JCS has placed him on the short-list of candidates that companies seek when CEO positions open up.

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