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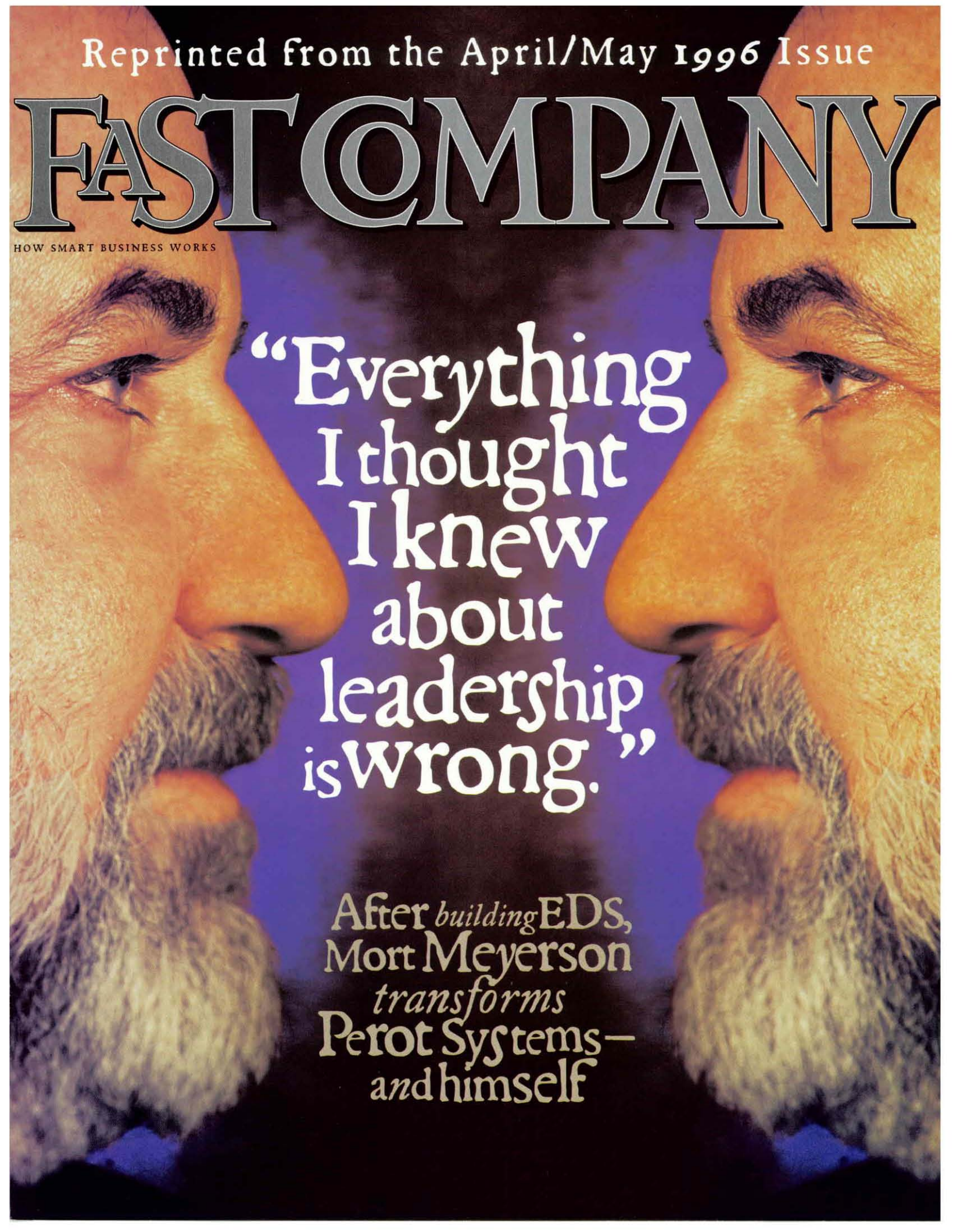
FAST COMPANY

HOW SMART BUSINESS WORKS



"Everything I thought I knew about leadership is wrong."

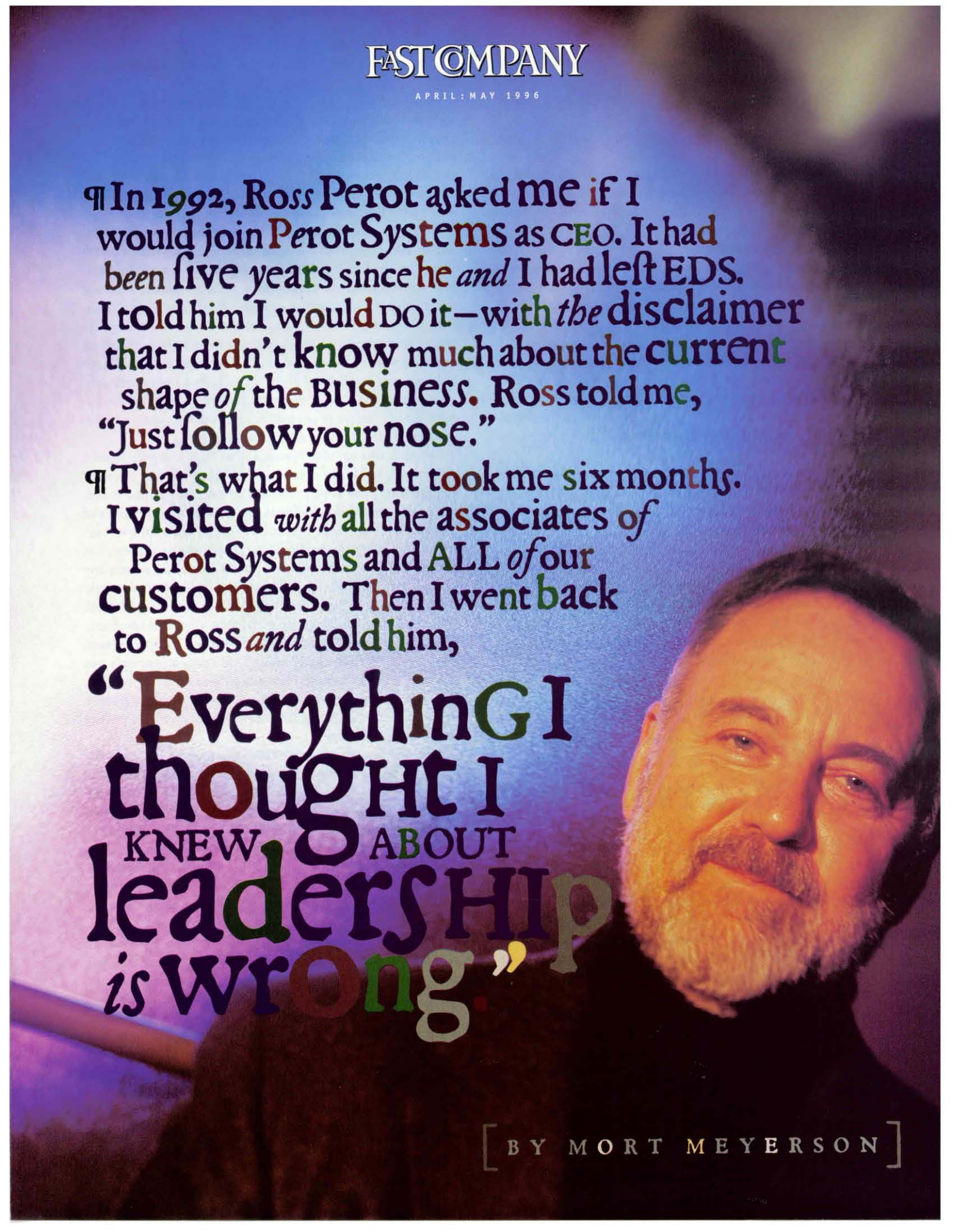
After *building* EDS, Mort Meyerson *transforms* Perot Systems—and himself

FAST COMPANY
APRIL : MAY 1996

¶ In 1992, Ross Perot asked me if I would join Perot Systems as CEO. It had been five years since he *and* I had left EDS. I told him I would DO it—with *the* disclaimer that I didn't know much about the current shape *of* the Business. Ross told me, "Just follow your nose."

¶ That's what I did. It took me six months. I visited *with* all the associates *of* Perot Systems and ALL *of* our customers. Then I went back to Ross *and* told him,

"Everything I thought I KNEW ABOUT leadership *is* wrong."



[BY MORT MEYERSON]

All the reasons he'd asked me to rejoin him for were wrong. The people who had signed on, thinking we'd recreate a new and improved EDS at Perot Systems had expectations that were wrong. They would have to either change or leave.

It was a traumatic meeting. Not that he got mad. It was just a mouthful to tell somebody.

I was telling him that everything had changed. Technology, customers, the environment around customers, the market—all had changed. The people in the organization and what they wanted from their work had changed.

Organizations must change radically: we are at the beginning of a revolutionary time in business. Not just an evolutionary time. Not a year-to-year change. A fundamental revolution. Many companies that have enjoyed decades of fabulous success will find themselves out of business in the next five years if they don't make revolutionary changes.

Of course, many of these changes are about technology. They're also about the fundamentals of business and people, and they raise elemental questions: How does this business revolution affect the organization? What does it mean to the people in the organization? What changes do we have to make in the way we communicate?

And most important: What is the new definition of leadership?

I can't offer absolute answers to these questions. But I do know from my own experience that the leadership techniques that applied 20 years ago don't apply anymore.

My intense self-examination left me wrestling with two questions:

To get rich, do you have to be miserable?

To be successful, do you have to punish your customers?

To answer these questions, I would have to look deeply into myself, reinvent my concept of leadership. And in the process, we'd all have to reinvent Perot Systems.

To Get Rich, Do You Have to Be Miserable?

In purely financial terms, my seven years running EDS had been unbelievably successful. When I left, I was very proud of the people, the company, and our achievements. From the day I started as president in 1979 to the day I left in 1986, EDS never had a single quarter where we lost money. We never even had a quarter where we were flat—every quarter we grew like gangbusters. That kind of economic performance made a lot of our people very rich. I used to take enormous pride in the fact that I was instrumental in getting a lot of equity into the hands of the people at EDS.

What I realized after I left was that I had also made a lot of people very unhappy. Our people paid a high price for their economic success. Eighty-hour weeks were the norm. We shifted people from project to project and simply expected them to make the move, no questions asked. We called our assignments "death marches"—without a trace of irony. You were expected to do whatever it took to get the job done. In terms of priorities, work was in first place; family, community, other obligations all came after.

None of that happened by accident. I had helped design EDS to operate this way, using the compensation system to motivate people: I tied their pay to profit-and-loss performance. If you ran your project very profitably, you were richly rewarded. If you didn't, you weren't. I routinely spent an extraordinary amount of my time on compensation and rewards—roughly 15%. I did it because I knew that compensation mattered most.

The system worked; that is, we got exactly what we wanted. We asked people to put financial performance before everything else, and they did. They drove themselves to do whatever was necessary to create those results—even if it meant too much personal sacrifice or doing things that weren't really in the best interests of customers. Sometimes they did things that produced positive financial results in the short term but weren't in the company's long term interest. That's a charge you'd usually apply to a CEO—but I've never heard it said about individuals down to the lowest ranks of a company. Yet my pay-for-performance approach effectively encouraged that behavior from all of our people.

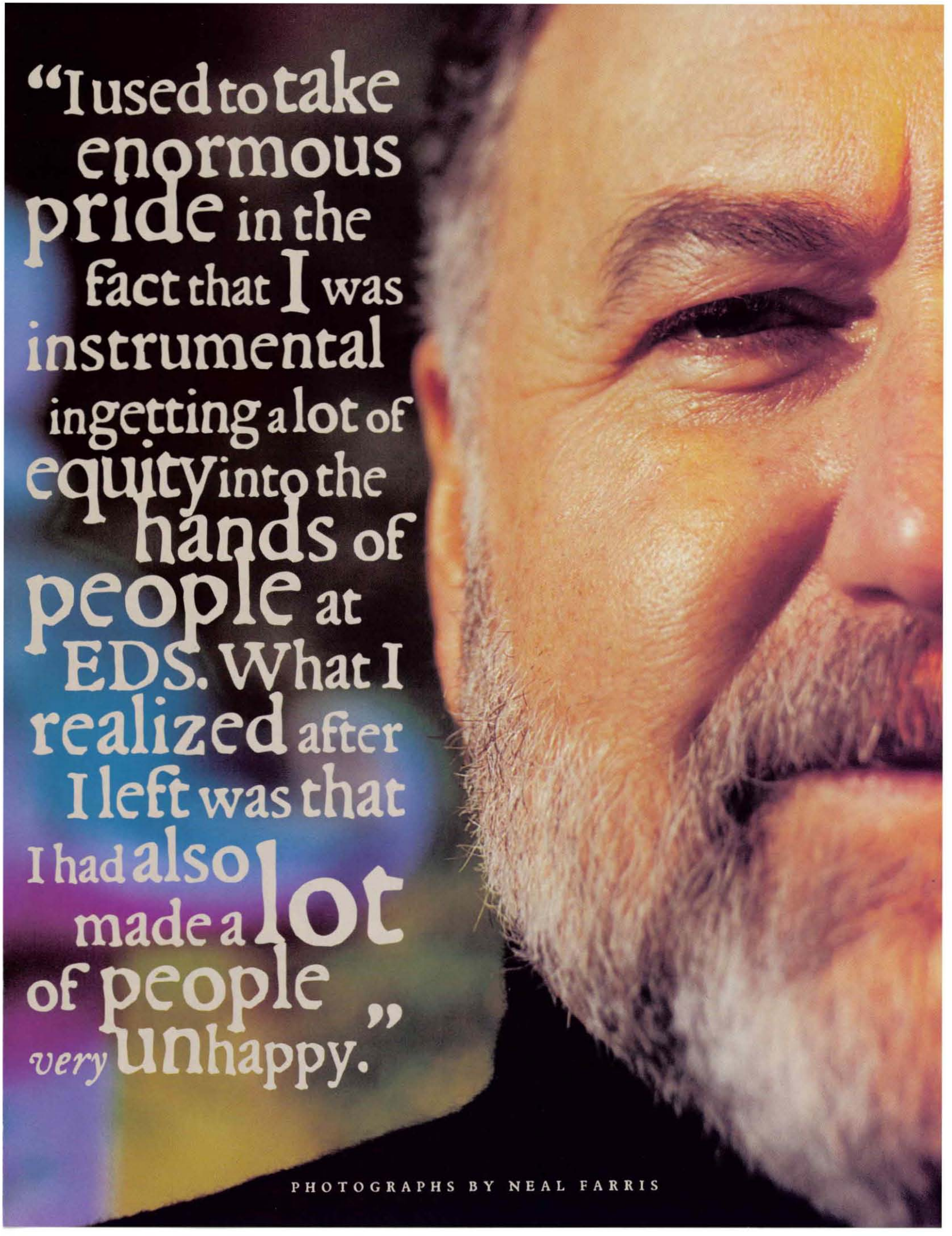
When I came to Perot Systems, what I saw in my six months of listening inside the company convinced me that we were about to make the same mistake. The emphasis on profit-and-loss to the exclusion of other values was creating a culture of destructive contention. We were about 1,500 people, with revenues of roughly $170 million. Our people were committed to growing the company—but we risked becoming a company where the best people in the industry wouldn't want to work.

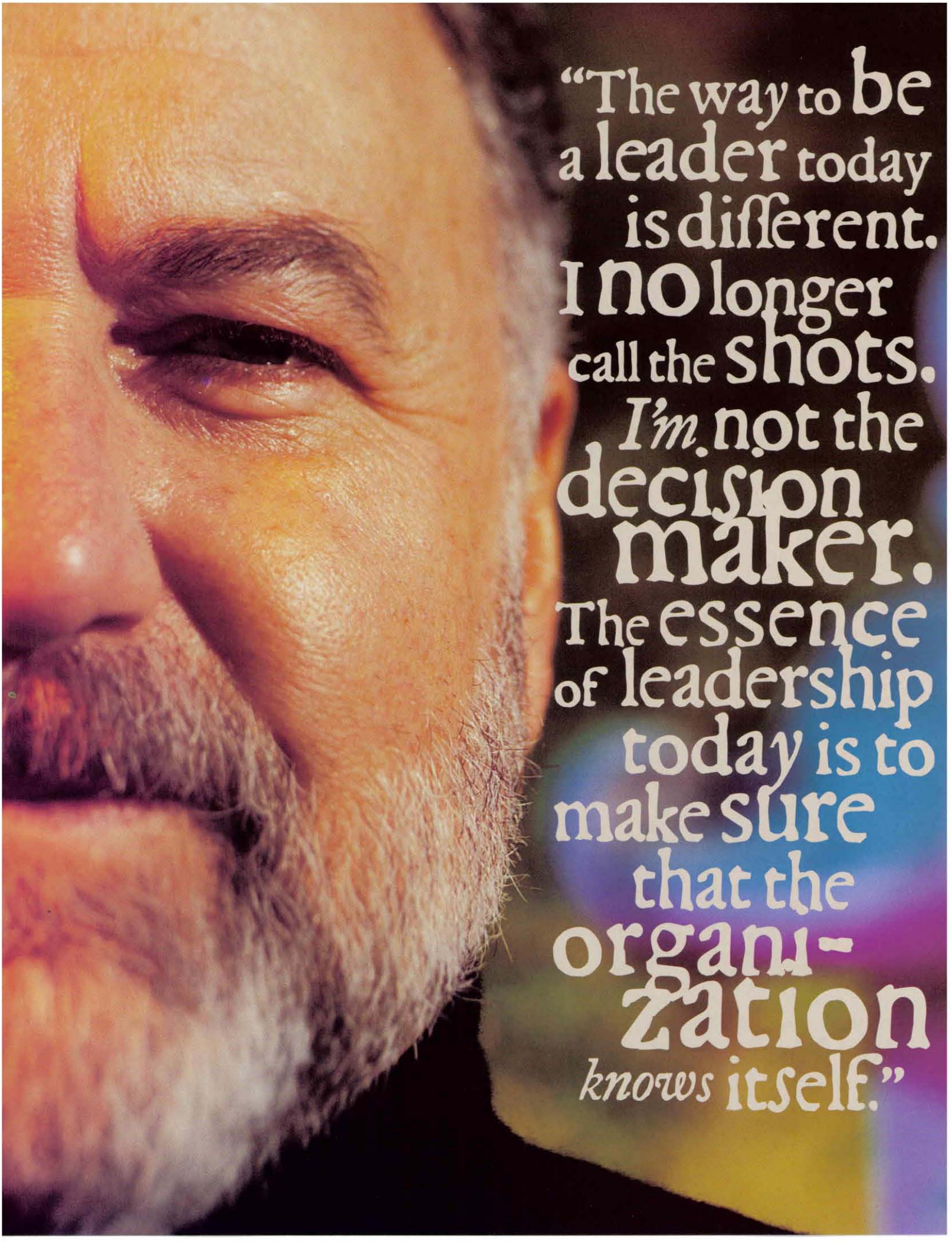
For example, I listened to some of our senior leaders talk about how they handled people on teams who didn't perform. I heard talk of "drive-by shootings" to "take out" nonperformers; then they'd "drag the body around" to make an example out of them. They may have meant it only as a way of talking, but I saw it as more: abusive language that would influence behavior. Left unchallenged, these expressions would pollute the company's culture.

The first moment of truth came when we held a three-day off-site meeting in Phoenix, Arizona with the top 12 leaders in the company. We had to decide the fundamental purpose and character of Perot Systems: Were we here *only* to create a successful Initial Public Offering (IPO)? Or were we here to build a great company? And if it were the latter, were we bold enough to review everything we'd done—and then reinvent the company?

We decided that, as much as we wanted to do the IPO, we *had* to build a great company. And we concluded that this wasn't just "feel good" talk—it was a serious business proposition. We had to launch a transformation of Perot Systems. It was a decisive moment, but none of us truly knew what we had begun.

We convened meetings of the top 100 people in the company and asked them long lists of questions: How did they feel about the company culture? What was their evaluation of our top executives? What were their feelings about our customer relations? The answers were a laundry list of horrifying bad news. Our people were angry, frustrated, irritated, deeply unhappy. If our company were entered in a 100-yard dash, I concluded, we were beginning the race from 50 yards behind the starting line.


"I used to take enormous pride in the fact that I was instrumental in getting a lot of equity into the hands of people at EDS. What I realized after I left was that I had also made a lot of very unhappy people."
PHOTOGRAPHS BY NEAL FARRIS


"The way to be a leader today is different. I no longer call the shots. I'm not the decision maker. The essence of leadership today is to make sure that the organi-zation knows itself."

We set up teams to address these concerns and then reconvened the top 100 to ask them, again, how they felt. We got the same answers. We initiated a companywide program to teach us how to disagree with each other without tearing each other down. I attended the seminars three times; all our company leaders in the United States and Europe participated; and we extended it down into the ranks, so that today two-thirds of the entire company has been through the course.

During these seminars, we identified people who were abusive. We coached them and took them through a personal reinvention process to show them new ways of leading. These were high-ranking company officials who had generated significant business, met or exceeded their financial goals—but simply mistreated their people. Not all of them could convert. Those who couldn't change, we asked to leave. We gave them fair and extended compensation; we didn't strong-arm them out the door; and we tried to keep communications open with them. We simply told them that this wasn't a company that was right for them.

In all, several dozen people, ranking from project leader on up, left Perot Systems. This one difficult step made us a better place and a better competitor. Our people looked at what we'd said and then at how we'd handled those who'd left and saw that we walked our talk: we did ask them to leave, and we didn't treat them abusively in turn.

We involved top leaders and associates throughout the company in a discussion of our values and work styles. Finally, after nearly a year of internal conversation, we arrived at statements that we could all agree on. All of these efforts—the emotionally charged meetings, the constructive contention seminars, the drafting of our company values—produced a genuine transformation. We started to behave like a company whose people not only focused on day-to-day business and economic performance, but also concerned themselves with the well-being of the people on their teams and the concerns of their customers. We were becoming a company where the larger issues of life were as important as the demands of profit-and-loss performance.

My approach to compensation also changed. We still tell people we'll give them everything we can in the way of financial rewards. In fact, more than 60 % of our company is owned by the people who run the company. So if we go public someday, we'll still make a lot of our people very rich.

But we will have done it without having first made them miserable—by offering them another dimension they can't get in most other high-performance companies: a human organization. If any of our people has an interest outside the company, we will encourage and support them; if they have needs outside the company, we will recognize them.

For example, rather than contributing corporate money to charities, we encourage our people to contribute their own time to a cause they believe in. Very simply, we don't believe in "write a check to charity." Instead we have an office that helps our employees carry out their own contributions to the community—helping at a senior center or an orphanage, or teaching English-as-a-second-language in the afternoon at a local school.

Inside the company we apply the same set of values. Business-the-old way told people to leave their personal problems at home. Now we make it clear that personal issues are our issues as well. Not long ago, one of our sales executives had a child born with a hole in its heart. Through e-mail, I knew about that child within four hours of its birth. Within eight hours we had a specialist working with the infant. The child will now be able to lead a normal life. Our company made that happen because it was the right thing. It's not the only kind of thing we should do—but it does represent what we should be, the kind of feeling our company should create.

To Be Successful, Do You Have to Punish Your Customers?

I had the same kind of question about our customers as I did about our people. Looking back on my years at EDS, I was absolutely convinced that we produced real value for our customers that exceeded what we charged them. But I also had to acknowledge that all too often, our relations with customers were unnecessarily strained and difficult.

Of course we delivered what we promised. But there were two problems: we made sure we won virtually every negotiation that decided what would be delivered; and our tone was often paternalistic, almost condescending. Customers felt like they were outgunned at every turn. Too often we made them feel incompetent or just plain stupid—after all, they had called us to bail them out of trouble, hadn't they? I left EDS thinking not that our aims had been wrong or dishonorable, but that the way we had pursued them—in truth, the spirit with which I had led the company—had ultimately diminished both our own organization and our relations with customers.

It wasn't until I had been out of EDS for a year, consulting to several other companies, that I began to get a clear line of sight on this question. As a consultant, I watched other vendors sell their products, many of which were the same ones I had sold. This time, I listened to their presentations with the ears of the purchaser. And what had sounded good when I was on the pitching side didn't sound so authentic from the receiving side. It sounded arrogant, rigid, and high-handed.

I had to acknowledge that at EDS I had encouraged that attitude—it was a reflection of my own approach to leadership. To be a leader at EDS, you had to be tougher, smarter, sharper. You had to prove that you could make money. You had to prove that you could win at negotiations every time. I used to pride myself on my negotiating skill. I made sure I swept the table clean of every loose penny that was around. It never occurred to me that winning big could be a negative thing. At the time it felt great: business is a competitive sport, and I just cleaned the table!

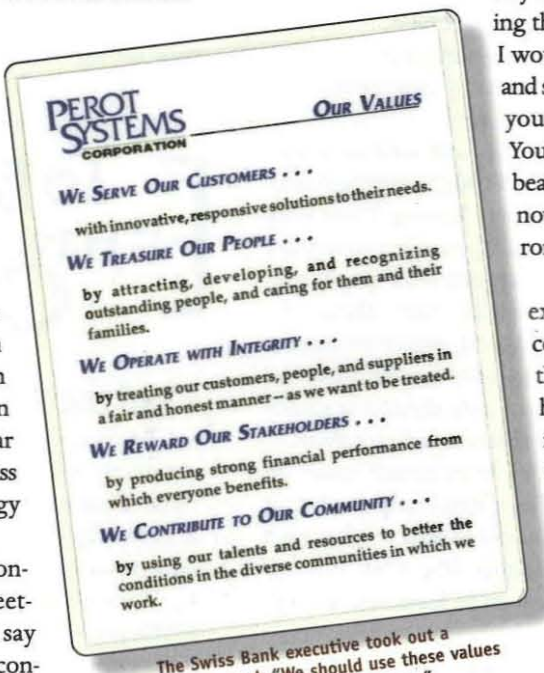
But you can overplay that hand. A company culture that isn't satisfied with winning but also needs to dominate, that isn't content with getting great results but also has to eliminate everything in its path is fundamentally destructive—and ultimately self-destructive. After I left EDS, I learned that sometimes it's better to leave something on the table. Sometimes you do better if you leave people with alternatives. You do better if your customer or your competitor doesn't feel taken advantage of. You do better, in fact, if your customer feels like your partner.

Here again, at Perot Systems, I turned to the compensation system to help us live the lesson. We use 360-degree evaluations for our people—asking boss, peers, and subordinates to participate—and always include input from our customers. We also ask our customers to give us report cards—and then we temper bonuses based on customer ratings of how well we support their needs.

But the lesson really struck home when I went to Switzerland recently to put the finishing touches on our strategic alliance with Swiss Bank Corp. It's the biggest deal in the history of our company, a hybrid relationship that goes beyond the bank simply outsourcing its information technology. We are partners. They have an option to own shares in Perot Systems; we have a stake in their information technology subsidiary in Switzerland; together we agreed to a 25-year relationship that transfers management of Swiss Bank's corporatewide information technology infrastructure to Perot Systems.

To brief their own people on this relationship, the top leaders of the bank called a meeting. My only role was to be introduced and say a few words. Almost all of the meeting was conducted in German; finally, at the end, to introduce me, they switched to English. In this first public introduction, what they chose to talk about was our values and our approach to partnering.

At the end of the introduction, the senior Swiss Bank executive took out a Perot Systems card with our values and said, "Five years from now, when we look back at our partnership, we should use these values to judge how well we've done." That one introduction convinced me that what we're trying to do is very powerful and knows no cultural bounds.


PEROT SYSTEMS CORPORATION

OUR VALUES

WE SERVE OUR CUSTOMERS . . .
with innovative, responsive solutions to their needs.

WE TREASURE OUR PEOPLE . . .
by attracting, developing, and recognizing outstanding people, and caring for them and their families.

WE OPERATE WITH INTEGRITY . . .
by treating our customers, people, and suppliers in a fair and honest manner -- as we want to be treated.

WE REWARD OUR STAKEHOLDERS . . .
by producing strong financial performance from which everyone benefits.

WE CONTRIBUTE TO OUR COMMUNITY . . .
by using our talents and resources to better the conditions in the diverse communities in which we work.

The Swiss Bank executive took out a Perot Systems card: "We should use these values to judge how well we've done."

The Three Jobs of the Leader

We should never lose sight of the fact that we're in business to create a first-class organization and to survive. That's what businesses are supposed to do.

At the same time, we need a more expansive definition of victory. There's a much larger calling in business today than was allowed by the old definitions of winning and losing. One hundred years from now, we'll know we were on the right track if there are more organizations where people are doing great work for their customers and creating value for their shareholders. And raising their children, nurturing their families, and taking an interest in their communities. And feeling proud of the contributions they make. These are things you can't measure when winning and losing are only financial metrics.

It's taken me a while to learn these things. When I returned to Perot Systems, my first job as a leader was to create a new understanding of myself. I had to accept the shattering of my own self-confidence. I couldn't lead anymore, at least not in the way I always had. There was a time during that first year at Perot Systems when I would go home and look in the mirror and say to myself, "You don't get it. Maybe you ought to get out of this business. You're like a highly specialized trained beast that evolved during one period and now you can't adjust to the new environment."

I told myself I was having the same experience as a caterpillar entering a cocoon. The caterpillar doesn't know that he'll come out as a butterfly. All he knows is that he's alone, it's dark, and it's a little scary. I came out the other end of the experience with a new understanding of leadership. I don't *have* to know everything. I don't *have* to have all the customer contacts. I don't *have* to make all the decisions. In fact, in the new world of business, it can't be me, it shouldn't be me, and my job is to prevent it from being me.

In my early days at Perot Systems, people came to me and asked for "the plan." When I told them, I don't know the plan, they got angry with me. All I would say was, I don't know the plan. If that disqualifies me from being a leader, then you'd better go get another leader. We're either going to figure out the company's future together or we're not going to do it at all.

I made it clear that there were a whole set of things that I couldn't do—and that for the good of Perot Systems I wouldn't do. I couldn't get us into businesses or out of businesses. I couldn't set the company's strategy, delineate the company's tactics, or write the field orders for our competitive battles. I couldn't decide what products to launch. I couldn't be that kind of leader. I could do that in the old days at EDS because the competition was stable and I had overpowering knowledge. If I tried to do that today, I'd make every wrong move in the book. The way to be a leader today is different. I no longer call the shots. I'm not the decision maker.

So what is my job as a leader? The essence of leadership today is to make sure that the organization knows itself. There are certain durable principles that underlie an organization. The leader should embody those values. They're fundamental. But they have nothing to do with business strategy, tactics, or market share. They have to do with human relationships and the obligation of the organization to its individual members and its customers. For example, our most controversial value—the one that was narrowly approved—speaks to our commitment to the community. It was also the one I argued most heatedly for. And today, it's one our entire organization supports fervently.

The second job of the leader is to pick the right people to be part of the organization and to create an environment where those people can succeed. That means encouraging others to help develop the strategy and grow the philosophy of the company. It means more collaboration and teamwork among people at every level of the company. I am now a coach, not an execu-

My Intro to Leadership Course

In 1967 Ross Perot gave me my intro to leadership course at EDS. I had just joined the company in January 1966 and already I was going to Ross about once a week with a new way I thought we should change things. He rejected every idea. He even wondered outloud if I belonged at EDS. Finally he offered me a chance to be the leader of a five-person project, working with Blue Cross and Blue Shield of Texas on a system that processed Medicare insurance claims. This was Ross's original customer, the client he had had when he was with IBM before he founded EDS. That told me it was highly important; I assumed that this was the test. At the time I didn't know the reason there was an opening for a project team leader. Much later I learned that the five people on the project had told Ross that if he didn't remove the project leader they were all going to quit. Nobody told me that. But it was clear when I walked in the door and announced I was the new team leader, I had entered a tense situation. One of the team members told me that he was 10 years my senior, had already been on the project a year, and that he should be the team leader. Why was I even there?

EDS DIRECTORS IN 1969: MORT MEYERSON AND ROSS PEROT (FRONT ROW, FAR LEFT AND RIGHT)

Somehow it worked. This project was the first of its kind. We developed a brand new system in a brand new language working with a brand new computer in just 90 days: over one year's work crammed into 3 months. In the process we took project revenues from $16,000 a month to $400,000 a month. We took it from a breakeven project to 80% pretax profitable.

That began my training as a leader at EDS. Then in the summer of 1967, Ross gave me the two-week crash course in sales and leadership. We had a major opportunity for a contract with Blue Shield to process their Medicaid claims. It was my project to lead. But I didn't know the first thing about putting together a proposal.

I went to Ross and asked him: How do you price a contract? He said, "Why don't you go back and make a proposal, figure it out, and then sit down and give me the options?" The next week it was time to present it to the customer. I'd never done that either, so I asked Ross: How do you present this? He said, "Why don't you go make an outline and then come back and show me your proposal?"

So I did. Then the day came to meet the customer. At 8 a.m. I went to meet Ross so we could make our 9 a.m. meeting with the customer. When I got there, Ross's secretary told me he had left town. I had never met the customer. I had never made a sales pitch in my life. But I didn't have any choice. When I sat down in front of the customer's executive vice president, I was so scared I literally couldn't talk.

Fortunately, the manager of the customer's unit I'd been working with sat next to me. I had a written offer in my hand, and he took it away from me and started reading the proposal aloud. In an act of charity, the executive vice president listened to the offer and then asked me a question about the technology. I was very comfortable with the technology, so I could answer that. Finally I loosened up and at the end of an hour the executive vice president signed the contract.

Within three years we took the 5-person group I was leading and grew it to 1,500 people. That became the health care business of EDS—at that time the financial engine of the company.

In 1979 I became president of EDS. It was roughly a $200 million company. Five years later we reached $1 billion in revenues. That same year General Motors suggested that they buy us for $2.5 billion; the deal was closed in October 1984. I was the lead manager for the next two years when EDS went from $1 billion in revenues to $4.4 billion. So I went from managing 5 people in 1967 to managing 45,000 people in 1986. When I left EDS, it was the largest computer services company in the world.

The Two Faces of EDS

At its best, the EDS I helped create was both fiercely competitive and instinctively collegial. At its worst, we gave way to our young, male, military model. Two stories illustrate what I mean.

Tom Walter was the head of systems engineering when I joined the company. He was about the twelfth person in; I was number 54. I worked indirectly for him—about six lines down. Early on, Tom and I got into a scuffle over technology. It was a silly argument. But it set the tone for the way things would be between us. We became internal competitors. Then one day our interactions took a new turn. I was giving a presentation inside the company. When I was done, I was sure it was the best presentation I'd ever given.

Afterward, Tom quietly pulled me aside: "Maybe you should think about removing about three-fourths of the 'I's from your presentation. It gives people the impression that you're an egomaniac—and I know you're not." I reran the presentation in my head and Tom was right. He had found a way to criticize me in a constructive way—even though we were corporate competitors.

Years later, Ross asked me about Tom: "Tom is one of the smartest and best people I know, but he's not getting much traction where he is. Should we move him?" I suggested that Tom become the CFO, even though he didn't have the formal credentials for the job. Tom became CFO and shortly thereafter I became president—and for the next eight years, Tom was my closest adviser and confidant.

But there was another episode that showed how things could sometimes get out of hand. It was 1967 and I was running the team implementing Medicare claims processing. There were about 50 people on the team, and we were under an enormous amount of pressure, working 18-hour days.

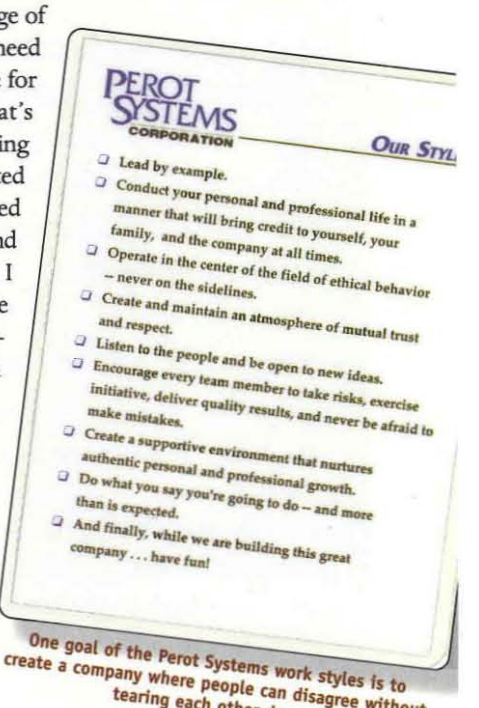
We were racing the clock to get the project done before the first of the year. One day in December it snowed. Everybody made it in to work—except Max. At 10 a.m., I called Max's house and I was all over him. His absence that day, I said, meant that he wasn't on the same page as the rest of us. After we had this run in, Max took the first exit out of the company he could find.

As it turns out, the Max on my team was Max Hopper: after EDS he went to work for American Airlines, where he invented SABRE, which revolutionized the airline reservation system. I saw Max not long ago. It was very friendly and warm. We didn't speak of the old incident in our EDS days—but it was on both of our minds. We reconciled without any explicit reconciliation.

Looking back on the boot camp mentality that we used to shape leaders, I see how quick I was to judge others. Today I believe that leaders need to be good at psychology—starting with self-knowledge. Leaders today can't be manipulators, not even slick manipulators. They have to be genuine. They have to have gotten over their own internal hurdles.

tive. When people ask me for a decision, I pick up a mirror, hold it up for them to look into, and tell them: Look to yourselves and look to the team, don't look to me.

The third job of the leader is to be accessible. I want to be open to people in a broad range of their experiences in life if they need it, and I want to be accessible for two-way communication that's honest, open, and direct. During my years at EDS I communicated the way most CEOs do: I showed up on stage every six months and delivered a pep rally speech. I wrote memos that went to the top dozen people in the company and had meetings with them every two weeks.


PEROT SYSTEMS CORPORATION — OUR STYL

- Lead by example.
- Conduct your personal and professional life in a manner that will bring credit to yourself, your family, and the company at all times.
- Operate in the center of the field of ethical behavior – never on the sidelines.
- Create and maintain an atmosphere of mutual trust and respect.
- Listen to the people and be open to new ideas.
- Encourage every team member to take risks, exercise initiative, deliver quality results, and never be afraid to make mistakes.
- Create a supportive environment that nurtures authentic personal and professional growth.
- Do what you say you're going to do -- and more than is expected.
- And finally, while we are building this great company . . . have fun!

One goal of the Perot Systems work styles is to create a company where people can disagree without tearing each other down.

Today I travel with my laptop and get e-mail from all over the company. I get thousands of messages per month, some of them trivial, many important. Everyone in Perot Systems knows they can e-mail me and I'll read it—*me*, not my secretary. Electronic mail is the single most important tool I have to break through the old organization and the old mind-set. E-mail says that I'm accessible to anyone in our company in real time, anywhere. I am an instant participant in any part of the organization. No more dictating memos that get scrubbed before their formal distribution to the corporate hierarchy. Now, when I hear about a win in a hotly contested competition, within an hour of the victory I'm sending out congratulatory e-mails to our team members around the world. The impact from that kind of direct communication is enormous.

And I'm accessible on issues and concerns that transcend the traditional boundaries of work and the company. Not long ago, for example, I got an e-mail message from one of our new senior associates. The news was urgent: his father-in-law had just been diagnosed as having cancer and he was going off the Net for the next two days. I e-mailed back immediately that the company would stand behind him any way we could. The next day I got another e-mail message: it was worse than they had thought; they were in a small Texas town, and they didn't know who to go to for help. I e-mailed back with the name of a doctor at Southwestern Medical School who referred them to the best help they could find.

Today I tell the people in Perot Systems that this is the path that we have chosen. It's the path we'll all be on for the rest of our lives. It has no destination. There is no sense of arrival. It's a continuous process.

In a world where the lines between companies, industries, and even nations get blurred, a leader builds an effective organization around values and work style. And a leader learns to define success in business as both producing financial strength and generating a team of people who support and nurture each other. ✦

MORT MEYERSON (MORT.MEYERSON@PS.NET) IS CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF DALLAS-BASED PEROT SYSTEMS. HE JOINED EDS IN 1966; FROM 1979 TO 1986, HE SERVED FIRST AS PRESIDENT, THEN AS VICE CHAIRMAN.

Mort Meyerson joined Perot Systems Corporation as CHAIRMAN and CEO in 1992. HE previously worked for Electronic Data Systems for nearly 20 years, ending his career there as president. MEYERSON serves on the boards of General Instrument Corporation, Energy Service Company International, Inc., Safelite Glass Corporation, Ziff-Davis Publishing Company, Crescent Real Estate Equities, Inc. and Stream International, Inc.

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