THE EMERGING BROWN ERA AT EDS (ELABORATION STAGE)

In the elaboration stage there is a need for renewal, for revitalization of processes and the pursuit of new and innovative ways of managing the organization. The optimism of many insiders just following the spin-off has turned to the reality of significant turmoil and challenge. CFO Jody Grant left EDS in 1998 to return to the banking industry and use his extensive experience to begin bringing that industry into the new economy. Grant was not replaced for over a year. Retrospectively, Grant acknowledged that the company’s near-obsessive drive for independence likely contributed to its current problems. In a recent Fortune article (A. Kupfer, February 1999), Merrill Lynch analyst Steve McClellan proposed that GM used its leverage with EDS to virtually extort a long-term contract that has become a substantial money-losing proposition for EDS. This contract has been at least part of the reason EDS has failed to achieve anything near the record shareholder value gains that most of the technology sector has realized during the last 3 years.

CEO Les Alberthal, facing tremendous stockholder pressure, resigned in late 1998, and was replaced by telecom veteran Richard H. Brown in January 1999. Brown has moved quickly to bring about change at the company, firing senior officers, reducing employee ranks by several thousand, and shaking up many of the corporate cultural norms that had hampered the company’s ability to change. An example of this is Brown’s insistence that executives move out of their plush corner offices, and move in with the employees that they are responsible for managing. Brown has also “picked the low hanging fruit” by instituting major cost-cutting initiatives. These initiatives had been identified more than 2 years before Brown’s arrival, but were never implemented due to the prior management team’s preoccupation with the spin-off and inability to act decisively.

Grant also indicated that the company’s attention was diverted by the spin-off, and as a result EDS missed the boom in e-commerce business. Of the original 13 executives that were interviewed in 1996, 9 have since left the company. Ironically, several of these executives, including Grant, have moved to dot.com companies. The distraction of the spin-off is also a major reason why competitors such as IBM and Computer Sciences Corp. have been able to make such significant inroads into markets that were at one time dominated by EDS.

In September 2000, EDS signed a major deal with the U.S. Navy and Marine Corps, worth an estimated $6.9 billion. It remains to be seen if this is a trend or simply an aberration. Although Brown appears to be turning the corner with EDS, there is still much to be done. In an October 2000 interview, Grant agreed that Brown has made great progress, but that the company still must focus and decide what it is going to be. Without that focus, despite the positive steps that have been taken, Brown’s arrival will not mark the beginning of yet another era for this truly remarkable company. From its earliest days, EDS has been noted for its unique culture and its dedicated and aggressive approach to doing business. If it is to survive in a vastly changed marketplace, it too must change. While that process has begun, it is far from finished. Other than the spin-off itself, deciding the future direction for EDS and repositioning the business may be the most significant events in its history.

LESSONS TO LEARN

It is very apparent that the leaders at EDS at the time of the spin-off failed to note the significant change that was occurring in their own backyard. This may have been due to the amount of attention that the spin-off process required, or it may simply be that
the leadership was so enthralled with the trappings of independence that they refused to acknowledge what was happening. They should have moved quickly to reorient the direction of the company and address the emerging competitive challenges. They should have quickly enacted the cost-saving measures that had been identified by Grant and his staff, helping to stave off some of the criticism that poor financial performance ultimately brought down on them. At a time when quick action and clear communication were essential, they chose instead to institute a cumbersome and confusing management structure that, while well intentioned, created its own problems. This could have been averted with a simpler, less rigid organizational structure.

We have learned several other lessons from our study of EDS. The desire for independence that drives a subsidiary to be free from its parent company may not be in its best interests in the short or the long term. At a personal level, when an adolescent seeks independence, the wise parent encourages the drive for autonomy while discouraging a premature separation. In the business world, if the parent perceives an economic advantage to itself from letting the subsidiary go, the same safeguards may not exist. In light of GM’s recent activities involving its defense and aeronautics division, it seems likely the automaker would one day have initiated the spin-off of its own accord, reducing the amount of leverage exerted over the subsidiary.

The near obsessive drive for independence by some of EDS’ top executives clouded good decision making and distracted them from key challenges and opportunities in the marketplace at an absolutely critical time. An example of this is the substantial challenge from both existing and new competitors who were aggressively entering their marketplace. In the fast-paced environment in which companies such as EDS operate, even the loss of a few months can be devastating, as happened in this scenario. EDS continues to struggle to participate in the new economy boom that has been immensely profitable to many of its competitors.

In an industry where intellectual assets are the most prized of all, EDS lost a tremendous amount of talent. People who work in this environment have too many opportunities available to them to wait around while their current employer gets its act together.

Finally, speed is everything in this industry. EDS has had difficulty competing on this dimension. Brown cannot afford to waste any more time. He must decide a direction for the company, determine what the company should look like, and reposition the business to achieve the new strategy. As discussed earlier, EDS has come through three key eras. EDS is now poised on the cusp of yet another new era—call it the “Brown” era. The challenge, as with all “life-cycle” transitions, is surviving the crisis it now faces. To paraphrase Albert Einstein: The significant problems that the people at EDS currently face cannot be addressed with the same level of thinking that was utilized when they created those problems. The real key for Brown and his managers will be to see if they can truly change this company in time to save it.

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292 ORGANIZATIONAL DYNAMICS