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Interview with Carl Sloane

Temple, Barker & Sloane

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CARL SLOANE

The Early Years

I was born in Brooklyn in 1937. Early in the years of World War II, we moved to a new community in Queens called Kew Garden Hills, and I was raised there until my high school years when we moved to Far Rockaway, New York, where I went through high school. My father was a small businessman. He was in the wholesale fabrics business on the lower East Side of New York. In the lower East Side, which has predominantly Jewish businessmen, they close on Saturdays and they open on Sundays. So probably from the age of eight on I spent most Sundays in my father's store helping him out, and I became fascinated with business and trade.

My older brother, who was about twenty-two months older than I, had absolutely no interest in business and in the end went to Annapolis and became a career Naval officer. The same is true for my younger brother, who had no interest in business and also became a career Naval officer. My older brother and myself were very close in age and, as siblings will, there was a loving but competitive relationship. He was truly the all American boy—star athlete, great student, girls loved him. I think in my own way I sought out some way to differentiate where I could excel. While I was active in athletics, I couldn't compete with my older brother on that field. Intellectually, I was able to keep pace. But I found expression really in art. I did a lot of drawing and painting. And with involvement in my dad's business, working after school part-time, I always had a job since maybe age ten, eleven, or twelve. It was both a need for spending money and it just seemed interesting to me.

My father had taken over my grandfather's business and had done quite well during World War II. That was a time when, if you had any fabrics, you could do well with it. The issue was supply, not demand. And because of their many years of connections they were able to get some things and did quite well. So I remember in my early youth, as a child, that we were comfortable. My grandfather left the business, and my father, who had dropped out of high school after his freshman year, was a grand guy but not up to the post-war challenge of adjusting the business to a whole new setup. I went to work with him every week, and I saw the business kind of slip and slide and decline over probably a four- or five-year period. I observed at first hand the emotional impact that had on him at work and also that it had on the family at home.

Eventually, the firm went bankrupt. My mother took a job as a sales clerk and my father spent the rest of his life as a New York City taxi driver, all of which was fine but, as you can imagine, it was traumatic. It had an enormous impact on me so far as my will to succeed. To the extent that one understands one's own driving forces, I think I understand now the impact that that had on me down deep in the recesses of my motivations. I arrived at a conclusion not to be the richest person on the block, so to speak, but that I had an enormous drive to be successful, to achieve financial stability, and to be able to provide for my family in a way that whatever decisions we made, we could make without regard to financial concerns.

The impact of being Jewish and the teachings, the culture, has had some impact, but it has been much later in life. I think I was like most kids with respect to religious education at that time. I did it because my parents expected it, but I blew it off as quickly as I could. It's really only later in life when we had our own children and with the leadership of my wife in our family that I began to take some of those issues of Jewish values more into account in my activities.

The HBS Experience

I was in the class of 1958 at Harvard College and class of '60 at the business school. In those days, it was not uncommon to go directly from college to business school. That's nigh impossible today.

I think my education played a variety of roles. One was that both the college and the business school were tremendously empowering. Empowering in giving one not arrogance, but a sense that one could strive for and achieve almost anything one dreamed of. I never seriously felt that I would fail or that there were impediments. I understood that there would be dark days and good days, but I think Harvard College and Harvard Business School did enormous things for me psychologically. I think often the difference between somebody who has great success running a corner candy store and somebody who has great success running a global enterprise is the capacity to imagine that you could be whatever you wanted to be. And I think Harvard Business School did that for me.

The case method is an empowering methodology. Inherent in it is a respect for what the individual contributes to the discussion. It makes no distinction as to where in the classroom good ideas come from. The ideas survive on their merit, not your background. But secondly, I think there is an air of mutual respect between faculty and students. The faculty have an innate respect for the students, and that is very uplifting and empowering in a way. Also, they are places, both the college and business school, that don't take you by the hand. They assume you're an adult. It's a very self-reliant culture with a very rich smorgasbord of activities and choices to make. Essentially they set the table and leave it to you. That in itself is an empowering and a nurturing approach, and it's true from day one. It's a community in a sense. It's more than an institution.

Many people are fortunate to be touched by a teacher somewhere in their lives. I had two or three who had an enormous influence. I look back on the Harvard Business School and my marketing professor was a guy by the name of Jim Haegler. Jim had a heart attack over Thanksgiving the first year so he didn't come back after that. But he had a big impact on me. From working for my dad what I had learned were the practical aspects of relationships and organization and dealing with customers. I may have been the only one in first-year marketing who had actually ever done something with a customer. In any event I was getting all kinds of positive feedback, and it was extraordinarily empowering. Second year I had a similar experience with Malcolm McNair, who was a professor of retailing and a legend within the retail profession and the academic community. McNair was a very austere character with a walrus mustache, and I got feedback from him that again was extraordinarily empowering.

The thing I would add on the HBS experience is that for many people it's the only opportunity to get an all-functions perspective on business. Most people tend to specialize early on in finance or control, marketing, sales, plant management. I think we're terribly advantaged by getting exposed early on to an all-functions general management perspective. It's a great help to get that perspective early, to understand more than just the function you're in, but the totality of a business. I know it helped me, particularly in an entrepreneurial sense. It gives you the sense that you can be an entrepreneur and have responsibility for the totality of an enterprise, understanding all functions in business. Short of having that, you've got to rely on other people to fill those voids, and that can be a bit unsettling.

Early Career

My first job out of business school was working for Revlon. I thought I wanted to be a consumer goods marketing expert. Revlon was a very hot company, and it seemed a wonderful place to begin a career in consumer goods marketing. My first job was as the assistant to founder, chairman, and CEO Charles Revson. After a year and a half I discovered that the last thing I wanted to be was in the cosmetics business. It seemed a shallow kind of existence. It was exciting—fashion, etc.—but it didn't have any great meaning for me. I also decided that I didn't like living in New York despite having grown up there. I'd fallen in love with the intimacy of Boston. I basically resigned without any sense of what the next steps might be other than packing the car with my wife and newborn child and returning to Boston.

I think the first pivotal choice was to get into consulting. There's probably a lesson here, and that is that despite all the planning one might do about one's career, you've got to leave lots of room for serendipity, because my getting into consulting, which is where I spent thirty years of my career, was totally serendipitous. I think it would be fair to say that we were poor. My wife and I and our child were living with her parents. We had no savings. We had big loans from the college and the business school when we came out. We were trying to pay those off. I might add that neither one of us came from any wealth; we came from very modest circumstances. My father had gone bankrupt and my father in-law, who had had two retail shoe stores, went bankrupt as well, and spent the remaining years of his career as a shipping clerk.

In any event, I was unemployed for a couple of months. That was traumatic. I got a call from a headhunter in Park Square to come for an interview. I stopped a chap on a street corner and asked him for directions. And that's the man who hired me into consulting. He was a Harvard Business School alum, class of '56, I subsequently discovered. He was a very forward individual, and when he asked where I was going as I asked for directions, he asked why I was going to a headhunter. What were my experience and skills? I explained that it was marketing. He said he had just been appointed the head of a new marketing group in a consulting firm by the name of Harbridge House. We were standing at the corner of Arlington Street and Commonwealth Ave., which is where their building was, and he invited me to come by after my interview with the headhunter.

He interviewed me at 3:00 on a Friday afternoon, and on Sunday night I was on an airplane with him to Texas on my first consulting assignment. I really didn't know what I was getting into.

Harbridge House had been founded by three Harvard Business School graduates, one of whom stayed on at the school and was a professor in the marketing department. The other two left the school and ran the firm. Paul Ignatius was one and he eventually went on to become secretary of the navy and president of the *Washington Post*. These were three extraordinary guys, and they had built a nice company beginning in 1950. In the first decade, they worked almost exclusively for the government, and it was only in the late '50s that they began to do commercial consulting, which led, at least in part, to the start of their marketing group, which I joined in 1961.

For three years I was a marketing consultant with Harbridge House. During that time, I worked heavily with General Electric and with Volkswagen of America. In 1964, the president of Volkswagen of America, Dr. Karl Hahn, was elected to the board of directors of Volkswagen. He returned to Germany in charge of worldwide sales, service, parts, and marketing, and he asked the firm to open up an office in Germany to serve them throughout Europe, the Mid-East, and Africa, and the firm picked me to go over and start an office. So in October of 1964, my wife, two young daughters, and I headed over to Germany and opened up an office in Frankfurt. It was contrary heritage because I was Jewish and in 1964 there was still strong residual memory of World War II. Friends and family kind of thought we were a little bit crazy to go over to live in Germany.

There's an interesting story, because my boss at Harbridge House took eight of us young marketing consultants out for lunch and asked who would like to go to Germany. All eight of us raised our hands. He started on the left and said to person number one, why should it be you? The first guy gave a fabulous articulate answer. The second topped him. By the time it got around to me, it had all been said better than I could. So I used a trump card and said none of us spoke German but I spoke Yiddish, which is a kind of a close relative of German, and I could learn German kind of instantaneously. Since there was nobody at that table who could challenge that, I was sent to Germany. Let me say, I don't understand a word of Yiddish, didn't speak a word of Yiddish, but there wasn't anybody there who could correct me, so we were on a plane to

Germany for four fabulous years. Fabulous in the sense that it was my first truly entrepreneurial experience.

This was not a company that was used to running foreign branches. I was truly out there by myself. Everything was up to me—to conceive the business, develop a vision for the business, hire professionals as well as support staff, set up the books, pay the taxes, pick the office. I was truly on point. I think the president of the company came over once a year for a day, and was quite happy to have a nice meal and return to the States. It was a real growth experience to essentially start from ground zero, no business, and build an enterprise that at the end of year four was the second most profitable division of about six divisions of Harbridge House. We built an office in Frankfurt. We developed other clients. Then we opened up an office in London, and had a group in London, and I was put in charge of Europe. I alternated weeks between Frankfurt and London. Our two anchor clients were ITT working out of the London office and Volkswagen out of the Frankfurt office. We had about thirty-two professionals between the two offices, and half as many support staff.

I think there were a number of things that, at first, the European employees found rather strange. The American system of participation and openness seemed quite strange to them. When you'd ask somebody to open his books to show you what his costs were, they thought this was bizarre, whereas in the States people were relatively open with their data. But other things they loved as a contrast to their more highly structured ways of doing things. One was delegation and empowerment. European companies, by and large, were much more hierarchical than American firms. People were expected to follow orders rather than to figure out for themselves what needed to be done. Number two, there was a great deal in Europe of social distance and power distance between the managing director and the employees. I tried to close the social distance, close the power distance, empower people, and involve them. The Europeans at first found this rather curious, and then loved it. So it wasn't all that difficult in those days.

They were real years of growth. But I developed a successor. I felt in the final analysis that Europe had to be run by Europeans, and in 1968 I turned the reins over to a British chap, a Harvard Business School graduate, I might add, to run Europe. And I returned to the United States to head up Harbridge House's corporate planning group. You have to roll back the clock to the 1960s. Consultants were not well established in Europe. McKinsey was the only established consulting presence. Many of the firms that we hold in high regard today, Bain and BCG, didn't even exist then, so we were really pioneers. Volkswagen didn't even have a German word for marketing in those days. Our strategy was a people strategy: hire great people, teach them the consulting profession, get them to work together collaboratively, and perform high-quality services for clients.

Also, in those days MBAs were still pretty rare. Industry tended to put the consultants up on a bit of a pedestal. We subsequently have been pulled down off the pedestal and have to add value, but in those days there was an extraordinary amount of respect. I remember being invited to visit the Belgian Volkswagen distributor, and they literally rented City Hall and silver candelabra, and my coming was considered a great event. Remember, this was an era when the Europeans looked to America for business advice and counsel much as America in the '80s turned to the Japanese. It was a great experience for me.

Finding the Opportunity

I can't honestly look you in the eye and say that our decision to leave Harbridge House and start Temple, Barker and Sloane was driven by entrepreneurial desire. I think that's embedded there; but that was not the impetus. When I say we, both Temple and Barker worked at Harbridge House, as did I. I didn't know Barker very well at all, but he and I both reported to Temple, who was an executive vice president. Barker ran their transportation group. I ran their planning group.

I really left Harbridge House because I had been elected to the board of directors when I came back from Germany. It was the first time I realized I wasn't working only for clients, but that I also worked for a firm. As I got to know the firm better as a member of the board, I began to become concerned about some of its policies, its strategies, and how it was run. There was a great stress within the company between those who worked in the defense aerospace and those who worked in the commercial arena. In point of fact, you had two executive vice presidents and two organizations. It was clear to me that the future was in the commercial arena, and yet the culture was very much weighed in the defense aerospace arena. I became aware of the politics and the cultural influences that prevented senior management from dealing with the issues of reallocating resources, etc. I worked hard to bring about change, stayed on for two years, and essentially became convinced that either change was not possible or it was not possible for me to bring about change. I tendered my resignation.

At that point I got a telephone call from my boss, Peter Temple, who said, "I want you to know that I'm leaving as well, that there's another chap who's leaving, and that we've been talking about starting our own consulting company. Would you like to join us?" There was a fourth person by the name of Paul Cherington, who was a professor at Harvard Business School and had taken a two-year leave of absence to go to Washington as assistant secretary of transportation. Having spent down his life savings in Washington, he had an interest in establishing a consulting relationship that would help to supplement his teaching income.

Temple, Cherington, and Barker came to my house in Marblehead on a snowy day in January, and we sat in a room for about fourteen hours talking about whether we wanted to go into business with each other. That led to the decision to start Temple, Barker and Sloane. The dean thought that using Cherington's name in the name of the firm would be commercializing Harvard Business School, so his name didn't appear despite the fact that he was an equal partner. It was a fascinating day as we talked about management consulting as a business and as a profession, and what we loved about it, and what we did not like about it. And my reason for going into it was that at the end of fourteen hours I was convinced that there was a different way to do consulting.

One of my primary concerns was about the quality, the efficacy, the value-added of consulting. My observation was along the lines that consulting quality was like a bell-shaped curve. Twenty percent was outstanding—it added value, any one of us would be proud to devote our lives and career to that kind of work. The other extreme 20 percent was poor, misleading, didn't add value, and worse, probably took the client down the wrong path. The great problem that I saw in consulting was the bulge in the middle, the 60 percent that was OK, but not great. It dealt with conventional wisdom. Reports were produced, they had a beginning, a middle, and an end, but they didn't change much, they didn't add a hell of a lot of value. They didn't change the course of history of a division or a company or an enterprise or people.

The fascinating thing to me was that if that bell-shaped curve exists, why does it exist? Everybody's trying to do good work. In the course of those discussions, the thought emerged that while there are many reasons why the bell-shaped curve exists, the dominant one was that you don't know what you don't know. And if you don't know what you don't know, how do you know when your research and analysis is completed, that you've truly gotten to bedrock? You have to remember that this was the era when the great consultants were considered great generalists. And while there are many positive attributes of a generalist—they understand sound administration, planning, organization, control, how the enterprise relates to its environment—they don't deal with a lot of things that are missing. Who are the players in the industry? How do they think? How do they act? Who's got the upper hand? Who doesn't? What was the technology? What is the technology now? What is likely to be the technology tomorrow? Whose core structure is better, best? This meant industry knowledge and functional knowledge that was almost antithetical to the ideal of the generalist consultant.

We decided that the way to solve the "don't know what you don't know" problem was to hire people who had the great qualities of a generalist, but who wanted to specialize in an industry or function or particular problem set. They were willing to work in an area and really drill deep over a period of years, such that they became a world-class expert while not surrendering their generalist qualities.

Building the Organization

Now, today, when most firms have adopted some degree of specialization, this doesn't sound unique or even distinctive, but in 1970 it was truly revolutionary, and quite controversial. Indeed when we came on campus to recruit at Harvard Business School, the students sat in amazement. They thought, "Why would I want to do that?" because the students wanted to paint on canvases that were 400 feet wide, 20 feet deep. They sure didn't want to be limited to being a vertical expert in transportation or in financial services, or in manufacturing

So that was a challenge in terms of recruiting, but nonetheless we decided to specialize largely by industry, sometimes by function, and occasionally even by issue. We found that in every class there were a handful of superlative students, potentially great consultants, who understood what we were saying and who responded well to it. That was also considered refreshing on campus, to be quite straight about who we were, what we believed in, and so in that sense recruiting worked out just fine, but it was hard work.

We believed that it should not be a hierarchical firm, and the way we would attract terrific talent was to provide them an opportunity not merely to consult, but also to build an enterprise within the enterprise. We encouraged young people to look over the horizon, asking them what they saw as the emerging problem sets, the emerging industries. And if it made sense to us we would support them as they tried to build a practice within the firm.

Here's a classic example: in the winter of 1974, following the Arab oil embargo and the formation of an energy department, two of our consultants got a call from a Harvard Business School classmate who had gone to work for Bill Simon at the Department of Energy. He remembered these two guys from his section, and remembered they had been terrific mathematical modelers. He said, "Bill Simon has asked me to develop a model for allocating gasoline if it comes to gasoline allocation. Would you guys like to do that?" They came to me and said, "We have an opportunity. We think energy consulting is going to be a really big deal, and we can get a sole-source contract from our classmate without competition. It's got to be less than $10,000 but it's going to cost us about $20,000 to do it. But if you'll spot us the $10,000 loss we think this could be the beginning of something big." The idea made sense. The two guys made sense. I said, "Give it a shot." Well, I can't tell you the millions of dollars of energy consulting that we've subsequently done, probably over $100, $200 million. The two guys not only had the talent, but were also operating in an environment where we encouraged people to look for opportunity.

That not only built a business, but it built tremendous loyalty and served to attract good people, and you might say developed pluralistic leadership. I don't think our reward structure *per se* was terribly different than most professional service firms, but we generally had the "finders, minders, and grinders," the three functions and levels that all professional service firms have. The grinders, the first level, do the tough work. The minders manage the engagements. And the finders develop the business. And it's clear that the rewards are distributed as you move up from grinder to minder to finder. Grinders: those who first prove themselves to be superlative consultants. Minders: those who have the talent to manage other consultants in ways that complete work in a superlative fashion on time, on budget, and have a client applauding; that's a rare skill. Finders: finally, if above your ability to manage engagements, you have an ability to attract business to the firm because of your intellect, because of your network, because you are inherently a problem solver, that's an even more rare commodity, and that's what makes the merry-go-round spin, so to speak.

I don't think we were different aspirationally from other consulting firms. I think we were different in terms of timetable. I think you could make partner sooner at Temple, Barker and Sloane because in addition to the professional track, which would characterize most firms, there was the developmental track, empowerment. You couldn't build a business unless you were a great consultant. But we essentially put no timetable on it. In terms of what it takes to allow others to grow and develop, there is a genuine appreciation of the idea that you only grow through other people, and that the way to build a good enterprise is to hire people who are at least as good as you are, and hopefully even better than you are. That's what Paul Cherington taught me. He was a great exponent of hiring people who were better than you were if you could do that. The reason I say that is because while we talk delegation, you can't delegate to people who aren't competent. It's always astounded me that in many corporate settings people have to spend a lot more time justifying the purchase of a $3,000 PC than they do an $85,000 MBA or management person. And yet every person you add is potentially a future partner or a future president of the company.

It's also incumbent on management to communicate the vision, strategy, and objectives in the business so clearly that when you delegate, people are taking independent action based on a deep appreciation and a profound understanding of what this enterprise is all about. If they really understand that, and they're really good people, then delegating isn't a very complicated exercise. So these are two preconditions to delegating. There are people who have a great need for control. What they fail to recognize is that the only really effective control is self-control. Everything else is history. You've got to create the kind of conditions where people who are self-managing and self-controlling will do the right things.

Critical Success Factors

It's pretty clear that many ventures, particularly at their earliest entrepreneurial stage, have an implicit mission, an implicit vision. It may not be spelled out, it may be simply stated, but it's nonetheless a compelling vision. The great tragedy of business is that this sense of mission and purpose gets lost over time as companies become more and more professionally managed. And with the loss of vision goes a loss of meaning. Most people report to work and leave, and there's been nothing added to the business and nothing added to their lives. They've filled some space, hopefully filled it well, and the company has provided some remuneration and that's the bargain. I think it's unfortunate and yet I think that's the predominant case.

Looking back, I think our mission, our vision, was to do high-quality consulting, to shift that original bell curve we saw early on in consulting so that we as a firm never did bad work. I didn't think it was possible for a firm to always do outstanding work, but to shift more and more of the mediocre work into the great area of the curve—that was our goal. And I think people responded well to that. The second part of our vision entailed the concept of combining people who had the great qualities of a generalist with the desire to become a world-class expert in some industry or segment of the consulting market. And third, we created an internal environment that encouraged people, made it possible for them to make a career in consulting. You really had to create a set of conditions in which people could readily see themselves spending eight, ten, twelve or more years in consulting. Classically, if you send a client an invoice at the end of every month for $300,000, it's pretty fair for the client to scratch his or her head and say, "What the heck did we get for $300,000 this month?" To help avoid that question being answered, firms got the consulting team on the plane on Sunday night or at worst Monday morning, and they kept them at the client's site until Friday night. And in that way, at least the client would say, well, I know they were doing something for the $300,000.

We said that's not a way you can keep people in consulting and give them a sense of satisfaction for a lifetime. So we adopted a policy that said, if we're as good as we think we are, we should be able to go out and spend maybe just two or three nights a week at a client site doing research and then come in and do analysis for two or three weeks. So tied to our business strategy was an organizational and human strategy that was directed to giving people a sense that they could make this a career and then to creating supporting policies where the family was in a way drawn into the company as well. Our social events were extraordinarily family oriented and that gave a sense of the family's interest, adding meaning for the family to the work experience. As a result of those policies, we had very low turnover, substantially less than even the good firms in the industry, because it was a very different social contract.

The Growth of the Consulting Business

When we started in 1970, we had no great sense that the profession would expand. The rapid growth was more the mid-1970s forward. But we weren't that concerned with growth because in terms of our sense of mission and strategy tied to quality and people, we deeply believed that if we could achieve our mission of higher-quality consulting, we could take market share. We weren't dependent on growth. I always felt that consulting was one of those rare businesses where you could create demand. That you could walk into somebody's office—somebody who didn't think he had a need for consulting—and if you had done your research right and were an effective communicator, you could walk out with a consulting contract.

Consulting did explode in the mid-1970s and through the '80s. What happened in consulting is what happened to every other business. One thing was globalization. Really it was largely a domestic business up through the mid-1970s. McKinsey, Harbridge House, a couple of other firms were in Europe, but it was relatively small. Well, the Europeans began to adopt American methods and consulting exploded. There was really no work done in the Far East to speak of until the '80s, and that's still a growth market. There was little or no work done in Latin America to speak of until the '90s. So you've had this international explosion, globalization. You've also had specialization. It's an explosion when you talk about information technology, information systems, and we could run though a whole series of issues even organizationally. Organizational consulting years ago was much about architecture, centralization, decentralization, the whole issues of empowerment and quality, etc.

Another factor contributing to the growth of consulting was the hollowing out of middle management, starting in America and then spreading to some degree overseas. The recessions of 1970, the oil shocks, the protracted recession of the early '80s, and new concepts of management organization with much more empowerment down the line hollowed out a great deal of middle management. When one talks about downsizing, a lot of that was middle management. As you downsized middle management, essentially a lot of problem solving got "outsourced." The combination of those events was just an explosive growth in consulting that more or less continues, I think, to today although there's always been an element of cyclicality to it.

A lot of what we did in the 1960s in consulting was what we learned in the classroom in the MBA programs. But there were so few MBAs at our client companies in those days, it was not unusual to have CEOs who didn't even have a college degree. Then MBAs became ubiquitous in the client setting. They had essentially gone to the same courses we had. They read the same literature that we read. And they all bought consulting services and began to ask tougher questions, which frankly was good for consulting. To have somebody say, "Well, how are you going to add value? Tell me again." That forced the consulting profession to look within, and it created competition. Out of those questions came something new, and that was research and development, the creation of genuine intellectual capital in the consulting profession that you could trace right back to its source within the firms. It was not generalized knowledge. It was new, fresh, important intellectual capital. And business is hungry for new ideas. So if you want to take, for example, Mike Porter's contributions in the way of understanding competitive dynamics, one could say that added an entirely new layer. That was the fourth thing that helped consulting explode.

The fifth thing that made it explode was privatization and deregulation. When you've got stability in an industry and clients think they've figured out the algorithm of success, they buy fewer consulting services. When you've got factors that intervene in an industry and change the game often in dramatic ways—deregulation, for example, or a technological shift—all of a sudden the old rules don't apply, and an entire industry goes looking for new rules and new approaches. Go back to the deregulation in the United States of transportation: the Motor Carrier Act, the Airline Act, deregulation of the railroads, the rail mergers. Then the deregulation of telecommunications, all of the deregulation of the financial services sector. Each one of these upheavals created enormous demands for consulting, companies saying, "Come in and help us think through where this is likely to head."

Change is painful. There's the pain of risk. There's often loss of status. We know that there are people who have competencies related to the old world and not to the new world. Nobody I know enjoys dismissing people whom they've grown up with in business. There are social obligations that people have. These are extraordinarily painful transitions not only at the top but also throughout an organization. And since most people do not like pain, they deny the changes, so it is important to have leadership, and I don't necessarily just mean a CEO, because in most cases one person can't bring it about. They may have to lead it, but you need pluralistic leadership to move any sizeable organization through a period of change.

So you have to recognize that change is coming, to be able to draw a picture for the organization of here is where we are, but here is where we're headed. It's critical to have the ability to communicate that vision in a powerful and compelling way, and to essentially align the key elements of an organization behind this change. And then you have to motivate the organization to change. The physical principal of a body at rest is that it likes to remain at rest. It requires extraordinary energy to get a body at rest to move. And that's essentially motivation—to get them to buy into it, and then to get the extraordinary level of energy that's committed to get moving in the new direction.

I think most people have a creative, innovative spark within them. Unfortunately, most of those sparks are blown out before they have a chance to ever become a true flame. I think equating R&D and innovation is a very limited view of innovation. Innovation is a much broader subject. I mean you see time after time organizations that are "let loose" become extraordinarily innovative. People marvel at how an old-line firm like General Electric, with its enormous size and pretty old-line product lines, has been able to have this extraordinary performance. Well, a lot of it is getting out of the organization's way. Innovation encompasses at least two broad things. One is doing what we're already doing and doing it better. And to do it better you've got to be innovative, seeing new and better ways of doing the same old stuff. The second part is doing new stuff that we didn't do before, which may require dropping old stuff. Most people are searching for meaning and opportunities to contribute to a company. Unfortunately, most companies get in their way. You have to provide boundaries in a sense; you have to provide direction and strategy, but with very few rules.

There are a million good ideas usually sitting out there, but if you study what happens to an idea at its original germination, you see the various ways it gets refined and killed off by better thinking as you go up the line. The fact of the matter is, most corporations shoot their future leaders and shoot their future innovators early on because they simply don't like people who question the status quo.

Later-Stage Transitions

By the mid-1980s we were a reasonably substantial firm, certainly not the biggest, but a good-sized firm with about 500 employees. What was unusual about the firm was that we were all virtually under one roof in Lexington, Massachusetts, whereas other firms our size and larger were spread across many offices. I recall being invited to Chicago to meet with the CEO and a couple of his key executives of a large corporation. He had heard about us, had some issues that he wanted some help on, and it was one of those days when just every discussion item you have, you hit a home run. There are great days in your life, and this was one of those days. As we wound up at about 4:00, the CEO essentially said that he thought it had been a great day too and that there was only one other firm he'd met with that he'd consider a peer of ours, and then he said, and they have an office two blocks away. So if I have an issue I want to discuss with one of the partners, he'll come over and have a cup of coffee, or we'll have lunch; why should I call you in Boston and have to work out a meeting in a couple of days, why should I do that rather than just have a cup of coffee? And that was pretty hard to answer.

We also had an emerging sense that the most rapid growth was coming from overseas in consulting, and we were not there. We didn't even have a domestic distribution system, if you want to think of it as a distribution problem, to distribute our capability around the country so much as around the world. And we looked at that and said, if we want to continue to be the kind of firm we want to be in terms of being able to add value and have clout, etc., and if the world continues to move in the direction it is going in, then we would have to go from one office to about twenty offices by the end of the century. That was a mere fifteen years away at that point. And for a firm that had grown up with a single office that seemed like a daunting task organizationally and economically. Let me tell you, it's a lot easier to administer a firm that is all in one office, and to grow a unified culture. We understood what it was like to work out of many offices with different kinds of areas of specialization, and the kinds of conflicts that that could create which would strike at the heart of our culture and our quality.

So we understood that this would be a great shock, and an infinitely more complex organization to manage. We also knew that any time you opened up a new office you were going to be cash negative, $1 million at least before you turned positive. And we figured it would probably be even more than that to open offices overseas. So we were looking at perhaps $20 to $30 million of exposure in order to expand our distribution system domestically and overseas. We modeled it and we studied it and we thought we could do it, but the two big challenges were preserving the culture as we disbursed and financing the expansion of the firm.

Let me add that since the early history of the company, we had been approached about once every six months by some party who wanted to acquire the firm. As a result, we had an understanding that while that was not our goal—our goal was to remain a private company, privately held, with successor management ownership—we would at least talk with qualified parties to find out if their strategy was compatible with ours, if their culture, chemistry was compatible with ours. Well, half the people who made inquiries never got in the office because they just weren't the kind of people we thought made sense. Some did get it for discussions, but invariably neither the strategy nor the culture made sense for us.

Marsh McLennan approached us in 1987. They were a large insurance brokerage firm, and they had been building a consulting enterprise. They had started and had also acquired a number of superlative consulting firms, including William and Mercer, which was maybe the world's preeminent actuarial benefits and compensation consulting firm, about a $1 billion firm with eighty offices around the world. Marsh McLennan had discovered that with this group of wonderful consulting companies, they did not have a general management consulting capability and they thought that was essential to this core capability they were building. They did a search and our name came up.

I met with them initially in New York and listened to how they thought about the business, and I must say, it was the first time I had met anybody whose strategy and culture seemed totally compatible with ours. I came back to Boston and met with three or four of my closest senior colleagues. They were as skeptical as I had been. I said, well, why don't you go to New York and talk with these people? And they came back wondering as I did if this might work. Indeed, Marsh McLennan was an enormous corporation, was publicly listed, but they still thought of themselves as an operating partnership going back to the days in the early '60s when it had been a partnership. They also thought of themselves as a professional services firm. Well, to make a long story short, we had many discussions, and it seemed to make sense strategically and culturally, and our decision was to put it to a vote.

We had seventy-two partners at that point, and I felt we would not do this unless virtually all of the partners voted for it, and then virtually all of the staff voted for it as well. We had extensive meetings stratified by geography, and by level, and in the end whether it was a high-school kid who ran the Xerox machine or a woman who ran the late-night editorial function or one of the senior partners, everybody had a say, and almost unanimously we decided to take the jump, with the hope that Marsh McLennan would help the firm sooner and more assuredly achieve its vision.

I retired in '91, four years after they acquired us, but I certainly have maintained close relationships. It's pretty clear that the sale turned out to be successful. The firm has done extraordinarily well. It has those offices and more, but like anything, it hasn't all been smooth. It's been successful, but it did not happen automatically, nor easily and not in every respect, although in most respects. Is it the same culture? No. Is it a good culture? Yes. Marsh-Mac has been a superlative parent. They have given the firm enormous degrees of autonomy and support and I think one could not realistically expect more. We read them right, and they were true to their word. Having said that, when it's no longer your company, it's different. And the sense of intimacy and meaning and purpose I think gets diminished a bit. Now there are other compensating strengths. Marsh-Mac has brought a great deal of benefits to the firm. People are making more money than they ever made. There are wonderful benefit programs, and I think there's a lot of comfort in that. But the firm was different.

I learned several important lessons. First, it's important not to delude yourself—once you sell your company it will be different. Also, pick your partner carefully. I think we picked a great partner, but I don't think there are many great partners out there, and I think ours is probably one of the happier stories. Third, expect to mourn the loss. No matter how well the transition goes and no matter how great your parent is, there will be a sense of loss. It's comparable to losing a member of your family. And mourning has a role. Now you don't want the family to mourn for years and years, but mourning is necessary and it's healthy. So you have to lead an organization through a period of mourning and a period of recovery. One of the great contributions that a selling entrepreneur can make is to be with the family during the mourning period. Even if the entrepreneur plans to leave, his or her last great act can be to bring the family out of mourning and into a period of recovery and resurgence. Unless you're a serial entrepreneur, which I was not, you only sell your company once so you damn well better do it carefully.

I had felt that we couldn't stay where we were, that we had to take risks we had never taken before. You take a risk every day you're in business, but I think the risks we had taken up until then were much more within our purview of experience, and our economic exposure relative to the balance sheet strengths of the company was quite manageable. Now, we were moving into a new economic climate with the expansion. It was going to be dramatically different. I thought we could do it but there were no guarantees. And we had scores and scores of employees who had invested years in the firm—particularly since we had low turnover—in building this. I suppose we had the option of saying we have a great thing, so let's not change. But this goes back to leadership. It requires leadership to sell the firm at the right time, yet it still entailed extraordinary risks. To manage such risk, other people's money is sometimes a solution, and it was in this case.

There was another change that should be touched upon. In 1990 we acquired Strategic Planning Associates (SPA), a strategy boutique based in Washington, but with significant capability in England, London, and Paris. As I recall, they had something like forty professionals in London, twenty in Paris, which was forty and twenty more than we had. Since our key goal in expanding was to go overseas, and it would have been very painful to try to build from scratch, SPA would also allow us to take our successful but modest strategy practice and instantaneously become a player. In addition to the European team, they had about 150 people on the ground in the U.S. doing purely strategy work, and they had a good reputation. The concept was sound, but the question was cultural fit. As good or bad luck would have it, the strategy was great, but the cultural fit was dreadful. You can't think of two firms in the same business who's perspective, culturally and organizationally, would have been more different. It was an extraordinarily painful period, though we were able to make it work and it eventually was a successful merger.

It took about five years to begin to really get the benefits and stop the losses that came from two conflicting cultures. We believed that you had to have the right answers for clients, but that the right process and organization and mode of implementation were also key. SPA thought the game was to get the right strategic answers and let the client worry about implementation. Those were very different approaches, and it led to hiring very different people. SPA had brilliant people who were great at analysis and formulating interesting strategic initiatives, but they were completely devoid of any sense of what it took to get them implemented. TBS had people who were quite adequate intellectually in terms of strategy, but really focused on organizational change. The idea was that if we could get these two organizations to work together, we'd have a powerhouse. But each group thought that they possessed the answer and it was extraordinarily difficult for a long time to get them to work together, and to get people to undergo fundamental change in order for that to happen.

Once we'd worked through our differences, we hired different types of people with different kinds of priorities and motivations, and different value systems. And we rewarded them differently. The TBS system was built on the idea of come and spend a lifetime with us, and there are great rewards but they come over time. It's also a very family-oriented company, and you don't travel as much, etc. SPA was built on the idea that you can be a partner in two days or two months or two years. If you have what it takes you can go as far as fast as you are able. So they had partners who were twenty-five years old, and they also had quick burnout because they were working twenty hours a day. There were some real costs to that merger early on, including losses of employees, tension, aggravation. It took about two years to get the two groups to understand each other. It took about three or four to begin to really work together, and in year five and beyond, the merger really took place, and it moved the firm ahead.

There's always a need for fresh blood and fresh ideas. An entrepreneur should never preclude the opportunity to acquire outside resources. Having said that, the great firms are built on internal growth, and through internal growth a sense of coherence and cohesion, in terms of culture as well as core competencies. I don't think you can acquire yourself into greatness. I think you need internal growth on which you may be able to add culturally compatible acquisitions. In the end it takes people to make it work, and if you're looking for any degree of integration, you've really got to understand the other's culture and indeed your own culture, and then be mighty certain of what you're getting into.

We could have done very well for ourselves and made a lot of money for the original four partners and a few others, but the dream was larger than the partners. Our dream was to build an institution that was capable of surviving us, and it has indeed as Mercer Management Consulting. Another goal was to insure that the culture was sufficiently free and open and that there were all kinds of opportunities for our employees, because I felt that was the way to build a great team, which in the end is all you really have. A third goal was to set high standards. I wasn't much interested in the bottom line for the bottom line's sake, but I felt that the bottom line was one way of keeping score, that if we're indeed as good as we are in terms of quality that there ought to be some way to measure it. If people are not willing to pay you and pay you handsomely for your services, that's one indicator that you may not be living up to your promise. I think setting and maintaining high standards was one of my main contributions.

In terms of major challenges, I would cite three types. The first was that you hit periods of quietness in the business where the backlog started to decline. Not only is it important economically to keep a healthy backlog, it's also organizationally important. When an organization is busy, they're happy. I always maintained a hand in business development. I never believed that the leaders should become full-time administrators, quite the contrary. They ought to, among other things, be out dealing with clients, making sure that there's always new work coming into the firm. The other two challenges were more difficult and had to do with people. In the consulting profession, there are only two strategic threats to the firm. One is that when the leadership retires, you haven't developed successors. Some pretty good firms have had trouble passing the baton. The second is defections. Groups of people from within consulting firms sometimes depart en masse for one or another reason, whether it's because you haven't run the firm well or because they see an opportunity for themselves.

For example, BCG begat Bain, which begat a division of Deloitte Touche, etc. So what you're doing is you're spinning out your own competitors. You try to run a firm as well as you can to discourage that, but the fact of the matter is that it happens, even in good firms. We had such a departure in the mid-1970s and it resulted in the formation of a competitive firm in some of our key business lines. It was a very difficult time. It caused a lot of soul searching—was it something we had done or was it pure avariciousness on their parts. We also had disputes over clients and over proprietary information, and it was very unsettling. It was a major challenge to keep the group that stayed behind healthy and positive. We dealt with it fine, but at the time we were a small company and it seemed very threatening. In fact, I don't think it was that serious a threat. But emotionally it was very difficult, particularly given the culture we were trying to build and our own belief systems about the relationships within the firm. I would say to other entrepreneurs who encounter similar circumstances that it's never as dark as it seems. This, too, shall pass. Deal with it on its own terms, but don't allow that event to interfere with your business.

Another big challenge entrepreneurs face is that the firm changes over time. Markets change, technology changes, etc., and not all people can change with these changes in the marketplace. People who were extraordinarily valuable contributors in an earlier day may not be able to contribute as well today, and may be blocking others from moving up and contributing in the future. The question is how do you deal with those people? Nobody enjoys moving people aside or dismissing people, certainly not people who have been loyal and important contributors to the firm. And yet those same contributors represent substantial blockage to the future development of the firm. Facing up to those issues, confronting them, dealing with them, and making the moves takes a personal toll, but it's absolutely essential that those problems be dealt with and dealt with well. The first way you deal with them is to make sure that they have been apprised of the problem, and that they have had an opportunity to address those issues. Next, you see if there are other slots that they can fit into, other types of contributions they can make. The tendency is to ride with those situations longer than you should. But you've got to confront it. My philosophy is to deal with the business issues brutally and the human consequences gently and generously. So don't avoid dealing with the business issue. But the business has got to bear some of the burden of the transitional expense that enters into the human equation.

Government Experience

There was a significant recession in 1970. It hit the defense aerospace industry very hard, but it was across the board. One consequence was that many of our major defense aerospace suppliers had substantial layoffs. Now among those layoffs were some of the most talented scientists and technicians in America. Our assignment was to work directly in the White House to see what initiatives the federal government might engage in that would help to keep these talented people fruitfully employed. One issue was where would the government get the biggest bang for the buck in terms of keeping these people employed in worthwhile endeavors that were good for the public interest. I worked with all of the cabinet departments, and I felt very good about the engagement in terms of what it was intended to accomplish, but I also got exposed to how money is spent in Washington, and I became very sensitive to the role of lobbying and public spending, etc.

I also spent a great deal of time personally preparing and delivering testimony before three presidential emergency boards in the late '80s. Presidential emergency boards are formed when airlines or railroads face labor disputes, since it's against the national interests to have a strike. I appeared on behalf of the U.S. railroads on three occasions before presidential emergency boards involving those kinds of disputes. And it's fascinating to see how regulation governs the efficiency of our economy. For example, the compensation of rail workers is tied in many important respects to the definition of what is a day's work on a railroad. And much of the basic law around that was set 100 years ago when a railroad went eighty miles a day. The regulation is very outdated.

From these experiences, I believe that the best thing the government can do for business in general and for entrepreneurship in particular is to get out of the way. Is there a role for government regulation in society? Absolutely. But I think it ought to be more of a safety net. There's too much of a tendency to spend money on less-than-useful things. I also think it's a myth that you can create incentives from Washington that have the push/pull, cause and effect that's desired. There are too many intervening variables. I do think one of the things that government can do is to limit deficit spending as much as possible to keep inflation low, keep the cost of money low. A lot of what happened in the '90s— modest regulation, federal surpluses rather than deficits, and low inflation— created a climate in which innovation could take place. And that, in turn, was helpful for entrepreneurship.

Summary Reflections

On the business side, I think as I look back on my time, I can think of few things that are more rewarding than building a firm. Personally, I found administering a firm far less rewarding than building one. I retired in 1991 largely because the emphasis in my role had shifted from building to administering. For new MBAs, something I would heartily recommend is that at some time in their careers, they should try to build a firm that reflects their own vision. They should give it a try. In addition to the personal satisfaction you get from that, I think you're performing a real societal function as well. But the older I've gotten the more micro I've become in my satisfactions. I used to have aspirations or ambitions to leave a larger mark. That faded in time. Now, when you talk about real lasting satisfactions, it's having three children, all of whom are in happy marriages, with productive lives, lives of their own making, self-authoring people who didn't do what Dad or Mom did, but found their own path and their own satisfactions. That gives me a great sense of accomplishment.

After retiring, I taught at HBS for nine years, and working with MBAs in the first-year leadership course gave me an opportunity to reach students at a personal level. I hope I was able to inspire them in the same ways that various HBS professors touched my life, when I was a student and later in life. To give students a sense of confidence, self-esteem, respect, and encouragement gives me a great sense of accomplishment. I continue to hear from many of those students. And I now believe that teaching at HBS was not unlike my role at TBS. Both were opportunities to shape people's lives. The CEO's role as the visionary, as the leader who communicates and motivates people, is in many ways an educational function. One of the key roles of the CEO is to educate the organization about the market, and to marshal the forces to meet the market's needs. So the conceptual skills, the communication skills, the persuasive skills, the motivational skills, the fundamental empathy for people and their aspirations, trying to help them make meaning out of their own situation and to bring meaning to the workplace and to their careers, is really an educational role. If you can bring meaning to the workplace as a CEO or meaning to a student's learning experience as a professor, so that a career has more value than just a way to earn a living, then that's not a bad way to spend a life.

My advice to entrepreneurs is to persevere. We live in a world of instant gratification, and more and more entrepreneurs I talk with, particularly the young ones and particularly during the Internet era, talk about building ventures to flip them. Everybody wants to do it in two years or two months. There are examples of that being done, so it's encouraged that kind of mentality. But most great organizations are built over time, and with perseverance. So the lessons are persevere and build, and let the economics follow. The second piece of advice is when you talk about real estate it's location, location, location—in business it's people, people, people, and people. Focus your attention on building a great organization and that will make you rich.