

Hassan: "You cannot succeed as a company of 60,000 people if you have a tribal culture. You have to have a company culture."



Fred Hassan, President & Chief Executive Officer, Pharmacia Corporation

Making culture a strategic asset

Openness, transparency and sharing resources do not always occur naturally in a large corporation, particularly one created through a merger. But these and other "positive behaviors" are critical to success, says this executive. Having presided over post-merger transition twice at the same company, he should know.

In 1997, when Fred Hassan left the number two spot at American Home Products Corporation to take the helm at foundering Pharmacia & Upjohn, people scoffed. "Only a miracle can save this company," one analyst wrote.

Hassan didn't work a miracle—he just reorganized the company, moved its headquarters to New Jersey, got people to work together and in the process engineered an impressive and widely applauded turnaround.

Three years later he roused another chorus of naysayers when he consummated a dramatic \$37 billion merger with Monsanto (the new company is called Pharmacia Corporation). Although it's still early going, Hassan seems on course to beat the odds and confound the skeptics again.

It's a truism that many mergers fail to deliver promised results. While academics debate the reasons why, Hassan has defined five key behaviors that he believes are essential to bringing companies together effectively: shared accountability and transparency; participative management; continuous improvement; listening and learning; and coaching and skills development. In the fall of 2000 he sat down with *Outlook* Senior Contributing Editor Greg Millman to discuss his

two recent mergers and how he used his behavioral approach to management to make them successful.

Outlook: You took a big risk a few years ago. Leaving American Home Products for Pharmacia & Upjohn surprised many people.

Hassan: People questioned my judgment. They were expecting that I would be the next person to lead American Home Products, a large company, doing well, growing nicely. Why would I leave that opportunity for a company in a downward spiral and full of internal division and politics?

Why indeed?

Because that's the way I am: I've always had a sense of adventure. I thought that this could be very exciting. Not only was the company in very serious trouble, it was also in danger of being the target of a hostile acquisition.

What had to be done first?

You can stabilize such a situation if you establish your authority quickly. When there is chaos or division, somebody has to say, "Now wait a minute: We are one company, and we're going to make it on our own and go somewhere."

So I immediately started visiting different sites and talking to groups who were not working well together. That had a very positive effect in building a sense of stability, so that people could at least start to work on mending some of the problems that had developed.

What sort of problems were you addressing?

[Pharmacia] was a European company that did not have a very cohesive culture to begin with; [it was] the product of a merger between [a] Swedish and [an] Italian company. And it was merging with Upjohn, a very conservative company from Kalamazoo,

Michigan. They came together because both were outliers in a consolidating industry, and they both had roughly comparable market values before the merger. So a merger of equals was the logical way to survive. On paper it all made a lot of sense.

But it wasn't working.

The issue was the execution of the merger afterwards. More than half of mergers fail, not because they were badly designed or conceived mergers, but because there are a lot of forces that are working against you when you go into a merger, and if you don't work hard to overcome the forces, chances are that you're going to fail.

In this case [the] forces of division and separation were stronger than the ability of management to pull it together after the merger. Sales were declining, costs were being cut aggressively in order to make up for declining sales, and the cost cuts were further adding to sales declines. It was a downward spiral—a desperate situation.

How did you fix it?

Within nine weeks after I arrived, in my first meeting with the board of directors, I told them that the company would not survive unless they built a strong central headquarters to pull the whole thing together. Three separate centers—in Kalamazoo, Michigan; in Milan; and in the Stockholm area in Sweden—were competing as headquarters with yet another "corporate center" set up in the U.K. But these three centers started to compete with each other; it was almost as if they had an allergic reaction to each other.

I got the board to agree to let me dismantle these three regional companies, and to create a new headquarters in our largest and most important market, the U.S. So in 1998 we created a single, strong headquarters here in

New Jersey. And we created some very strong central functions at this new center for the company.

For example?

The legal department became accountable to one person at the center who reported directly to me; the financial department became accountable to one person at the center who reported to me; human resources, likewise. We started to pull the company together through this globalized approach. In the process many people dropped out of the company because they were not going to work with this new system. And we had to bring some new people in to help us take the company forward in light of the new structure.

What happened next?

In the pharmaceutical industry we have an imbalance. The U.S. is the only free market in our industry. If you cannot get your innovations to succeed in the U.S., you're going to fail as a global company.

And we were not succeeding; in fact, our US sales were declining even though industry sales were growing in the double-digit range. If the center is not on the ground in the market that matters the most, then it's hard for the center to influence the operations in that market. So we relocated global headquarters to the U.S. and pulled the US operation into the new central location in New Jersey.

The result?

This raised some eyebrows. But the next year the US operations registered double-digit growth, and that by itself made the whole company turn around to double-digit growth.

Where did your ideas about behaviors and culture change enter the picture?

I put basic issues out on the table from the start. For example, shared accountability and transparency was

on the table as soon as I arrived. I do not believe in silos or fiefdoms. And the fact that I moved on the fiefdoms nine weeks after I arrived was a very clear statement to the whole company that shared accountability and transparency is the way we're going to go in the future.

For example, we centralized the research and development management. But at the same time we created systems and processes to overcome the typical silos of a big pharma company, where R&D and marketing and sales often don't talk much to each other. This encouraged all these units to collaborate with each other in a very open and effective manner.

Why?

It takes about 15 years from the time a molecule is synthesized to the time [a new product] is actually brought to the customers. During that time there is constant change in the product's profile, depending on the emerging scientific observations. Meanwhile, the customer requirements change, the competitive landscape changes.

So a lot of resources get wasted in the industry if research does its own thing and then just does a handoff over the wall to marketing, which does its own thing and then does a handoff over the wall to sales. We insisted on an open atmosphere so that marketing knows about projects earlier on and is part of the decision-making apparatus. And likewise, research and also sales are involved in all the key stages. It is intensely collaborative.

Could you give an example?

Our new antibiotic, Zyvox. Antibiotic-resistant bacteria is becoming a public health problem in many countries, and Zyvox has a whole new mode of action that is effective against this problem—as well as with a whole array of serious bacterial infections.

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When I went out to Kalamazoo in 1997, I came across this product in the research silo. The European colleagues had no interest in this product—it was a US product as far as they were concerned. By centralizing and globalizing research, we were able to take the combined research budget and put more money [behind] this product.

We developed the profile for this product on a global basis, not just for the U.S., and sped the movement of the product through the system to get it on the market very quickly. At the same time, we were able to improve the value added by studying different infections, so when it hit the ground in the U.S., it came in with six separate approvals for different infectious diseases. Had the marketing people not been working intensively together, all this good stuff would not have happened.

Did you encounter any internal resistance to your insistence on new behaviors?

Sharing resources, openness, transparency—all that goes against the normal territorial instincts that exist among human beings. Most companies have to battle this problem.

But when we look at our company today, I see the positive behaviors helping us in many areas. For example, when there's a sales meeting, the marketing people are there to directly present their products to the sales forces, as opposed to leaving that interpretation to sales management.

How do you encourage this kind of behavior?

I convinced the board to let me [base] 35 percent of the annual incentive for senior management [on] their contribution to helping build this new culture. Incentives are typically paid based only on how much you add in sales and how much you add in earn-

ings. But we altered that so that 35 percent comes from behavior.

How do you measure behavior?

We monitor it primarily by talking to a lot of people. We also have quantitative approaches such as a 360-degree feedback survey. But my own feeling is that this is where the soft side of the enterprise really matters. We certainly look at the quantitative measures of behavior in how people see each other. But in the end you know when somebody is playing on the team or if they're not playing on the team.

Don't you sacrifice talent by insisting on this sort of uniform behavior?

What do you do with the genius no one understands, who seems completely at odds with the culture, and yet is brilliant?

That's a good point. I think I tend to draw a bigger circle around people of that type and give them more room, because you can't stifle creativity.

We try to give those who have that very special dimension more protection from the organization, and have a much higher tolerance for behavior variations with those kinds of people. Especially in the science areas, where you have the discovery process, one has to allow a broader variation in behavior, or it might actually reduce the productivity or the creativity of some people.

How do you personally try to reconcile the needs of creative people with the business needs of the company?

I have counseled even the most brilliant scientists: "There is no question that you are very bright and you've got great ideas and you're a great scientific leader. But how much stronger a leader would you be if you would listen and learn a little more? Because you're not learning much while you're talking, you're learning more while you're listening."

Nowadays the pharmaceutical industry is so complex that an individual person with a great idea is not enough. Let's say a discovery scientist comes up with a new hypothesis that a gene variation causes a certain disease. That may be a brilliant hypothesis and the basis for a great scientific paper in a science journal, but you are still 15 years away from a drug at that point.

If you don't have some of these behavioral characteristics helping you to move the process forward, you would have chaos. You have to have a lot of teamwork and a lot of discipline to make this work.

How are you folding Monsanto into this culture?

When we went into this merger, we already had the benefit of many merger experiences. So we spelled out these basic cultural traits very early, even before the merger was closed. We said, "This is the way this company is going to work going forward. If you want to be part of this company, please come forward. If you don't want to be a part of this company, you have your own decision to make." And some people made a decision and did not want to join the new company.

Why not?

I think a lot of people want to do their own thing with their own silo. Silo-based working goes back to the earlier origins of human beings. People like to work in small tribes, and everybody wants to be the chief of something small. And that's fine, but you cannot succeed together as a company of 60,000 people if you have a tribal culture. You have to have a company culture.

Are you succeeding?

We're now eight months into the merger [as of mid-November 2000].

We have delivered all the quantitative targets that we were going to deliver; we have reduced costs and increased sales; our earnings are up 30 percent on a year-to-date basis; our stock price is up 60 percent on a year-to-date basis. Our cultures are coming together very nicely—there is minimal infighting and bickering, and people basically know what the sense of direction is for the company.

Do you think your approach can be successfully emulated?

I know that if you set the right rules of behavior going in, there is a very high probability that, assuming the overall parameters of the merger were good, you're going to have a successfully executed merger. And that's happening now in this case, just like it happened with the turnaround at Pharmacia and Upjohn.

So for me, this is a formula that works. And I also believe that the same formula would work in any complicated organization in the private sector or the public sector.

How deep does this culture go into the organization?

It is absolutely a must at the senior management level. The top management team has to understand the rules of behavior and be committed and show it to their people. If that's not happening, then they don't belong to the top management team. That was one of the problems we had in the old Pharmacia and Upjohn merger: The signals were not coming from the top about expected rules of behavior.

So we had a very important meeting six months after the Monsanto and Pharmacia & Upjohn merger. We brought the top 450 people to the same site to show how behaviors helped us get good results. And that had a very important effect. We've gone through the first wave of change in the first 10

months since the announcement of the merger in December [1999].

What happens now?

We're entering the second wave of change, which is going to last another 15 months. And during this period we want to get the rules of behavior established, right down to the firing-line level. We're doing it in a very systematic manner, and we're doing very well with it.

It's important that supervisors internalize it before they're asked to pass it down to the next level below them. That's why we have to be patient with this cascading process.

But it's an absolute basic that if you're going to be on the senior management team, you've got to be good at this, or you're not going to belong. We cannot allow destruction to occur through personal agendas. ■