BOARDS IN CHALLENGING TIMES: EXTRAORDINARY DISRUPTIONS

Leading through complex and discontinuous challenges

**ALVAREZ & MARSAL
and
HENLEY BUSINESS SCHOOL**

JOINT RESEARCH PROGRAMME ON BOARD LEADERSHIP

Steering Group
Sir Peter Gershon (Chairman): Chairman of Tate & Lyle and National Grid plc
Mark Clare: Former Group CEO of Barratt Developments plc
Mark Gillett: Global Head Value Creation, Silver Lake
Stephen Hester: Group CEO of RSA Insurance Group plc
Malcolm McKenzie: Managing Director, Alvarez & Marsal
Professor Andrew Kakabadse: Henley Business School

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FOREWORD

Much of our established management thinking and research is based on companies operating in a steady state environment or one of incremental change. Businesses are increasingly facing extraordinary disruptions and the growth in shareholder activism will impose greater accountability for how leaders address these issues.

Since the financial crash, we have all seen examples of firms that were unable to respond satisfactorily to major disruptions. Well-proven leadership approaches are often less appropriate in these situations, and many management teams are unsure about the best approaches to identify and then respond to these challenges.

I am therefore delighted that Alvarez & Marsal, in conjunction with Henley Business School, have developed some very practical guidance for leadership teams, as well as established a set of core disciplines to increase the chances of successfully navigating through major disruption. I think many Boards will find valuable guidance and practical check-lists in this research, and I trust that it helps make a difference to U.K. business.

The research received generous input and support from over 70 Executive and Non-Executive Board Members, which I see as testament to the importance they attach to this area as well as indicative of the lack of robust research and practical guidance in this area.

Finally, I would very much like to thank the eminent Steering Group that I have been pleased to chair to provide guidance into this study, including Mark Clare (former CEO, Barratt Developments plc), Mark Gillett (Managing Director, Silver Lake Partners), Stephen Hester (Group CEO, RSA Insurance Group plc), Malcolm McKenzie (Managing Director, Alvarez & Marsal) and Professor Andrew Kakabadse (Henley Business School).

Sir Peter Gershon

ALVAREZ & MARSAL

INTRODUCTION

The focus of this research is to understand how Boards address complex and discontinuous challenges. These challenges are unique rather than routine, involve multiple internal and external stakeholders, are triggered by major internal or external events and have no obvious solution. These challenges are in effect extraordinary disruptions, with recent examples including Volkswagen, FIFA and the sharp decline in oil prices. They could be instigated by new entrants, senior conflicts or misconduct, a hostile bid, shareholder activists pushing for radical improvements or significant regulatory change.

Many Boards are arguably not currently equipped to deal with major or extraordinary disruptions and discontinuities and are often found to be unaligned with their management team and not effective in addressing the most pressing issues. Previous research has shown that as many as 30 percent of top management teams in the U.K., 39 percent in the U.S., and 56 percent in the Australian Public Service recognise that fundamental divisions exist within their top teams when considering future planning and direction.

This research by Alvarez & Marsal (A&M) and Henley Business School was conducted to eliminate this potential blind-spot and to provide critical insight into the challenges of extraordinary disruption from the perspective of Board Members. How to lead in times of extraordinary disruption has been much neglected by extant research, in favour of more incremental and evolutionary change. The report seeks to address this research gap and builds upon prior studies conducted by both A&M and Henley Business School, as outlined in greater detail in Appendix 1.

The research involved detailed discussions with over 70 Executives during an 18 month period. We initially conducted a series of in-depth, face-to-face, semi-structured interviews with Board Members holding a variety of roles during extremely disruptive events. These totalled 75 cases in over 50 companies, of which 80 percent had revenues of over £1 billion (Appendix 3) spread across multiple countries. In addition, we engaged another 20 Board Members in round table discussions to validate aspects of the findings. We then undertook four detailed, attributable case studies to validate the initial findings, which involved discussions with a further 19 Board and Executive Members.

We would like to thank the participants for generously giving their valuable time and for providing such open and candid insight into the difficulties of dealing with major disruptions. We hope that the practical information contained within this report will help businesses to cope better with extraordinary events and contribute to their long-term success.

Malcolm McKenzie
Managing Director, Alvarez & Marsal

ALVAREZ & MARSAL

SUMMARY OF KEY FINDINGS:
Our research has identified the following nine key findings.

1. THERE ARE FOUR DISTINCT TYPES OF EXTRAORDINARY DISRUPTION

These categories were defined based on whether the disruption event is planned or unplanned, and from an internal or external source:

- **Transformational:** The disruption is planned and internal. Examples include turnaround, strategic transformation.
- **Reputational:** The disruption is unplanned and internal. Examples include fraud, misconduct, management conflict, product integrity and safety.
- **Hostile:** The disruption is unplanned and comes from an external source. Examples include credit crunch, hostile bid, cyber-attack, active investors.
- **Creative:** The organisation is itself the disruptor. Examples include start-ups disrupting established players.

Each type of disruption will demand a different style and source of leadership. Large disruptions can evolve from one category of disruption to another, for example from Reputational to Transformational Disruption.

2. BOARDS MUST BE STRONG ENOUGH TO "CALL OUT THE ISSUE" AT AN EARLY STAGE

Boards are often focused on the known risks to a business and therefore need to allocate the time required to identify the 'unknown unknowns'. They should be alert to blockers that impede the ability of Board Members to call out the issue, such as a powerful and successful CEO, a weak Chairman not voicing the concerns of the other members or market pressures to go in a particular direction which ignores the true problem.

Boards should also ensure enablers are in place to help call out the issue including establishing a board culture that encourages open communication; involving experienced and independent Non-Executive Directors (NEDs); maintaining a balanced focus between the strategy / investment community and business operations and using board evaluations to uncover cultural blind spots.

3. EACH TYPE OF EXTRAORDINARY DISRUPTION WILL REQUIRE DIFFERENT LEADERSHIP SOURCES AND APPROACHES

When addressing extraordinary disruptions the Chairman and / or CEO overwhelmingly take on even more critical leadership roles.

In most unplanned situations it is often the Chairman who takes the lead. When the disruption is planned and requires strong execution, the CEO should often lead the response.

The research has also identified four leadership styles utilised by business leaders to address each type of disruption:

I. The Transformer for transformational disruption
II. The Rebuilder for reputational disruption
III. The Determined for hostile disruption
IV. The Entrepreneur for creative disruption

4. THERE ARE FOUR LEADERSHIP QUALITIES THAT MUST BE IN PLACE AS A PRECONDITION OF LEADING THROUGH EXTRAORDINARY DISRUPTION

Leaders need particularly high levels of emotional resilience, exceptional communication skills, and high levels of IQ, EQ (Emotional Quotient), XQ (Execution Quotient) and integrity. These preconditions are evident in most leaders but their importance and prevalence is amplified in situations involving extraordinary disruption.

5. LEADERS MUST MAINTAIN SEVEN CORE DISCIPLINES TO SUCCESSFULLY NAVIGATE EXTRAORDINARY DISRUPTIONS

Combining the following disciplines throughout an extraordinary disruption brings about a greater likelihood of success:

1. Ensure a constructive Chairman-CEO relationship
2. Articulate the purpose, take calculated risks and generate pace
3. Be evidence led
4. Maintain strategic alignment and engagement between the Board and management
5. Get the right people in place
6. Ensure effective stakeholder management (including political and social dimensions)
7. Use trusted, independent advisors

Specific combinations of disciplines best apply to different types of disruption. Leaders can develop proficiency in these disciplines and decide how to use an appropriate mix according to circumstances.

6. CONVENTIONAL GOVERNANCE PRESCRIPTIONS ARE NOT FIT FOR PURPOSE IN THE CONTEXT OF EXTRAORDINARY DISRUPTIONS

Whilst the U.K. Corporate Governance Code is based on principles, its application (and this is true of all codes around the world) can be prescriptive and designed for the incremental, rather than the extraordinary. This research indicates that, during extraordinary disruptions, governance guidelines are of limited help to leadership and may even be detrimental. As extraordinary disruptions are so unique and context-bounded, there is no 'one-size fits all' effective governance solution. The time commitment, agendas and roles of Board Members may change in response to disruptive events, and can often move away from established practices.

7. THE CEO SUPERMAN IS IN DECLINE: COLLABORATIVE AND CONTEXTUALLY INTELLIGENT LEADERS ARE IN DEMAND

During extraordinary disruption many leaders feel overwhelmed, emotionally challenged and sometimes unable to cope. In many ways tried and

trusted processes may be inadequate. It is essential to understand the drivers and context of the situation – leaders need to fit the situation. In most extraordinary disruptions significant collaboration with both internal and external stakeholders is required, as leadership will not hold all the answers.

8. THE ROLE OF THE CHAIRMAN BECOMES EVEN MORE CRITICAL AND PIVOTAL DURING EXTRAORDINARY DISRUPTION

The Chairman of the Board is often called upon to assume a stronger leadership role during extraordinary disruptions. Chairmen must draw on accumulated Executive experience and a skillset of 'finding bridges' in situations characterised by multiple stakeholders who can each influence the way forward. Furthermore, the Chairman is best placed to read the situation and set boundaries for the solution. The Chairman is often the catalyst for Boards to 'call out the issue' and has a critical role in maintaining strategic leadership and alignment in times of discontinuity and uncertainty.

9. THERE IS A SIMPLE PROCESS FRAMEWORK FOR SUCCESSFULLY NAVIGATING EXTRAORDINARY DISRUPTIONS

Research findings indicate that successful Boards follow a dynamic process in dealing with extraordinary disruption. We have presented this process in a framework divided into three stages; although in reality these may occur concurrently, see Exhibit 1.

Where possible it is recommended that each element of the framework is adequately implemented before progressing to the next stage. For example, firms often establish a directional response with the wrong leader in place, which may undermine the rest of the process.

EXHIBIT 1: A FRAMEWORK FOR SUCCESSFULLY NAVIGATING EXTRAORDINARY DISRUPTION
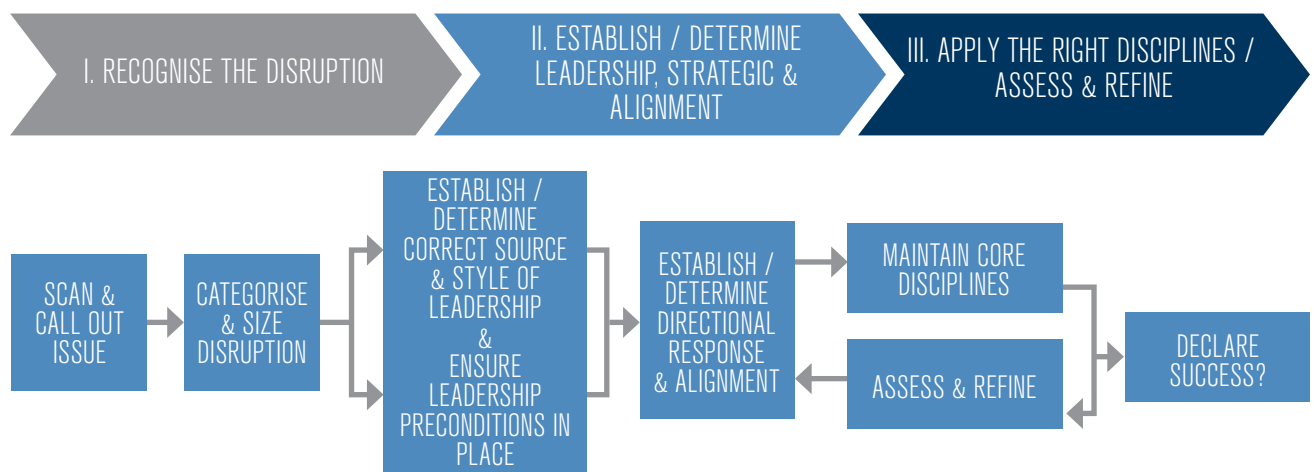
While this framework suggests a linear approach, in practice the process is dynamic and fluid, subject to the constraints and opportunities unique to the situation. The approach to respond to the disruption must be applied iteratively as action is taken and further evidence emerges. The disruption may change category with time, prompting the need for a change in directional response and source of leadership.

STRUCTURE OF THE REPORT

Extraordinary disruptions were classified into different categories. For each category the source of leadership and core leadership disciplines were identified and reviewed. As a result, a simple process framework incorporating seven core disciplines and four leadership preconditions has emerged that is consistent across a spectrum of disruptive events (see Exhibit 1). Our report is organised as follows:

- **Section one** outlines the first stage of the framework developed for dealing with extraordinary disruption, including guidance for scanning the horizon and calling out the issue;
- **Section two** presents the second stage of the framework and discusses the leadership source and style required for each type of extraordinary disruption as well as a number of leadership preconditions, and establishment of a directional response;
- **Section three** covers the final stage of the framework which outlines the seven core disciplines for effectively dealing with extraordinary disruption.

Four case studies have been developed to contextualise and exemplify the underlying theory of each section. Each one was chosen to emphasise one of the four extraordinary types of disruption:

CASE STUDY 1 - TRANSFORMATIONAL DISRUPTION

Explores how Thomas Cook plc confronted fundamental market changes within the tourism industry and successfully turned around the business between 2011 and 2013.

CASE STUDY 2 - REPUTATIONAL DISRUPTION

Explores how BAE Systems plc responded to allegations of bribery associated with the Al-Yamamah arms deal that caused significant reputational damage and threatened the future of the business.

CASE STUDY 3 - HOSTILE DISRUPTION

Explores how one of the U.K.'s biggest house builders, Barratt Developments plc, survived the freezing of the housing mortgage market and subsequent property downturn.

CASE STUDY 4 - CREATIVE DISRUPTION

Explores how Skype Technologies continued its success as a major market disruptor between 2009 and 2011.

Extracts from the case studies and a summary of the key learnings are provided as part of each section of the report. Full versions of the case studies are available on the A&M website www.alvarezandmarsal.com.

SECTION 1:
RECOGNISE THE DISRUPTION

Leading through extraordinary disruption is naturally both unpredictable and difficult. That said, there is one crucial step Boards must take to improve the likelihood of a positive outcome – they need to recognise the disruption. This is done by scanning the horizon, calling out the issue and ascertaining what size and scale of disruption the business is facing.

Our research suggests that successful Boards have a distinct ability to call out the issue. This means that effective Boards create an environment which allows and encourages Directors to raise and discuss uncomfortable and sensitive issues. Without this, action is unlikely to happen, and if it does it can often be too late.

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SCAN AND CALL OUT THE ISSUE

As a first step, it is necessary to scan the environment, talk extensively to people both internal and external to the company, and determine if and when to call out a disruptive issue. The issue must be framed in such a way that it can be debated by the Board. Leaders must also allow sufficient time to address the issue.

Although companies as a whole have become increasingly adept at scanning and calling out issues through dedicated risk management departments, Boards should seek to allocate agenda time to looking forward and identifying potential 'black swans.'

Many disruptive issues occur after long periods of success, which normally precludes leaders from calling out the issue. One Chairman described the feeling in the banking sector just before the credit crunch:

"There was optimism, 15 years' continuous growth, the world was a safe place and performance was at an all-time high. However…" (Chairman)

Success tends to produce feelings of invulnerability. It can often cloud leaders' objective thinking and awareness and muffle the pace and magnitude

of the response required to deal with unexpected events. As one NED observed:

"We need revolution not evolution." (NED)

Many of the issues may not be immediately apparent to those in Executive and Board positions. Boards should constantly scan the landscape both externally and internally. Internally, they should spend time in the business, engage employees and make them feel comfortable enough to express any reservations they may have with the business. Externally, they should use their experiences to discern broader issues and notify the company of anything they uncover:

"Board Members are business people from other businesses and from the outside world. Their obligation is to be that external reader of the horizon and then feed that into companies." (CEO)

"NEDs can really add value in the early stages by using their broader experience to spot the discontinuities." (CEO)

Common characteristics, both structural and procedural, can either enable or impede the ability of Board Members to call out the issue.

BLOCKERS	ENABLERS
A long-tenured, powerful and successful CEO	Maintain CEO and Chairman as separate roles
Chairman near retirement or ending mandate	Put in place an experienced Senior Independent Director (SID)
NED concerned more for their reputations than winning the battle	Ensure a balanced focus of attention between strategy / investment community and business operations
Weak Chairman not voicing NEDs' concerns	Regularly review board practices and behaviour before they become a blind spot; use board evaluations effectively
Market pressures to go in a given direction which ignores the true problem	

CATEGORISE AND SIZE DISRUPTION

Boards face different types of extraordinary disruption that require tailored approaches in terms of the source and style of leadership. As a first step, they must identify and size the particular disruption being faced.

Research participants discussed 75 cases of extraordinary disruption that they had encountered during their careers. Analysis identified and described four types of extraordinary disruption, depending on whether it was planned or unplanned, and taking into consideration whether the origin of the threat was internal or external.

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EXHIBIT 2: THE FOUR TYPES OF DISRUPTION EVENTS

	INTERNAL	EXTERNAL
UNPLANNED	**REPUTATIONAL DISRUPTION** Examples: Fraud cases, misconduct, management conflict, product integrity and safety	**HOSTILE DISRUPTION** Examples: Credit crunch, hostile bid, cyber-attack, active investors
PLANNED	**TRANSFORMATIONAL DISRUPTION** Examples: Turnaround, strategic transformation	**CREATIVE DISRUPTION** Examples: Start-ups disrupting established players

The following subsections provide a more detailed definition of each quadrant.

1. TRANSFORMATIONAL DISRUPTION

This type of disruption is planned and internal. Leadership develops a plan to turn around or transform the company in response to a performance challenge which means disrupting the existing structure, culture, systems and processes. Critical stakeholders are internal and there is a reasonable amount of control over potential outcomes.

Thomas Cook Financial Trouble and Digital Challenges

In 2012, Thomas Cook was facing an extraordinary disruption. Investors had lost confidence in the business and the share price had fallen from a high of 335p in mid-2007 to around 14p in July 2012.

The business was carrying significant debt (£1.2 billion of bank debt, £630 million of bonds and over £1.5 billion of "uncommitted" facilities) and producing poor profits (no EBIT post exceptional since 2010 and three profit warnings in 2011 as well as delayed results).

The root causes of these issues were both external and internal. By 2008, traditional tour operators were facing increasing competition and losing market share from online businesses in the digital space and from low-cost airline carriers. Then, in the late 2000s, the entire travel industry hit a downturn as a result of the global financial crisis.

Thomas Cook had become siloed and fragmented due to the fact that it had grown through a series of acquisitions without ample realisation of synergies. There was weak governance and little focus on cost control. This all contributed to low morale and shattered confidence. However, the business still had a sound, fundamental core with a strong, iconic brand, a loyal customer base of over 23 million customers per year and revenues approaching £10 billion. In October 2011, a new Chairman, Frank Meysman, was appointed.

The new Chairman immediately oversaw the creation of an emergency working capital facility in November 2011. He then implemented a stabilisation plan, orchestrated a change of leadership and initiated a 'Transformational Disruption' of the business.

BAE Systems' Reputation in Tatters

The Al-Yamamah arms deal between BAE Systems and the Kingdom of Saudi Arabia had been in place for decades when allegations of bribery started appearing in the media in 2001. The following year, whilst already suffering from damage to its reputation, the company faced losses of hundreds of millions of pounds from problems with the Astute submarine and Nimrod aircraft programmes for the U.K. MoD. The Al-Yamamah deal then became an almost permanent topic in the media and with protest groups and was increasingly undermining the company's reputation.

"[BAE Systems] was not believed by regulators, it was not believed by the public and increasingly it was not believed by politicians. So we were, in some senses, in something of a death spiral."

BAE Systems was facing a 'Reputational Disruption' that could ultimately undermine the company's license to operate.

2. REPUTATIONAL DISRUPTION

Reputational disruptions are unplanned, making them unpredictable and involve some form of relationship disruption. This could be the case in top level conflicts, for example between a Chairman and CEO, or misconduct or fraud allegations which disrupt relationships with critical internal and external stakeholders. Relative control is usually maintained over potential resolutions which seek to re-establish trust in broken relationships.

3. HOSTILE DISRUPTION

This is an unplanned disruption, which is both highly unpredictable and poses serious threats to the survival of the company or industry.

Leaders in this type of disruption typically comment that there is no clear sense of right or wrong and that there is a lack of control. This is largely because powerful, external stakeholders hold significant sway over any potential outcomes. The banking industry credit crunch of 2008 is one example of such an extreme event, while hostile takeover bids also fall into this category.

Barratt Development's 40 Percent Reduction in Sales

It was early 2008 when U.K. banks stopped lending, and what at this stage looked like yet another cyclical property downturn turned into a dramatic disruption to the business. For Barratt Developments, one of the U.K.'s best known house builders, the resulting credit crunch precipitated an unforeseen and unprecedented 'Hostile Disruption'.

Barratt's sales during 2008 dropped by over 40 percent and prices fell on average by 25 percent. Barratt's challenges were compounded by a significant acquisition in April 2007 which added £1.7 billion of debt to an otherwise debt free business. The share price dropped dramatically from a high of £8.55 in February 2007 to a low of £0.32 in October 2008.

Skype Technology's Disrupting Opportunity

In October 2005, eBay acquired Skype for a total of $2.6 billion[1]. At the time, Skype had significantly disrupted the telecommunications and internet market. Between 2005 and 2007, the founding team ran the business from within eBay and managed to sustain performance. However, in the two years that followed, eBay changed management and struggled to integrate Skype with its existing services and realise the benefits of using Skype to enrich the experience of eBay consumers.

The impact of the global financial crisis, coupled with internal inertia, caused Skype's performance to suffer heavily with eBay taking a $1.4 billion write down in October 2007[2], ultimately resulting in eBay seeking to sell the business in September 2008. The business also faced litigation over Skype's intellectual property[3].

"Skype had become the Kurt Cobain of technology companies – wildly popular, deeply troubled."
(Fortune Magazine)

Despite the challenges, Silver Lake Partners and other investors saw a great investment opportunity and on September 1, 2009, a consortium led by Silver Lake Partners acquired 65 percent of Skype's shares for all cash consideration of approximately $1.9 billion, valuing the business at $2.75 billion. Following a strategic realignment and rapid transformation, Skype continued its journey of 'Creative Disruption', reaching 170 million connected users in more than 190 countries, 25 percent of all international long distance (ILD) minutes and over 12 billion billing minutes by 2010.

1. eBay Completes Acquisition of Skype (Company Press Release) : https://investors.ebayinc.com/releasedetail.cfm?releaseid=176402
2. eBay writes down Skype value by $1.4bn (Financial Times, London) : http://on.ft.com/1QLKMr0
3. eBay Form 8-K (SEC Filing) : http://www.sec.gov/Archives/edgar/data/1065088/000129993309001497/htm_32105.htm

4. CREATIVE DISRUPTION

This refers to the more common idea of a disruption where the company itself is the disruptor. A planned or emergent idea, such as a new product or technology for an existing market is developed and then upsets existing operations or stakeholders. Such a situation typically involves a clear, innovative vision of the world, which is then pursued and communicated through some form of entrepreneurial leadership. These most often become success stories where a company is setting new benchmarks for the sector in which it operates.

When applying a framework, it is important to keep in mind that business environments are not static; therefore what may begin as a hostile or reputational issue could gradually require a transformational effort. Large disruptions may stem from a set of incrementally bad decisions, which are magnified by a specific event, or by a combination of disruptive and uncontrollable elements.

The leadership styles and sources of disruption may need to be examined through different lenses as circumstances evolve.

When assessing the disruption, it is also important to consider the influence of government and socio-politics. Businesses may be completely independent from the state, partially regulated or dependent on the state, or highly regulated.

In many situations, national governments are losing hard-power to super-national organisations, which has resulted in increased posturing of soft-power by politicians and lobby groups. Businesses often find themselves caught up in these debates and publicity. Boards must consider their interaction with soft-power and avoid the risk of overestimating their independence from this sphere.

QUESTIONS THAT WILL HELP ESTABLISH THE TYPE OF DISRUPTION INCLUDE:

- What kind of disruptions is your company likely to face?
- To what extent will you be in control?
- Who are the key stakeholders?
- Which consequences can you envisage for the company?
- Can you transform adversity into a competitive advantage?
- How will you contain the damage?

BAE SYSTEMS

A Civil Perception Problem Or Risk Of Losing License To Operate?

When Dick Olver was appointed as Independent Chairman in July 2004, the Board comprised six Executive Directors and six Non-Executive Directors, one of whom had been on the board for 10 years. At the time, the challenge to the company's reputation was being framed as a 'civil society perception problem' and not a serious Reputational Disruption that could ultimately threaten the company's licence to operate.

There were talks of a U.S. break-up bid for the company and continuous leaks to the press about the ongoing Serious Fraud Office investigation. Politicians were frustrated that BAE was going from "*a national champion to a national disgrace.*" The company was losing trust and influence.

"It had been so widely pilloried it had no legitimacy in the eyes of the media. Years of silence had left it basically rendered without a voice."

The prevailing view was that the constraints arising from the large number of classified defence and intelligence programmes run by the company were incompatible with the principle of being more transparent. As such, it was thought the problem, particularly in so far as it related to government-to-government programmes, should be resolved at governmental level. This appeared to leave the company drifting without a clear strategy.

We were told how Chairman Dick Olver was not constrained by the past and was able to call out the issue. In his first annual report to shareholders, he announced the establishment of a Corporate Responsibility Committee (CRC), chaired by a Non-Executive , saying:

"Social, environmental and ethical aspects of a company's business operations are increasingly of interest to a broad stakeholder community."

He then followed a persistent, yet measured, approach over the next three years to make fundamental changes to the board, the Executive team and the way in which the company engaged with regulators, politicians and the public.

"In my opinion the Chairman is at that point the accountable Executive , because the reputation of the enterprise is at risk."

SKYPE TECHNOLOGIES

Calling Out The Opportunity

It was September 2008 when Lehman Brothers collapsed and the world economy contracted. Internet businesses suffered considerably with the downturn and Skype in particular was facing its own specific challenge to align the entrepreneurial culture established by the original founders with the more corporate culture of eBay.

"A series of management blunders turned a fast-growing startup into a cesspool of mediocrity and bureaucratic infighting. It was as if someone opened the fuel tank on a rocket heading to the moon."
(GigaOm, Sept. 2009)

Disputes over intellectual property with the Skype founders and disagreements over the strategic direction of the business paralysed Skype at a time when it was facing potential competition from some very large and well-established companies. AT&T, Google, Microsoft and Facebook were all trying to develop digital communications solutions. John Donahoe had succeeded Meg Whitman, who had acquired Skype for eBay, and could dispassionately evaluate the situation.

Silver Lake identified Skype as a potential investment opportunity and initiated conversations to establish a consortium to acquire a substantial portion of equity from eBay. There was also at least one other potential rumoured bidding consortium separate from Silver Lake.

Whilst the Silver Lake consortium was agreeing to buy 65 percent of Skype from eBay, the founders of Skype used the investment vehicle Joltid to file a lawsuit against Skype seeking injunction and damage over intellectual property (IP), particularly with regard to a piece of technology known as 'GI code'. This threatened the whole deal and growth prospects of Skype and was one of the first challenges faced by the consortium.

"The price of Skype was objectively low enough that people were bidding but there was very good reason for this which was the IP litigation with the founders. I think everybody determined that from a legal standpoint the litigation threat was real in the sense that if the founders went to court and won they could shut down the service. And so that was why there weren't very many bidders; it looked like a very dangerous deal on the surface."

Silver Lake put in place a risk mitigation strategy by identifying an exceptional team who it believed could rapidly rewrite the underlying code from scratch if the consortium was to lose the intellectual property litigation. This enabled Silver Lake to maintain a clear investment thesis. With a global communications market worth $1.7 trillion, Skype, the leading global internet VoIP provider, was seen as a great opportunity. There was significant potential for value creation with various opportunities to improve operations and accelerate growth in core business.

There were untapped growth opportunities in small and medium enterprises, mobile, advertising and new geographies. Moreover, Skype had highly attractive financial characteristics including a low tax rate and capital expenditures and an attractive working capital profile. Skype was a potentially highly strategic target for some large tech acquiring companies such as Apple, Google and Microsoft and had strong IPO potential. With this in mind, investors could see a favourable buy-in valuation relative to the growth outlook.

"Silver Lake is potentially making a make or break decision for the firm, one of the largest investments up to that point for Silver Lake."

The deal was signed on September 1, 2009 with the consortium led by Silver Lake Partners acquiring 65 percent of Skype's shares for all cash consideration of approximately $1.9 billion[4], valuing the business at $2.75 billion.

4. eBay Inc, signs definitive agreement to sell Skype (Company Website): http://about.skype.com/press/2009/09/ebay_inc_signs_definitive_agre.html

KEY LEARNINGS FROM SECTION 1: RECOGNISE THE DISRUPTION

A SIMPLE PROCESS FRAMEWORK FOR NAVIGATING EXTRAORDINARY DISRUPTIONS HAS EMERGED THAT IS CONSISTENT ACROSS A SPECTRUM OF DISRUPTIVE EVENTS.

- Research findings indicate that Boards follow a dynamic process in dealing with extraordinary disruption.
- The process is dynamic and fluid, subject to the constraints and opportunities unique to the situation.
- The approach to respond to the disruption must be applied iteratively as action is taken and further evidence emerges.

BOARDS MUST BE STRONG ENOUGH TO CALL OUT THE ISSUE AT AN EARLY STAGE.

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- Creative: The organisation is itself the disruptor.

Each type of disruption will demand a different style and source of leadership. Large disruptions can evolve from one category of disruption to another, for example from Reputational to Transformational Disruption.

SECTION 2:
ESTABLISH / DETERMINE LEADERSHIP, STRATEGIC DIRECTION AND ALIGNMENT

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ESTABLISH / DETERMINE CORRECT SOURCE AND STYLE OF LEADERSHIP

Contrary to most conventional research and insight, we have found that it is not always the CEO who leads in times of extraordinary disruption. During the most extreme, unplanned and unpredictable situations, it is the Chairman who often takes the lead.

EXHIBIT 3: SOURCE AND STYLE OF LEADERSHIP

	INTERNAL	**EXTERNAL**
UNPLANNED	**REPUTATIONAL DISRUPTION** Source: Chairman led in 72% of successful cases Style: 'The Rebuilder'	**HOSTILE DISRUPTION** Source: Chairman and CEO each led in 33% of successful cases, sometimes in tandem Style: 'The Determined'
PLANNED	**TRANSFORMATIONAL DISRUPTION** Source: CEO led in 88% of successful cases Style: 'The Transformer'	**CREATIVE DISRUPTION** Source: CEO / Founders led in 100% of successful cases Style: 'The Entrepreneur'

For each type of disruption in Exhibit 3 above, the source and style of leadership was identified and characterised. Leadership is defined as the relevant individual's set of attributes, qualities and behaviours which are effective in any given extraordinary disruption scenario, as well as the processes and disciplines employed by an individual to move an organisation effectively from a discontinuous state to a stable state. In the context of the Boardroom and extraordinary disruption, the Chairman and/or CEO tend to take on critical leadership roles and must establish how to successfully navigate through the disruption. Sometimes leadership is determined through a form of consensus; on other occasions it can be imposed at relatively short notice. Whatever the case, leadership capabilities should be regularly assessed to test for strengths and weaknesses in the face of different types of disruption. Develop leadership alternatives inside and outside of the company and be ready to remove an established colleague, who for any number of reasons may not be suitable to the situation. The following sub-sections outline the different identified leadership styles.

1. THE TRANSFORMER

The role of the **Transformer** is to define the current state and desired state, gain the agreement of key stakeholders and relentlessly execute an agreed plan. This is typical of large corporate transformations, turnarounds and restructuring, and is typically led by the CEO.

2. THE REBUILDER

The primary role of the **Rebuilder** is to ensure the reestablishment of lost relationships with key stakeholders and trust in the company or brand. A Rebuilder must often facilitate investigations, make difficult decisions about people and reframe relationships under new principles and values. This style is frequently and most successfully led by the Chairman.

3. THE DETERMINED

The most effective leadership style in hostile disruptions is that of the **Determined**. In these situations, events can change very quickly. The Determined leader has to respond radically and engage in a process of constant evaluation of events as they unfold. Emotional resilience is particularly important in leaders facing such extremes. In some situations, leadership is best provided by the Chairman, in others the CEO or Chief Restructuring Officer. Evidence was noted of yet further occasions when both the Chairman and CEO had performed effectively by working together.

4. THE ENTREPRENEUR

Entrepreneur leaders are driven by a singular and innovative vision of the future. Typically strong communicators and firm believers in their vision, they are well equipped to energise others and bring people together to realise a strategy. Most often this involves high levels of cooperation and co-leadership between founders and visionaries.

Our research indicates that in most unplanned situations, including reputational and to a lesser extent hostile disruptions, it is often the Chairman who steps in to lead. Alternatively, the CEO tends to lead when extraordinary disruption is planned and requires a strong execution element.

Naturally in a minority of cases other Board Members can take lead of the situation. For example, in three cases of Transformational Disruption it was the Senior Independent Director (SID) who successfully took the lead; in three cases, interim management had to take over; and in another four cases the Chairman ran proceedings. In the case of Reputational Disruption, the CEO also successfully led in four cases, but was unsuccessful in five others. This means that while in most situations either the Chairman or CEO takes the lead, it is necessary to look more broadly at the Board and assess whether other senior personnel are more suited to take charge in a specific situation.

The U.K. Corporate Governance Code 2014 states that "There should be a clear division of responsibilities at the head of the company between the running of the Board and the Executive responsibility for the running of the company's business." It further recommends that the Chairman and CEO's division of duties should be clearly agreed in writing, as well as which decisions are made by the Board and which decisions are delegated to management.

Whilst these provisions may work during periods of stability, we find strong evidence that during extraordinary disruptions, Boards often do not play to their roles but rather to their skills and capabilities. Role boundaries change as required by circumstances. Hence, the prescriptive nature of these provisions does not equip Boards to quickly and effectively respond to unplanned situations such as Reputational and Hostile Disruptions.

We have seen how Chairmen and SIDs may have to take a greater leadership role during these disruptive events. In many instances we have also seen how the urgency of the response leaves Boards without a choice but to coalesce around management and trust their decision-making. During extraordinary disruptions, Boards should review and agree the specific governance arrangements that are deemed necessary and appropriate to address the situation.

Therefore, our research findings show that leadership styles need to be identified and applied in a highly circumstantial manner. Leaders who are highly effective in dealing with certain types of disruption may fail in being appropriately skilled to address others. Nevertheless, it is important to understand what types of leadership are more likely to prove effective in managing different situations.

ENSURE LEADERSHIP PRECONDITIONS ARE IN PLACE

It is important to have high levels of emotional resilience, communication qualities, IQ, EQ, XQ and integrity in your leadership team; and ensure there is a good level of engagement and integrity amongst the Board and top management.

Our research findings indicate that four leadership qualities must be in place as a precondition of leading effectively during times of extraordinary disruption. These are:

- Emotional resilience
- Exceptional communication
- High levels of IQ, EQ (Emotional Quotient) and XQ (Execution Quotient)
- Integrity

Even during times of evolutionary change, leaders should reinforce and invest in these qualities on an ongoing basis to help prepare for future disruption.

No successful approaches to extraordinary disruption have been identified where any of these preconditions were missing. Conversely, out of 13 failed cases, 11 showed a clear correlation between a lack of one or more preconditions and a poor outcome (see Appendix 3 for further analysis).

QUESTIONS TO CONSIDER:

- Can your actual and potential leaders face up to difficult circumstances?
- Have you been practicing good communication?
- Do you truly possess the calibre of people that will think it, live it and work it through?

EMOTIONAL RESILIENCE

Cases of extraordinary disruption are accompanied by intense emotions and distress, requiring leaders to possess immense levels of emotional resilience. In many cases where there was a failure to maintain high emotional resilience, the company failed to address the situation. Emotional resilience qualities have impacts at the highest levels of objective thinking:

"The CEO lost it, he just completely lost objectivity and he went into some different zone… he made a succession of bad decisions and bad mistakes." (Chairman)

Other manifestations of emotional resilience are an ability to resist pressure to deflect in different directions, the development of an 'inner calmness' and a positive attitude towards the disruption.

EXCEPTIONAL COMMUNICATION

During extraordinary disruption, many changes are happening simultaneously and leaders must develop high levels of communication. They need to ensure the following:

- Internal and external communication is consistent, clear, frequent and timely; people are the most important factor in an organisation.

"The CEO held discussions with [regulators] and took them to the Board for discussion and resolution, ensuring consistency of the message from all parties." (Chairman)

- Clarity, realistic timings and goal-setting are maintained. For example, leaders must not create false expectations by committing to an outcome in three years when in fact it is likely to take five years.

HIGH LEVELS OF IQ, EQ (EMOTIONAL QUOTIENT) AND XQ (EXECUTION QUOTIENT)

In the early stages of an extraordinary disruption, there is particular emphasis on IQ. During the later stages the focus naturally switches to XQ.

High levels of IQ, objectivity and clarity of thought are required to initially frame the issue and identify potential and desired solutions. This becomes more important in industries where the rate of change is particularly high and extreme change can occur in many different ways.

"I don't think ultimately you could succeed […] if you didn't have the base level of IQ, and I sort of take that as a given." (Chairman)

The ability to demonstrate emotional intelligence to engage and lead people through a disruption is critical for success. Leaders must continually assess their own ability to truly mobilise the energy of the Board.

"The Board was all over the place. It was vital to engage the Board to get it aligned." (Chairman)

> ❝ THE BOARD WAS ALL OVER THE PLACE. IT WAS VITAL TO ENGAGE THE BOARD TO GET IT ALIGNED. (CHAIRMAN) ❞

Several of the unsuccessful cases we explored had the right strategy, but failed due to poor execution. Many participants emphasised the absolute need to get strategy and execution right.

"Life is one part strategy and nine parts execution." (CEO)

INTEGRITY

A final precondition that has emerged from our research findings is the need to maintain high levels of integrity at all times, as well as fostering a culture where integrity is preserved. Cultivating leadership integrity must become the norm and proves extraordinarily valuable when extraordinary disruption hits.

"The main thing is you've got to have a leader. To follow someone, they must have integrity. You pretty much hope that the rest of your Board has also got integrity and you've sorted that out." (Chairman)

THOMAS COOK

A CEO for a Season?

Frank Meysman's first action was to make changes to the Board. His first appointment was CFO Michael Healy, who joined the company in May 2012 and was appointed CFO in July 2012. With substantial experience and a track record in consumer businesses and financial markets, the new CFO was initially charged with putting in place and delivering a 'hunker down' strategy to secure the financial lifelines of the business and obtain the support of bankers, creditors and suppliers.

Against conventional wisdom, the CFO was appointed before the CEO, preventing the CEO from selecting the CFO. This helped to ensure constructive challenge between the CFO and the CEO, with appropriate priority given to the immediate financial challenges.

"…I was lucky that Michael Healy joined first. I don't think that Harriet would have picked Michael Healy but they worked perfectly together."

Harriet Green was announced as CEO on July 2012, having been credited with the successful transformation of FTSE 250 consumer electronics company Premier Farnell. Harriet took over from Sam Weihagen who had been Interim Chief Executive following the resignation of the former Chief Executive Manny Fontenla-Novoa in August 2011.

Harriet's remit was to develop and implement the long-term strategy for future growth, lead the business transformation and the engagement with the key internal and external stakeholders.

"[The CEO] was clearly owning the strategy. So their ownership [Group CEO, CFO and U.K. CEO] was very clear and well-defined and they chose to work very closely as a team without politics with a very common mission."

Harriet brought the drive, dynamism and charisma required to transform the business, to achieve a psychological change in staff and instill trust from external stakeholders. Harriet's understanding of technology, her British nationality and established links within London also contributed to her successful appointment.

Critical to the transformation was Peter Fankhauser who was then CEO for the U.K. segment before being appointed Group COO in November 2013 and ultimately Group CEO in November 2014.

In November 2014, the market was caught by surprise by the unexpected announcement of the departure of Harriet as the Group's CEO and her replacement by Peter. Whilst unexpected, the transition from Harriet to Peter was carefully planned and followed a robust governance process. Harriet appointed Peter to Group COO in November 2013 to help break down the silos across the business and signal plans for her succession. The timing of the transition was triggered by the need for a shift in emphasis from strategic thinking to execution.

"You need somebody that has the drive to change and spin the wheels, but then you have to make sure that the car also moves forward."

There was also a desire to avoid a transition mid-way through a financial year and any ambiguity about who was running the company as a result of an extended transition period. Peter brought a deep operational knowledge of the business and understanding of the travel industry. He could now focus on execution whilst incrementally improving and refining the transformation strategy put in place by the previous CEO.

The Chairman commented on the important dynamic between Peter, Harriet and Michael and how this, in his view, was the secret to the successful turnaround and transformation of the business.

"If I look back as to what's the success of the transformation, I think it's the fact that you have three people that have unique strengths that work together. None of those three could have done it individually and none of those three should claim that they have done it. But each of them really worked together. That's the essence of the transformation."

Frank had a vision for the business and skillfully built and maintained a Board with a mix of skills and styles to secure Thomas Cook's survival and long-term success. In recruiting Harriet, he and the Board recognised the need for an individual with the required style to shake up and mobilise the business, prioritising a passion for ecommerce and technology over travel industry knowledge. As a turnaround CEO, Harriet recognised the need to put in place a succession plan at an early stage, and plans were put in place to prepare Peter for the CEO role. However, the timing and execution of the plan was ultimately determined by the Board, under the leadership of the Chairman.

BAE SYSTEMS

Establishing the Correct Source of Leadership

Over a period of 18 months, Dick Olver led a fundamental refresh of the Board. He appointed three new Non-Executives during 2004, one in 2005 and a further two in 2006. Five Non-Executives retired over this period.

During 2005, two of the former Executive Directors left the company and in 2006 a further three departed. Dick reported to shareholders in February 2008 that the current Chief Executive would be retiring later that year as he had reached his normal retirement age after 42 years with the Group. Over the three and a half years since his appointment, the new Chairman had led a complete refresh of the Board so that only one Non-Executive and one Executive Director (the CFO) remained.

Dick had also encouraged the hiring of a new external General Counsel, Philip Bramwell, in 2007 with a mandate to restructure BAE's legal team and to help develop a plan for BAE to regain control of the agenda. This wholesale changing of the Board was clearly a difficult and time-consuming step. None of the top team was accused of any wrong-doing. Dick and Philip counted on the strong experience of Non-Executive Director Peter Mason to help reshape the board composition.

"I understood that the Chairman had no power to do anything until and unless they had a Board aligned with them."

"I was determined that we were going to have a world-class Board."

Secondly, Dick encouraged the CEO to undertake an external review of the top 50 Executives in the business to ensure that the most effective were being identified and promoted, and appropriate action was being taken on those who were no longer performing at the required level. This had a major impact on the top level Executives in the business and is a process which BAE continues to use today.

ESTABLISH / DETERMINE DIRECTIONAL RESPONSE AND ALIGNMENT

With the right leadership in place, the next step is to establish the broad directional response to the disruption. Interviewees emphasised the importance of clearly determining the directional response (there are multiple possible responses) and getting the Board aligned:

"If you're lost in the jungle, there are a few things you have to do, which is the same whichever jungle you're in…what matters is that everybody follows you. [After that], there's a lot of ways out of a jungle." (Chairman)

"It was so complicated I had to really rethink and go back to first principles to provide a framework to get the Board aligned." (Chairman)

When disruptive events cannot be predicted, determining the right directional response becomes even more critical.

The following possible considerations for directional responses emerged:

- **Fight the disruption** if you think you can eliminate it.
- **Ensuring survival first.** Ensure you have liquidity and strengthen your balance sheet.
- **Set the broad direction and refine as you learn more.** This is especially important when the disruption response lies partially in external stakeholders' hands.
- **Fundamentally change the business model,** which is typical of technology and regulatory disruptions.
- **Recognise failing businesses and look for more attractive market segments.**

In reality, most cases reviewed use a particular mixture of the options above in a step-by-step process: first survive, then strengthen, then grow.

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SKYPE TECHNOLOGIES

Harnessing a Board of Disruptors

The investors were diverse, encompassing entrepreneurs, Silicon Valley venture capitalists, more traditional private equity, institutional investors and the previous strategic owners. Whilst Silver Lake had the largest stake, it was deliberately decided to appoint an independent Chairman. Silver Lake did not have a majority; therefore this decision was itself a collaborative decision amongst the investors. They looked for someone who had a good perspective on technology companies, was demonstrably independent and objective, able and willing to work with all Board Members and most importantly, someone the Board and management could trust. It was announced that Miles Flint, previously CEO of Sony Ericson who had successfully managed the complications of a joint venture technology business, would become Chairman in January 2010.

"Miles was somebody who was very accomplished and trusted. He had two things; he had an understanding of technology and fabulous knowledge of the communications markets and how companies were addressing issues as they evolved. Things were changing rapidly."

Determining strategic direction and implementing the correct leadership were two critical success factors for Skype. However, maintaining strategic direction and alignment was an ongoing challenge. What was Skype's purpose, its structure and the overall strategic direction?

The Board needed to agree on whether Skype's competitive advantage lay in the internet or in the telecommunications industries, determine its market positioning (C2C versus B2B), address how it would sustain its disruptive growth and turn a strong cash flow, whether it would partner with potential competitors such as Google, Apple, Facebook and Microsoft or attempt to grow on a solitary basis, and what was the best structure and operating model to deliver profitable growth. Those amongst the consortium who saw Skype as an internet company advocated accelerating investment in research and development (R&D) whereas those who saw it as a telecommunications player pushed for cost controls and a focus on pricing and business development capability. As the former Chairman explains:

"...[there was] an organisational structure logic which was unclear, and part of the reason that it was unclear was no one had really figured out whether Skype was a telecoms

asset or an internet asset, and the truth is it's a bit of both. It seemed that people from North America tended to look at it as an internet business and people from Europe tended to look at it more as a telecoms business."

Articulating the purpose meant answering the questions of what business is Skype in and where was Skype going. These contrasting views from the Board were ultimately resolved through a common denominator in the investor board: disruptive capacity.

"…they all understood disruption; they've all seen it or caused it. So you have eBay, Marc Andreesen and Ben Horowitz [from Netscape]…and the original Skype guys…I think ultimately that's why the telecom versus internet question was resolved, that if you are a disrupter there are many more disruptive opportunities in the internet space than there are in the telecom space…"

The Chairman role was equally important in creating alignment within the board.

"The first leadership dimension you need is alignment from the boardroom ...and a coalition of the willing. As the Board progresses, I believe you need clear anointment of leadership."

"[Miles] is unflappably calm…and he holds his own counsel extremely well. He was able both to share his perspective and to enable others to share their perspective without carrying any bias. And he was both able to draw people in and to gently contain members of the Board which I think is a very important chairing skill when you've got a big roomful of people."

Management was able to quickly adapt to the changing strategic landscape. Google, Apple and Facebook had initially been viewed as potential partners, but as soon as it became clear that they would launch their own products and potentially risk the investment and Skype business, a strategic decision was required on the tenure of the investment. It was decided that it should be a long-term hold, which meant it had to be improved operationally, with a focus on the product and leadership of the product. There was a need to transform the business.

BARRATT DEVELOPMENTS

Determining the Directional Response

One thing that all Barratt Board Members agreed is that the mortgage market collapse, initiated in September 2007 with Northern Rock's demise, was highly unpredictable in terms of its reach and impact on the industry. Although there were growing issues during 2007, such as a series of interest rate increases and some loss of customer confidence, the prevailing view through the first quarter of 2008 was that it was yet another traditional downturn or house building cycle. The full extent of the problem had not yet emerged and was not regarded as life threatening.

"When the U.S. collapses happened, we were into completely virgin territory here. So the big problem was just saying, how do we scope this problem and is this a traditional recession? In which case we know what we're doing. Is this a matter of life and death, in which case we really don´t have all the answers to this?"

The difference between this situation and previous property downturns was the speed at which it happened, which left the company with less time to respond. Banks didn't just ease gradually off mortgage supply, but rather they pulled the plug and there was a massive market correction. The problem was that nobody wanted to be the person to call out the issue first:

"Nobody wants to cut off say a third of the company's operational capability and find out that you were the guy that called it too soon."

Barratt turned to its Board Members who had been through a number of downturns to try and understand the likely duration and impact of the problem, and determine the correct course of action. Initially the view was that the effect would be short term and that recovery was likely to occur relatively quickly, as had happened with previous corrections. In response to the disruption, Board engagement increased significantly in terms of number of meetings, detail of Board papers and Non-Executive input. Initially the Board shared its experience and skills to contribute to the directional response and to ensure that Executive action was appropriate.

As soon as the full extent of the 'credit crunch' was understood, the company went into proactive response mode, stopping all new land investment and rapidly reducing the costs of the business. The strategy was composed of three broad stages:

i. Impose very tight disciplines (cost and WIP) into the business
ii. Centralise all investment authority
iii. Refinance the business

Still a number of dilemmas were faced by the Executive team and the Board during this stage in terms of balancing the short-term needs with Barratt's long-term sustainability. A key dilemma was to understand how to cut hard and fast without destroying the firm's core competencies and capabilities for future growth. The directional response had to be assessed, refined and adjusted at times, as different events would alter the assumptions under which plans were made.

"It wasn't death by 1,000 cuts, it was arguably two deep cuts and then no more. It was difficult to gauge how bad the market would get, but we made two cuts and then moved on."

Striking the right balance between existing needs and future growth meant Barratt had to maintain its competitive advantage through delivering top sales and great product design and delivery. Barratt pushed product design and invested in the development of new ranges of house types, designs and technical planning so as to secure future growth.

ALVAREZ & MARSAL

KEY LEARNINGS FROM SECTION 2: ESTABLISH / DETERMINE LEADERSHIP, STRATEGIC DIRECTION AND ALIGNMENT

EACH TYPE OF EXTRAORDINARY DISRUPTION WILL REQUIRE DIFFERENT LEADERSHIP SOURCES AND APPROACHES.

When addressing extraordinary disruptions the Chairman and / or CEO overwhelmingly take on even more critical leadership roles.

In most unplanned situations it is often the Chairman who takes the lead. When the disruption is planned and requires strong execution, the CEO should often control the response.

The research has also identified four leadership styles utilised by business leaders to address each type of disruption:

I. The Transformer for transformational disruption
II The Rebuilder for reputational disruption
III. The Determined for hostile disruption
IV. The Entrepreneur for creative disruption.

CONVENTIONAL GOVERNANCE PRESCRIPTIONS ARE NOT FIT FOR PURPOSE IN THE CONTEXT OF EXTRAORDINARY DISRUPTIONS.

Whilst the U.K. Corporate Governance Code is based on principles, its application (and this is true of all codes around the world) can be prescriptive and designed for the incremental, rather than the extraordinary. This research indicates that, during extraordinary disruptions, governance guidelines are of limited help to leadership and may even be detrimental. As extraordinary disruptions are so unique and context-bounded, there is no 'one-size fits all' effective governance solution. The time commitment, agendas and roles of Board Members may change in response to disruptive events, and can often move away from established practices.

THERE ARE FOUR LEADERSHIP QUALITIES THAT MUST BE IN PLACE AS A PRECONDITION OF LEADING THROUGH EXTRAORDINARY DISRUPTION.

Leaders need particularly high levels of emotional resilience, exceptional communication skills, and high levels of IQ, EQ (Emotional Quotient), XQ (Execution Quotient) and integrity. These preconditions are evident in most leaders but their importance and prevalence is amplified in situations involving extraordinary disruption.

SECTION 3:
APPLY THE RIGHT DISCIPLINES / ASSETS AND REFINE

ALVAREZ & MARSAL

MAINTAIN THE SEVEN CORE DISCIPLINES

It is vital to employ each of the seven core disciplines below when dealing with extraordinary disruption. These are:

1. Ensure a constructive Chairman-CEO relationship
2. Articulate the purpose, take calculated risks and generate pace
3. Be evidence led
4. Maintain strategic alignment and engagement between the Board and management
5. Get the right people in place
6. Ensure effective stakeholder management (including political and social dimensions)
7. Use trusted, independent advisors

Our research shows that combining these disciplines tends to ensure a greater chance of success in navigating extraordinary disruption. In addition, specific combinations of disciplines best apply to different types of disruption. Leaders can develop proficiency in these disciplines and decide how to use an appropriate mix according to circumstances.

Questions to ask regarding implementation of the seven core disciplines:

- Are you devoting enough time to alignment and engaging the Board and management team around potentially disruptive issues?
- Is stakeholder management, including more political and social dimensions, something that is embedded in your leadership as a habit?
- Will the current Chairman-CEO relationship, which looks good on the surface, be able to survive a storm?
- Do you have the right people and do they display the right behaviours?
- Who are your trusted advisors in times of difficulty? Do they have what is necessary to deliver?

The following pages provide the reader with a discussion of what each of the disciplines means and how they best apply to particular types of disruption.

ENSURE CONSTRUCTIVE CHAIRMAN - CEO RELATIONSHIP

This is a critical and pivotal discipline, without which most of the other disciplines become meaningless. It is vital to ensure that the Chairman-CEO relationship is based on trust and a balance of roles, skills and personalities. The ability to adapt roles based on individual strengths, and a willingness to deliver clarity while different agendas are at play, is crucial in demonstrating a united front to stakeholders.

Trust and complementarity of roles, skills and personalities.

Both adversarial and comfortable relationships are not sufficiently constructive to tackle discontinuous change. In the former there is excessive tension, while in the latter there is insufficient challenge.

"It was the CEO and I in tandem. Bluntly, he was more skilled [in the sector] than I was; I relied upon him to provide that perspective. We got on famously; people had seen that there was trust and respect. Each of   had different roles to play." (Chairman)

Traditional models of governance may not work during extraordinary disruption.

In extreme situations, traditional roles assigned to the Chairman and CEO become rigid and it may be necessary for both leaders to suspend their conventional roles while playing to their strengths. This allows for a quicker and more effective response to unfolding events.

"We had to be pragmatic and adaptable in roles; these didn't follow the code." (Chairman)

Have a shared vision. Provide clarity and direction when different agendas are at play, showing a united front internally and externally.

The Chairman-CEO relationship must be a source of clarity, direction and the arena upon which dilemmas and tensions are resolved.

"I think it's down to the Chairman and the Chief Executive to figure out with great clarity what needs to be discussed, sometimes at very short notice under great pressure. They need to get it right before going to the Board." (CEO)

"We published an open letter written to the world, to our shareholders, to the regulators, to the press, to the politicians, to everybody. It just said, look, we are completely convinced we have enough financial resources. It was signed by me (Chairman) and by him (CEO)…" (Chairman)

ARTICULATE THE PURPOSE, TAKE CALCULATED RISKS AND GET PACE

Leaders have a singular focus; they choose high probability options by adopting a rational thought process and using available data, even if it is scarce, to create a sense of purpose.

"Your employees need to be able to see that the values of enterprise are broadly consistent, that the purpose of the enterprise is consistent, but that somehow something of the physical expression of the business, its challenges and its shape have changed. You need to engage them around a narrative of what's changed, and why it's changed." (CEO)

"The decision was based on vision and intuition, on a more entrepreneurial attitude of calculated risk but also of course a 'leap of faith.'" (CEO)

"It's very easy to be too slow, but it's equally dangerous to be too fast." (CEO)

BE EVIDENCE LED

Leaders use the information available to them to logically engage the Board. Evidence can sometimes be ambiguous and prone to interpretation through the lens of a particular firm's culture. It is therefore the role of the leadership and the Board to remain objective. Adherence to this discipline is particularly important when framing the disruption, but it is also important to engage intuition and judgment to respond rapidly to the threat, without being trapped in too much data.

"We took a very scientifically informed view, we stuck to our position, our data supported our position and years later we've been vindicated on that." (Chairman)

"In a Boardroom, the most powerful person in the room is invariably the most objective." (CEO)

REALISE STRATEGIC ALIGNMENT AND ENGAGEMENT

Leaders facing extraordinary disruption must be able to align and engage the Board and executive team. This can be done by changing some of the faces and by communicating extensively with each individual to ensure continuous commitment. In many instances, leaders must communicate directly with institutional investors to ensure their support.

"If you're in a discontinuity, you can't have the Board and Executives having an air gap or the Board sitting on the fence. You've got to have both teams fundamentally saying 'yes, we're going to go for this.' You're either in or you're not in." (CEO)

"We assembled an incredibly talented team and, with great difficulty, found a way through." (Chairman)

"Within three months of getting there, I had them on a beach in Denmark paddling rafts and all that. On the second day, we made a whole set of targets for the next five years, every single one of which, except one, we achieved in that period." (Chairman)

GET THE RIGHT PEOPLE IN PLACE

The world is rapidly changing as a consequence of extraordinary disruption. This shift will mean that some employees will not progress with businesses that are in the process of adapting to new environments. Leaders must hire the best talent to fit their needs and work to form strong and supportive top executive teams and Boards of industry experts.

"First, I had to change people in key leadership roles. Leaders make change happen. The organisation had become complacent." (CEO)

"Focus on getting the absolute best people you possibly can." (CEO)

"I completely changed the Board over the next two years." (Chairman)

ALVAREZ & MARSAL

ENSURE EFFECTIVE STAKEHOLDER MANAGEMENT (INCLUDING POLITICAL AND SOCIAL DIMENSIONS)

People remain the most important factor in an organisation. Leaders must communicate relentlessly to align and inform all relevant stakeholders. This is particularly important as the disruption itself may have compromised existing stakeholder relations.

"I'm a pretty voracious communicator anyway, but it was essential to communicate continuously internally, externally, with customers, suppliers and investors." (CEO)

"In my experience, the really big crises always end up being political. Now, I don't necessarily mean 650 MPs, but the media, the regulator and the politician. You have to deal with each layer and each layer has a different issue to be resolved." (CEO)

USE TRUSTED, INDEPENDENT ADVISORS

The issue with extraordinary disruption is that leaders do not always know the truth and may also find it hard to remain objective. The use of trusted, independent advisors proved to be critical for success in many instances in aiding leadership to form a more accurate picture of what is occurring.

"Advisors are very, very important. I chose our advisors and mentors well as they were people I'd worked with before on big transformations." (CEO)

"We brought in expert advice to get different views on things. We definitely got big time legal involvement as well." (CEO)

It is important to involve advisors early in the process, while making sure they are chosen well. Intuition plays a key part in this selection process, as does understanding that advisors may not hold all the answers:

"Lots of people advised me about how when you moved in (as CEO), you have to go gently, but the more I started to unpeel the onion the more I realised it was a complete disaster and I had to move quickly." (CEO)

These core disciplines may have different degrees of importance according to the type of extraordinary disruption the company is facing. In effect, research findings suggest that some of the disciplines become more critical in certain circumstances.

Appendix 5 illustrates how the different disciplines play out and evolve for each type of extraordinary disruption. The relative importance of each discipline was determined based on the frequency participants mentioned them as critical for success. Where the box is greyed out, the discipline was not mentioned.

Leaders must decide which disciplines are relevant and ensure that the Board and top team have the capacity and willingness to put them into practice.

BARRATT'S APPROACH

Articulate the Purpose, Take Calculated Risks and Get Pace

As soon as the full extent of the 'credit crunch' was understood, the company went into proactive response mode, stopping all new land investment and rapidly reducing the costs of the business. The strategy was composed of three broad stages:

I. Impose very tight disciplines (cost and WIP) into the business
II. Centralise all investment authority
III. Refinance the business

The response in terms of cash conservation, including not paying out dividends and cost reduction, was formulated and presented to the Board. Once agreed, this approach cascaded down to the top 50 senior Executives of Managing Directors and Regional Managing Directors within the Senior Leadership Group.

"Speed of response is absolutely critical, either simply to manage your survival or to seek or gain competitive advantage at a time when you and your peers are both trying to hit the sweet spot in the market."

Still, a number of dilemmas were faced by the Executive team and the Board during this stage in terms of balancing the short-term needs with Barratt's long-term sustainability.

A key dilemma was to understand how to cut hard and fast without destroying the firm's core competencies and capabilities for future growth.

Striking the right balance between existing needs and future growth meant Barratt had to maintain its competitive advantage through delivering top sales and great product design and delivery. The company pushed product design and invested in the development of new ranges of house types, designs and technical planning so as to secure future growth.

Under the banner of 'Planning for Recovery' (with its forward-looking message), the CEO went on an eight-week tour through the business, directly communicating face-to-face with thousands of employees. There were three clear and simple messages:

1. Drive for cash.
2. Reduce costs.
3. Deliver on sales.

"In terms of what they did operationally, they were superb. They did the right things. They didn't abandon the future and they didn't damage the business so that you had a shell afterwards."

THOMAS COOK

Effective Stakeholder Management

As a Transformational Disruption, effective management of both internal and external stakeholders was critical to the survival and future success of the business. Harriet Green recognised the importance of instilling belief and initiating engagement from the start.

"We had to convince employees, customers and investors that we were going to succeed; we needed to create a psychology of turnaround and pace."

Prior to joining Thomas Cook as the new CEO, Harriet focussed on gaining an external perspective by talking to investors, analysts and the media. Once appointed, she then took the same approach internally, talking to as many people as possible within the business. In her first month, she launched a survey that received 8,000 detailed responses, to which she responded within 24 hours. This gave the message that quick action was required to get the business back on track.

Using this information, Harriet, with support from senior leadership, identified '15 big decisions' which were considered vital to the recovery of Thomas Cook. She took these with her everywhere as handwritten notes in order to engage the various parts of the business.

Michael Healy also played a crucial role handling relations with the creditors, banks and suppliers and building the necessary trust to implement the transformation plan. The CFO's existing relationships and credibility with the banks and hedge funds was critical to effectively manage these stakeholders in the early stages of the transformation.

ASSESS AND REFINE

Leaders must assess and refine their approach to the disruptive event. Initially, any strategic response should be directional in nature. This response then needs to be revised as action is taken and further evidence emerges. Leaders must ask themselves whether circumstances have now changed. In particular, has the disruption changed category? Adjustments should be made using a refined version of the framework.

After a few iterations, the team should be gaining control and moving closer to planned change and steady state. Initial success should be declared once the main issues are stabilised.

"Revolution needs to finish. You need an end point." (NED)

"At first I thought we had to buy and consolidate [one fifth] of the players to get economies. But I hadn't realised how fast the sector was being disrupted. In fact, we had to consolidate all of them; it was very tough." (Chairman)

"The staff were all walking out the door. We had to stabilise, get the systems working again and raise some cash. Then we could work out how to recreate value." (CEO)

DECLARE SUCCESS

While it is important to celebrate some form of success, do not declare mission accomplished too soon. Some of these challenges are persistent and evolve into a different category of disruption, which will often require new responses with the beginning of a new cycle. However, by this point sufficient resilience and experience should have been developed to confront the next set of challenging circumstances.
As one participant Director said in his concluding comment:

"…you have to expect frankly in the world we live in today that from time to time a big event over which you have no control is going to occur. So then you have to go back and say, so how do you prepare for that? And it's back to making certain that in all of the key roles you've got the right people." (CEO)

After declaring success, normal strategic planning must be put back in place.

BAE SYSTEMS

Sustaining an Ethics Programme

The real test of a business ethics programme is when you have to turn down business. The company effectively refused to do business in certain regions unless ethical standards were met.

"We walked away from several hundred million dollars of business, as we could not execute it in our way."

It also declined to supply some operational air forces unless they changed their terms of business. BAE held strong to its principles and customers that initially resisted have now realised that they may have to change themselves.

"We have changed international business models in military procurement by taking a stand."

Today the company explained how it tries to be in a permanent state of awareness and readiness to prevent ethical standards being overlooked. For example, when the financial crisis started in 2008, BAE doubled its awareness and internal communication and tightened all processes and procedures.

Yet maintaining a permanent state of awareness is difficult. Sustaining it and not letting it fade from corporate memory is hard work and never ending.

"How do you keep it current? How do you keep it so that people are proud of it? How do you add something to it that's evolution, not revolution, because what we did before was revolution, so we've done that. Now we're going to have to evolve and positively evolve."

"…what was done was done with considerable rigour and in such a way that it became part of the DNA of the company… if you look at the 10 years that have elapsed since this actually occurred, I would say at every level in the business there is a total understanding of the way we do business."

A board committee structure now exists to own each internal aspect of BAE Systems' Total Performance initiative to ensure it is aligned with the company's mission and permanently on the Board's agenda. The Chairman, NEDs and members of the Corporate Responsibility Committee also conduct independent visits to operations, especially in high-risk areas.

Having implemented a fundamental transformation of its culture and business practices, BAE Systems is now approached for advice by other firms with similar reputational challenges. The change is impressive: it has successfully turned its standards around from a situation where they threatened the ability of its major U.K. and U.S. customers to do business with them, to define a new standard. The U.K. and U.S. governments have also regained confidence in the company's standards of conduct.

"…Every time I spoke to large groups of people all over the world I reinforced the message that it's not just how much money we make, it's how we make money. That's a reinforced message so everybody knew that the change in chair didn't change the standard."

BARRATT'S RECOVERY

Building Resilience against Extraordinary Disruptions

Barratt has now declared victory. It is effectively debt free and analysts expect record profits for FY15. In addition, the company is once again delivering high returns on capital employed, and its market capitalisation is now at an all-time high. After nine years as CEO, Mark Clare handed over the reins to David Thomas (previously the Group Finance Director) to provide the long-term leadership for the next stage in the company's development.

The management team compiled and documented its experience through the 2008 downturn up to 2013 in two books which serve as guidance for current and future Executives and other employees on how to manage large disruptions.

"I always say in times of peace, prepare for war. We're in an upturn; when is the next downturn going to be and how are we going to manage our downside risk? I think there's been some good learning."

A completely different approach now exists within Barratt, with dedicated Executives in the business looking at trends in the mortgage market, lending, availability of funding and various sources of mortgage products.

An exhaustive crisis management model with various levels of indicators and responses (a weather warning type of system) has been implemented at Board level. The lessons should remain for future generations and perhaps a more risk conservative approach will persist in the business.

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KEY LEARNINGS FROM SECTION 3: APPLY THE RIGHT DISCIPLINES / ASSESS AND REFINE

LEADERS MUST MAINTAIN SEVEN CORE DISCIPLINES TO SUCCESSFULLY NAVIGATE EXTRAORDINARY DISRUPTIONS.

Combining the following disciplines throughout an extraordinary disruption brings about a greater likelihood of success:

- Ensure a constructive Chairman-CEO relationship
- Articulate the purpose, take calculated risks and generate pace
- Be evidence led
- Maintain strategic alignment and engagement between the Board and management
- Get the right people in place
- Ensure effective stakeholder management (including political and social dimensions)
- Use trusted, independent advisors

Specific combinations of disciplines best apply to different types of disruption. Leaders can develop proficiency in these disciplines and decide how to use an appropriate mix according to circumstances.

CONCLUDING REMARKS

This 18-month intensive joint business and academic research programme has revealed important insights:

- Understanding the context and discontinuity being faced is vital as these factors determine the type of leader and leadership style required to address the disruption. Different types of disruption require not only different leaders, but also leadership from different roles (e.g. CEO or Chairman). The role and contribution of the CEO, Chairman, management team and Board will vary considerably according to the type of discontinuity and its severity.

- Leadership is crucial and the most effective leaders apply distinct disciplines and possess very high degrees of personal attributes of intelligence, savviness, resilience and drive. These attributes are required to a much higher degree and in a different balance when leading through extreme disruption than at other times.

- There is a broad approach that successful leaders use when addressing disruption, but the way it is applied varies and is not prescriptive. However, it is always iterative, as facts are often uncertain and situations change quickly.

- The interactions between Executive and Board at these times are critical and are necessarily very different. Moreover, emotions are high and personal reputations at stake. Most current Board guidance focuses on the steady state or incremental change. In fact, one of the most important roles of the Board is to call out these critical discontinuities. Successfully recognising and managing through these discontinuities is one of the biggest drivers of the success of the enterprise.

We were impressed by the level of very generous input and support that we were provided by over 70 Executive and Non-Executive Board Members during this study. This underlines not only the importance they attach to this area but also the relative lack of robustly researched and practical guidance in this area.

Disruptions will continue to increase and the growth in shareholder activism will hold companies increasingly accountable for how their leaders address these issues. At Alvarez & Marsal and Henley Business School, we trust that this research provides robust, practical guidance.

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APPENDIX 1
PREVIOUS BOARDROOM RESEARCH AND EXTREME DISRUPTION

Many Boards are arguably not ready to deal with extraordinary disruption. Academia has largely focused on the disruptor and the role of management in leading disruption, while failing to address discontinuous, extraordinary disruption from the perspective of those who are affected and the Board of Directors.

On a global basis, Henley Business School Professors Andrew and Nada Kakabadse have found that Boards are unaligned and not addressing the tough issues.

Drawing on their unique top team global database, comprised of over 12,500 top teams across 21 countries and more than 5,000 Boards in 14 countries, the results show that a great percentage of top teams are misaligned and disengaged across the world:

TOP TEAM MISALIGNMENT

NHS Top Team	20%
NHS Board	21%
Sweden	20%
Japan	23%
Finland	25%
U.K.	30%
Austria	31%
Germany	32%
China	33%
France	39%
U.S.	39%
Spain	40%
Hong Kong	42%
Ireland	48%
Australian Public Service	56%

TOP TEAM DISENGAGEMENT

France	36%
U.K.	47%
Finland	49%
Sweden	50%
Hong Kong	58%
Germany	61%
U.S.	62%
Spain	63%
Australian Public Service	66%
NHS Board	66%
Austria	67%
Ireland	68%
NHS Top Team	70%
Japan	77%
China	80%
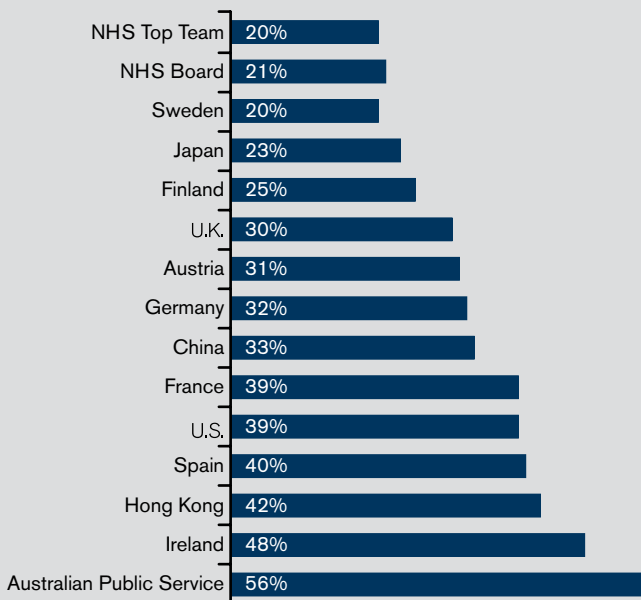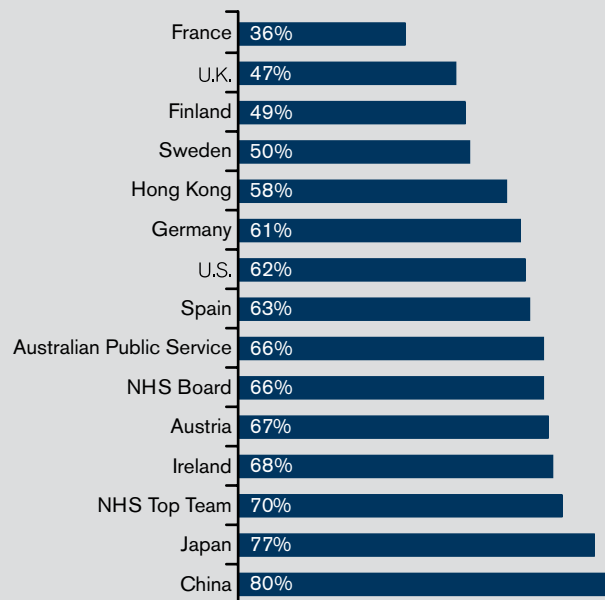
Source: Kakabadse and Kakabadse (1999; 2008)

As much as 30 percent of top management teams in the U.K., 39 percent in the U.S. and 56 percent in the Australian Public Service recognise that fundamental divisions exist within their top teams when considering future planning and direction.

The level of engagement is even worse. A staggering 47 percent of top teams in the U.K., 62 percent in the U.S. and 66 percent in the Australian Public Service believe that there are issues which should be discussed but are not, as they are deemed too sensitive. These organisations are unlikely to be fully prepared or able to survive the next extraordinary disruption event they encounter.

This has been a key concern for A&M, which has produced recent research on the subject.

A&M's research report, "What Makes an Exceptional Chairman? Required Qualities for Challenging Times" (2012), discovered that Chairmen who work well during a steady state often struggle with change. Conversely, a Chairman who is good at transformation may find it difficult to operate in a steady state. Chairmen who distinguished themselves were always prepared for the future and any potential upcoming crises.

A second research report titled "Boards in Challenging Times: The Chief Executive 's Perspective" (2014) found that Board governance guidance tends to emphasise roles, processes, documentation and responsibilities, and fails to sufficiently distinguish between times of steady state and major change. As a result, in times of extraordinary disruption, relationships may begin to fall apart. Boards rarely stress test themselves and are inadequately prepared for extraordinary disruption.

We have also noted several biases in previous academic literature.

Evolutionary change covered extensively, extraordinary disruption largely neglected

Research has focused on evolutionary change and the means through which firms can manage their operations through the steady state. As Ben Horowitz explains in "The Hard Thing About Hard Things" (2014), "Management books tend to be written by management consultants who study successful companies during their times of peace. As a result, the resultant books describe the methods of peacetime CEOs." Any substantial work is fairly outdated; Michael Tushman's work (1986) on discontinuous change dates back almost 30 years.

Focus on the disruptor rather than the disrupted

Clayton Christensen is the most celebrated scholar in the field of disruption. However, his work is focused on disruptive innovation and tends to ignore other disruptive elements. Moreover, he generally focuses on the disruptor, rather than providing practical action points for the disrupted. For example, in *The Innovator's Dilemma*, (1997) Christensen argues that incumbent, disrupted firms are caught in an impasse: delegate resources to innovation and risk the innovation failing, or fail to innovate and risk falling behind. Such advice is not particularly useful for Boards.

Management perspective emphasised, Board perspective side-lined

In general, there has been a focus on management's ability to deal with change, which neglects the important role of the Board in the U.K. as the custodian of the company's success. For example, Dr. John P. Kotter's seminal article, *Leading Change: Why Transformation Efforts Fail*, (2007) examines successful ways for management to progress internal transformations, completely omitting the Board. There tends to be an emphasis on management process and tools, rather than on management and Board disciplines and leadership qualities. There is also a focus on the more transformational type of disruption, which ignores other disruptive forces.

It is important to redress these biases.

Companies are more likely to be disrupted than to be the disruptor

The disrupting influence in discontinuous change is not always another company – it can come from within or it can be an external shock. In these cases, all implicated firms have been disrupted. Even in cases of disruptive innovation driven by other firms, there tends to be only one or two disruptor firms and tens or hundreds of disrupted firms. Therefore, learning how to deal with disruption is at least as important as learning how to disrupt.

> " WE HAVE ALSO NOTED SEVERAL BIASES IN PREVIOUS ACADEMIC LITERATURE. "

Many companies have not successfully addressed discontinuities, leading to enormous value destruction.

For example, Stephen Schwarzman, Chairman and CEO of Blackstone, estimates that the financial crisis destroyed 45 percent of global wealth by the end of Q1 2009. Some of this would have been avoided with better leadership through discontinuities.

The frequency of discontinuous change is increasing

Discontinuous change is increasing at an exponential rate. For example, since the turn of the 21st century, we have seen major discontinuities from the digital revolution, the 2007 to 2008 financial crisis, and the major changes in global patterns of consumption and trade, among others. To make matters worse, there is often a danger of complacency among highly successful firms.

APPENDIX 2
STUDY AIM AND OBJECTIVES

AIM

The aim of this research was to understand the leadership and approaches taken by companies and their Boards to resolve extraordinary disruption.

OBJECTIVES

To examine:

- How Boards frame these business disruptions, determine their approach, mobilise their organisations, assess progress and agree mid-course corrections.
- The nature of Executive and Non-Executive roles when it comes to addressing such disruptions.
- The skills, competencies, capabilities, leadership and approach required to successfully address these situations.
- The contribution and expectations of the Board (Executive and Non-Executive) from the perspective of critical internal and external stakeholders (and how this perspective is obtained and considered).
- The nature of particular and general dilemmas faced by Executives and Non-Executives in addressing these issues.
- The challenges that need to be overcome to enhance the ability of the Board to engage with management teams and resolve complex and extreme business disruption.

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APPENDIX 3
RESEARCH METHODOLOGY

The research involved interviews with over 70 Executive and Non-Executive Boards Members and was developed in two phases.

In phase one, the research team conducted 33 semi-structured, in-depth interviews with Board Members based in London, representing a variety of roles within the boardroom and over 50 companies. Of these, 76 percent operated on a global scale and 80 percent had over £1 billion in revenue, spanning 18 sectors.

STUDY SAMPLE COMPOSITION

ROLES AT TIME OF CASE [1]	
CEOs	27
Chairmen	21
CFOs	10
Other Executives	8
NEDs	9
Advisors	3
SIDs	2
Regulators	1
GEOGRAPHY[2]	
38 Global Firms	
12 Domestic (U.K.) Firms	
SIZE[2]	
54% of companies in a sample had over £5 billion in revenue at time of case	

18 INDUSTRIES
Aerospace & Defense
Automotive
Banking
Consultancy
Energy
Entertainment
Financial Services
Food Retail
Hospitality, Travel & Tourism
Infrastructure & Transportation
Internet
Manufacturing
Media
Oil & Gas
Pharmaceuticals
Sports
Telecom
Venture Capital

1. Sums to 81 as some cases were looked at from the perspective of different roles.

2. Does not sum to 75 as some companies were mentioned more than once.

Each participant was asked to discuss several cases where they had faced extraordinary disruption and were encouraged to freely relate the characteristics of the disruptive event, stakeholder reactions, emotions, feelings, Board behaviours and responses to those challenging circumstances.

Altogether, participating Board Members raised a total of 75 cases, which were analysed in terms of: type of disruptive event; source and style of leadership; leadership preconditions; general and specific disciplines; and behaviours in successfully addressing extraordinary disruption. This thematic approach enabled the development of a series of general processes which Boards and directors can follow to successfully deal with extraordinary disruption.

The research team then conducted roundtable discussions with 20 senior business leaders in London to challenge and validate the phase one findings.

The second phase of the research involved interviews with an additional 19 individuals to develop four in-depth, attributable case studies into particular businesses, to examine specific examples of complex and disruptive business challenges. The following case studies were selected to explore each of the four types of disruption and to illustrate the phase 1 findings through real life examples.

CASE STUDY 1 - TRANSFORMATIONAL DISRUPTION
Explores how Thomas Cook plc confronted fundamental market changes within the tourism industry and successfully turned around the business between 2011 and 2013.

CASE STUDY 2 - REPUTATIONAL DISRUPTION
Explores how BAE Systems plc responded to allegations of bribery associated with the Al-Yamamah arms deal that caused significant reputational damage and threatened the future of the business.

CASE STUDY 3 - HOSTILE DISRUPTION
Explores how one of the U.K.'s biggest house builders, Barratt Developments plc, survived the freezing of the housing mortgage market and subsequent property downturn.

CASE STUDY 4 - CREATIVE DISRUPTION
Explores how Skype Technologies continued its success as a major market disruptor between 2009 and 2011.

Each case study was developed from information gathered in phase 1 and through a further 19 detailed, individual interviews with the key executives, non-executives and external stakeholders involved in the extraordinary disruption.

Extracts from the case studies have been used to illustrate and contextualise each section of the report.

APPENDIX 4
FAILED CASES

Analysis of failed cases revealed that unplanned disruptions, either internal or external, tend to have higher rates of failure. This indicates that companies increasingly need to prepare for the unpredictable.

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TYPE DISRUPTION	PERCENTAGE FAILED*
Hostile	33%
Reputational	29%
Transformational	12%
Creative	0%

* Number of failed cases in each category divided by total cases in the category.

Boards can prepare for the unpredictable by building a number of qualities which have emerged as preconditions for successfully handling extraordinary disruption. In effect, from the failed cases only two fulfilled all the preconditions. The following table shows each failed case and the presence / absence of the preconditions.

DISCONTINUITY TYPE	EMOTIONAL RESILIENCE QUANTITIES	HIGH LEVELS OF COMMUNICATION	IQ. EQ AND XQ	HIGH LEVELS OF INTEGRITY
Reputational				
Reputational				✔
Reputational	✔	✔	✔	✔
Reputational	✔		✔	✔
Reputational		✔	✔	
Reputational				
Relational				
Hostile	✔			✔
Hostile				
Hostile				
Transformational	✔	✔		✔
Transformational	✔	✔	✔	✔
Transformational		✔	✔	✔

Note: 13 failed cases listed. One other unsuccessful case had insufficient detail to make conclusions on the preconditions.

✔ = present

Two of the cases failed in spite of having fulfilled all four preconditions due to errors committed as highlighted by our framework. In one of the cases, there was a delay in calling out the issue. In the second case, leadership failed to recognise the changing severity of the issue and consequently did not assess and refine their approach.

While the preconditions ensure Boards are better prepared to face extraordinary disruption, it is important to implement the totality of the framework.

APPENDIX 5
RELATIVE IMPORTANCE OF SEVEN DISCIPLINES PER DISRUPTION TYPE

The table below indicates the relative importance of the Seven Disciplines per Disruption Type, based on the relative prevalence of reference to a discipline in the interviews.

DISCIPLINES	TRANSFORMATIONAL	REPUTATIONAL	HOSTILE	CREATIVE
Ensure Constructive Chairman/CEO Relationship	4	7	5	7
Articulate the Purpose, Take Calculated Risks and Get Pace	7			5
Be Evidence Led	2	3	3	
Realise Strategic Alignment and Engagement	6	6	7	6
Get the Right People in Place	5	4	6	6
Ensure Effective Stakeholder Management	3	5	2	4
Use Trusted, Independent Advisors	1		4	

Key: 7 – High prevalence 1 – Low prevalence

THOMAS COOK'S TRANSFORMATION: A CEO FOR A SEASON

This case study is based on an analysis of interviews conducted by the research team during the first and second quarters of 2015 with the following participants:

- **Frank Meysman** | Chairman of the Board | *Thomas Cook plc*
- **Harriet Green** | Former Chief Executive Officer | *Thomas Cook plc*
- **James Sandford** | Group Head of Investor Relations | *Thomas Cook plc*
- **Michael Healy** | Chief Financial Officer | *Thomas Cook plc*

- **Paul Callaghan** | Head of Transformation | *Thomas Cook plc*
- **Peter Fankhauser** | Chief Executive Officer | *Thomas Cook plc*
- **Simon Taurins** | Managing Director | *Credit Suisse Investment Banking Division*

INTRODUCTION

In 2012, Thomas Cook was facing an extraordinary disruption. Investors had lost confidence in the business and the share price had fallen from a high of 335p in mid-2007 to around 14p in July 2012.

The business was carrying significant debt (£1.2 billion of bank debt, £630 million of bonds and over £1.5 billion of "uncommitted" facilities) and producing poor profits (no EBIT post exceptional since 2010 and three profit warnings in 2011 as well as delayed results).

The root causes of these issues were both external and internal. By 2008, traditional tour operators were facing increasing competition and losing market share from online businesses in the digital space and from low-cost airline carriers. Then, in the late 2000s, the entire travel industry hit a downturn as a result of the global financial crisis.

Thomas Cook had become siloed and fragmented due to the fact that it had grown through a series of acquisitions without ample realisation of synergies. There was weak governance and little focus on cost control. This all contributed to low morale and shattered confidence. However, the business still had a sound, fundamental core with a strong, iconic brand, a loyal customer base of over 23 million customers per year

and revenues approaching £10 billion. In October 2011, a new Chairman, Frank Meysman, was appointed.

The new Chairman immediately oversaw the creation of an emergency working capital facility in November 2011. He then implemented a stabilisation plan, orchestrated a change of leadership and initiated a 'Transformational Disruption' of the business.

CALLING OUT THE ISSUE AT THOMAS COOK

When Chairman Frank Meysman joined Thomas Cook in October 2011, the company was already in crisis. On the 22nd October 2011, The Guardian reports "Thomas Cook: from net cash to debt crisis in four years" and in November 2011, the Telegraph states "Doubts surfaced over future of Thomas Cook…tour operator's share price nosedived by three-quarters."

Between 2008 and 2011, when consumer spending was severely affected by the financial crisis and economic recession that followed, Thomas Cook embarked on major acquisitions and realised a share buyback of about £290 million whilst still paying dividends. The Guardian stated that Thomas Cook had "shot itself in the foot via an appallingly timed share buy-back and an acquisition spree." This combined with the

continuous rise of budget airlines and the growth of online tour operators and travel agencies left the company in a very difficult cash situation.

Some voices were advocating a debt-equity swap which would have dramatically destroyed value for shareholders. Yet the new Chairman believed that if appropriate changes were made in leadership and on the Board, the company could be turned around and set on a foundation for future profitable growth. He then went on to change four Non-Executive Directors, re-build the Board and hire a new Management team. This gave a clear signal inside the business and to the outside world that changes were starting from the top.

ESTABLISHING THE CORRECT SCORE AND STYLE OF LEADERSHIP

Frank's first action was to make changes to the Board. His first appointment was CFO Michael Healy, who joined the company in May 2012 and was appointed CFO in July 2012. With substantial experience and a track record in consumer businesses and financial markets, the new CFO was initially charged with putting in place and delivering a 'hunker down' strategy to secure the financial lifelines of the business and obtain the support of bankers, creditors and suppliers.

Against conventional wisdom, the CFO was appointed before the CEO, preventing the CEO from selecting the CFO. This helped to ensure constructive challenge between the CFO and the CEO, with appropriate priority given to the immediate financial challenges.

"…I was lucky that Michael Healy joined first. I don't think that Harriet would have picked Michael Healy but they worked perfectly together."

Harriet Green was announced as CEO on July 2012, having been credited with the successful transformation of FTSE 250 consumer electronics company Premier Farnell. Harriet took over from Sam Weihagen who had been interim Chief Exec-utive following the resignation of the former Chief Executive Manny Fontenla-Novoa in August 2011.

Harriet's remit was to develop and implement the long-term strategy for future growth, and to lead the business

> " …I WAS LUCKY THAT MICHAEL HEALY JOINED FIRST. I DON'T THINK THAT HARRIET WOULD HAVE PICKED MICHAEL HEALY BUT THEY WORKED PERFECTLY TOGETHER. "

transformation and the engagement with the key internal and external stakeholders.

"[The CEO] was clearly owning the strategy. So their ownership [Group CEO, CFO and U.K. CEO] was very clear and well defined and they chose to work very closely as a team without politics with a very common mission."

Harriet brought the drive, dynamism and charisma required to transform the business, to achieve a psychological change in staff and to instil trust from external stakeholders. Her under-standing of technology, British nationality and established links within London also contributed to her successful appointment.

Whilst working closely as a team, the CEO and CFO split their responsibilities – the CFO dealt with the immediate financial 'firefighting,' allowing the CEO to focus on the medium to long-term aspects of the business, the strategy and transformation. The CFO explained:

"…your head goes…you start thinking that the bank nearly pulled me today or whatever and you're not thinking about the long-term, you can't see it, how can you maintain a view and a vision when you've just been rolling in the muck with some unsecure creditor or supplier, it's not easy."

This implied a lot of communication between these key roles to ensure the necessary alignment between short-term actions and long-term vision and strategy.

Also critical to the transformation was Peter Fankhauser who was then CEO for the U.K. segment before being appointed Group COO in November 2013 and ultimately Group CEO in November 2014.

In November last year, the market was caught by surprise by the unexpected announcement of the departure of Harriet as the Group's CEO and her replacement by Peter Fankhauser. Whilst unexpected, the transition from Harriet to Peter was carefully planned and followed a robust governance process. Harriet appointed Peter to Group COO in November 2013 to help break down the silos across the business and signal plans for her succession. The timing of the transition was triggered by the need for a shift in emphasis from strategic thinking to execution.

"You need somebody that has the drive to change and spin the wheels, but then you have to make sure that the car also moves forward."

There was also a desire to avoid a transition mid-way through a financial year and any ambiguity about who was running the company as a result of an extended transition period. Peter brought a deep operational knowledge of the business and understanding of the travel industry. He could now focus on execution whilst incrementally improving and refining the transformation strategy put in place by the previous CEO.

The Chairman's official press release to the London Stock Exchange stated:

"Harriet has had a highly positive impact on this company. We emerge from her transformation stronger, with a clear strategy, world-class leadership team, updated brand, and a renewed focus on the customer. The succession plan she devised will now take effect and the new chief Executive , Peter, will drive the company forward as we focus on winning the commercial battle against other operators."

The Chairman commented on the important dynamic between Peter, Harriet and Michael and how this, in his view, was the secret to the successful turnaround and transformation of the business.

"If I look back as to what's the success of the transformation I think it's the fact that you have three people that have unique strengths that work together. None of those three could have done it individually and none of those three should claim that they have done it. But each of them really worked together. That's the essence of the transformation."

Frank, the Chairman, provided important leadership throughout the transition. He had replaced Michael Beckett in October 2011 following a search process that started in the U.K. and was then extended internationally.

The new Chairman needed significant emotional resilience and as well as energy to rapidly progress multiple actions. Within a month of joining Thomas Cook, the business had come close to bankruptcy and within six months, he had overseen the change of three Non-Executive directors, reduced Thomas Cook's debt by £400 million, achieved a refinancing deal with the banks and appointed a new CFO and CEO.

"Having cycled across America in his younger years, Meysman is one for a challenge, but this was going some." (The Telegraph, May 2012)

Frank had a vision for the business and skillfully built and maintained a Board with a mix of skills and styles to secure Thomas Cook's survival and long-term success. In recruiting Harriet, he and the Board recognised the need for an individual with the required style to shake up and mobilise the business, prioritising a passion for ecommerce and technology over travel industry knowledge. He relied on Roger Burnell, the Senior Independent Director, for a deep understanding of the business. The Board appointed Dawn Airy and Emre Berkin as Independent Non-Executive Directors to provide the required international and technology sector experience.

"I had somebody onboard with Roger Burnell who really understood the business."

As a turnaround CEO, Harriet recognised the need to put in place a succession plan at an early stage, and plans were developed to prepare Peter for the CEO role. However, the timing and execution of the plan was ultimately determined by the Board, under the leadership of the Chairman.

DETERMINING DIRECTIONAL RESPONSE AND ALIGNMENT

Thomas Cook's transformation story can be discussed in three steps. The first involved the initial stabilisation of the business, putting in place the financial restructuring and cost-out activities to ensure survival of the business. The second step involved development of a coherent strategy for growth and a transformation programme, putting in place the right people and structures and transforming the capabilities and culture of the business. The third step is still underway and focuses on delivery of the 'high tech, high touch' digital strategy.

1. STABILISE THE BUSINESS; "SAVE THE SHIP"

In October 2011, the new Chairman arrived, secured a new banking facility and initiated changes to the Board, bringing time and stability to the group. A 'hunker down strategy' was put in place by the CFO to enhance the group's cash position and restore trust from bankers, creditors and suppliers. A cost-out program composed of two 'waves' was launched, with an objective of £450 million or 5 percent of the entire cost base. This included dramatic reductions in the number of high street stores from 1,122 to 850, and 3,500 employees put under consultation. To realise cash, a plan of divestures worth £150 million was pursued to dispose of non-performing assets or poorly integrated acquisitions, especially in the U.K. segment.

Peter was appointed U.K. Chief Executive Officer in charge of turning around the U.K. segment which had excessive cost and complexity and represented over a third of Thomas Cook's revenues, whilst generating no profit. The numerous previous acquisitions meant that the U.K. was a loose federation of businesses. The disposal of these businesses helped to realise the necessary cash to self finance the U.K. turnaround.

"I said as well that we have to finance the turnaround principally on our own."

> ## YOU NEED SOMEBODY THAT HAS THE DRIVE TO CHANGE AND SPIN THE WHEELS, BUT THEN YOU HAVE TO MAKE SURE THAT THE CAR ALSO MOVES FORWARD. "

Within the first six months, the three existing U.K. Boards, with 22 Executive members, were reduced to one Board with only nine Executives.

Another key efficiency initiative was the integration of the airline group, from four distinct airlines into one. This was successfully led by Christoph Debus, a newly hired Executive with a strong track record in airlines.

By reducing the dependency on the tour operator to fill airline seats, the U.K. business was able to take out some unprofitable capacity. The consolidated airline was kept separate from the tour operator business, whilst maintaining some coordination at the top.

"…we decoupled two units (airline and tour operator) and said there has to be strong links, we managed that really from the top…we educated people that they have to respect each other but you have tension…but it's better to have tension than everybody falls asleep."

At the end of this step, Thomas Cook was able to refinance £1.6 billion of debt, saw its maturities extended and raised £425 million of new equity with a rights issue 97 percent subscribed by existing shareholders. This provided operational flexibility and facilitated the execution of the ongoing business transformation. Furthermore, the U.K. segment was quickly turning around and by the third quarter of 2013 had already taken out £105 million of cost.

2. STRATEGY & TRANSFORMATION; "DECIDE WHERE YOU WANT TO BE"

The second step focused on developing a coherent strategy for growth and galvanizing the business to drive the company's transformation into the digital world. Running in parallel with Step one, it was driven essentially by the CEO with external advisory support.

Having conducted the largest customer survey in the travel industry with 18,000 respondents, the strategy was defined as "High Tech, High Touch, Personal and Trusted." It was announced at the Capital Markets Morning in March 2013.

This step also involved building key capabilities into the business leadership at all levels, identifying talent required for digital and renewing the corporate culture by implementing a number of initiatives to help leaders to understand digital (via iClinics), to focus on customer experience (top 200 leaders experiencing a TC holiday in FY14) and drive innovation and continuous improvement (online lean awareness training).

In changing culture, small acts mattered, such as setting a rigorous structure of regular meetings, issuing pre-reads in advance and ensuring attendees arrived on time.

The transformation strategy was deeply embedded into the performance management system with relentless communication across the business from the CEO to ensure the necessary alignment and engagement. An online tool was launched to allow instant peer to peer recognition and a new CEO Award was introduced to recognise and drive best practice in customer service.

This phase also included a change of corporate image and brand with the launch of the Sunny Heart Brand, representing for customers, personalised and trusted holidays and high tech delivery. The former Head of Transformation and current Head of Investor Relations commented on Harriet's style:

"…energising and galvanising the business and shaking the business up… she then made it very clear it was a burning platform and had clear strategies in place to try and fix it. It meant disruption but it went down extremely well."

3. OPERATIONALISE; "MAKE SURE THE SHIP MOVES"

The appointment of Peter as Group CEO marked the start of this third step in Thomas Cook's transformation. This step is still underway, focusing on delivery of the digital transformation which sits at the heart of the strategy. This will include development of a single group-wide online environment and "dynamic" packaging tool as well as an accurate database of all customer interactions, creation of an omni-channel world with automatic 'recognition' of returning customers and tailored offerings, and effective engagement with customers outside holidays.

APPLYING THE RIGHT DISCIPLINES

GET THE RIGHT PEOPLE IN PLACE

At Board level, Thomas Cook needed a team who understood the business, the consumer, the financial aspects and the long-term vision. The Chairman recruited new Board Members, each time asking the Executive search companies for the best male and best female candidates. Today the Board is over a third female, with nationalities from Turkey, Belgium, Netherlands, the U.S. and U.K., signaling that it is not a U.K. company, but a truly international company.

Establishing the required leadership across the business, with the right mindset and skills, was extremely important. The CEO formed a top team composed of one third from the existing team, one third promoted from within and a further third from outside the company. This ensured the right blend of skills and experience, and balance of knowledge of the business with fresh external perspectives.

The company has established a new central Ecommerce Centre of Excellence and Digital Advisory Board led by the CEO and staffed with external experts, including John Straw, an experienced digital entrepreneur.

ALVAREZ & MARSAL

More widely, a pioneering Executive development program for 50 of the top 150 business leaders was put in place to further ensure leadership was informed and aligned with the requirements of the 'new digital era.' Thomas Cook has trained more than 400 senior employees and is developing and implementing a digital training programme, all of which is helping to drive the business towards a more digital future.

ENSURE EFFECTIVE STAKEHOLDER MANAGEMENT

As a 'Transformational Disruption', effective management of both internal and external stakeholders was critical to the survival and future success of the business. Harriet recognised the importance of instilling belief and initiating engagement from the start.

"We had to convince employees, customers, and investors that we were going to succeed – we needed to create a psychology of turnaround and pace."

Prior to joining Thomas Cook as the new CEO, Harriet focused on gaining an external perspective by talking to investors, analysts and the media. Once appointed she then took the same approach internally, talking to as many people as possible within the business. In her first month she launched a survey that received 8,000 detailed responses, to which she responded within 24 hours. This gave the message that quick action was required to get the business back on track.

Using this information, Harriet, with support from senior leadership, identified '15 big decisions' which were considered vital to the recovery of Thomas Cook. She took these with her everywhere as handwritten notes in order to engage the various parts of the business.

Mr. Healy also played a crucial role handling relations with the creditors, banks and suppliers and building the necessary trust to implement the transformation plan. The CFO's existing relationships and credibility with the banks and hedge funds was critical to effectively manage these stakeholders in the early stages of the transformation.

> WE HAD TO CONVINCE EMPLOYEES, CUSTOMERS, AND INVESTORS THAT WE WERE GOING TO SUCCEED – WE NEEDED TO CREATE A PSYCHOLOGY OF TURNAROUND AND PACE.

ARTICULATE THE PURPOSE, TAKE CALCULATED RISKS AND GET PACE

Reacting with pace to the disruption was essential, particularly in the initial stages of the response, when there needed to be the right balance between action and discussion.

"…when you come into a company in such a mess, then there's no real place for consensus, discussion with…you need the authority and autonomy to get on with it, because you don't really have time…"

The Chairman explained the changing nature of interactions with the Board as the disruption evolved. In the initial 12 months when pace is the priority, the Group CEO, CFO and U.K. CEO were given the trust and autonomy to address the immediate priorities.

"When you are in a crisis you don't as a Board challenge the execution of how your ship is rescued. You ask the captain, please rescue the ship. Over time when you are in more normal waters you will then challenge the captain and say, are you sure you're going towards the right direction, what are the alternative routes? And you have much more of a challenging environment."

BE EVIDENCE LED

The transformation of Thomas Cook was data led. It effectively pulled data from the periphery to inform the development of the strategy and support decision-making on restructuring.

The leadership team initially employed an employee survey which returned 8,000 responses, talked extensively with other senior leaders throughout the company, and gathered external views on strategy and market views from banks, brokers and industry analysts.

Thomas Cook also conducted the largest ever customer survey in the travel industry (18,000 respondents) and used this information and support from external advisors to design a long-term strategy with the customer quite literally at its heart.

However, Thomas Cook Executives were unanimous that speed is everything and sometimes takes priority, even when data is lacking. Some mistakes and losses in the process are inevitable and need to be accepted.

"It's not business as usual, it's quite a frenetic environment where you need to be able to make decisions and be confident at making decisions… if it's not right I'll change it later. But at the time it's the right decision based on the information I have at the time."

REALISE STRATEGIC ALIGNMENT AND ENGAGEMENT

Realising continuous strategic alignment and engagement is a critical discipline upon which successful transformations are built. At Thomas Cook this was achieved by establishing a Leadership Council which was attended by the top 150 managers. The 15 big decisions were announced and discussed at the first Leadership Council in September 2012 to ensure that there was one clear vision and consistent action at all levels of leadership.

Other initiatives included the formation of a new Executive committee aligned with strategy, with a mandate to coordinate its implementation with the trust and support from the Board of Directors. Getting the Board of Directors behind the strategy was critical.

"We had a two day strategy session with the Board, not part of the board meetings but just with the Board going through all of it, so if you like there is a reaffirmation of strategy not just from me and the CEO but from the entire Board, the entire board really were where the strategy is, so they've been very much involved in that."

USE TRUSTED, INDEPENDENT ADVISORS

Independent advisors were used to help develop the strategy and set up the transformation programme. They became a trusted partner for Harriet in particular, providing industry knowledge and support throughout the first two years of the transformation. External support was also obtained by the CFO to put in place a 26 week cash forecasting process.

As the focus moved from strategy development to execution, and with the appointment of Peter Fankhauser as Group CEO, it was important to scale back the dependency on external consultants and allow the business to drive forward the change as 'business as usual.'

THOMAS COOK: SUCCESS AND THE FUTURE

Thomas Cook has recovered from one of the most difficult chapters in its history, and is today a renewed, stronger company. The confidence in the company has been significantly restored, as demonstrated by the €400 million bond issue in January 2015 which was two times oversubscribed. However, both the industry, through the recent terrorist attacks in Tunisia, and Thomas Cook specifically, through a poor initial handling of a tragic fatal incident with

holiday makers, have faced some significant PR challenges. The strength of Thomas Cook's brand and loyalty of its customer base have again contributed to its survival.

The group is now looking to access long-term banking financing and is debating strategic projects related to geographical expansion in China as well as the group's position in the context of an evolving airline industry. The business is defining a new operating model, which will have customer centricity and the group's digital journey at its core. Thomas Cook's CEO explained:

"Digital is going to help us to get to the transformation and this is an important cornerstone…the other thing is we get the customer centricity right…this is now really about changing the business model and really getting the efficiencies much better."

Today Thomas Cook is a much more resilient company from a financial and product point of view, but the Chairman remains focused on ensuring that the drive and momentum from the transformation continues, that the business retains both an internal and external perspective and strikes the right balance between change and stability.

"It's a continuous element. The car in which we are driving looks kind of the way we like it to look like, but if you don't move forward somebody else is going to overtake you."

APPENDIX A: THOMAS COOK'S JOURNEY - ALIGNMENT WITH THE FRAMEWORK

Based on our research framework, outlined below, Thomas Cook broadly followed this process but changed the source and style of leadership three times with the change of CEO from Sam Weihagen to Harriet Green and ultimately Peter Fankhauser. In effect Thomas Cook returned from 'Assess and Refine' to 'Establish Correct Source and Style of Leadership' as shown below.
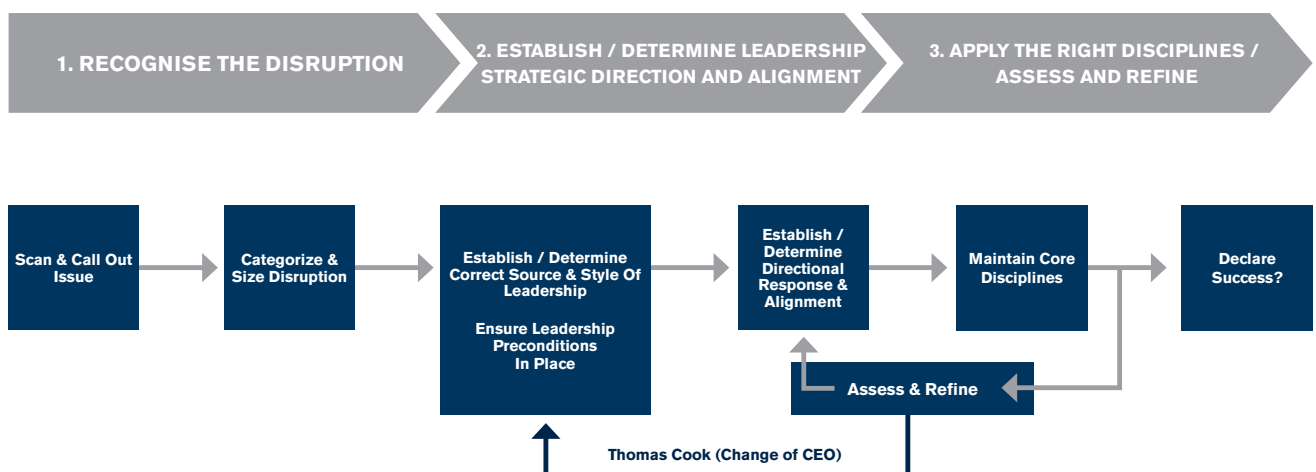
1. RECOGNISE THE DISRUPTION

- Disruption had been recognized but perhaps not sized adequately
- Consequently, action was "too little too late"
- Ultimately, there was the recognition that a much more fundamental change was required

2. DETERMINE LEADERSHIP, STRATEGIC DIRECTION & ALIGNMENT

Right Source of Leadership:
- Chairman identifies CEO & CFO with transformation credentials
- Right Preconditions in place: high resilience, communication, integrity and high levels of IQ, EQ and XQ

Strategic Direction & Alignment:
- New Chairman changes board - CEO and CFO appointed
- "Hunker Down" strategy and long-term transformation

Key Actions:
- Engagement of company leaders at all levels - First Thomas Cook Leadership Council
- 15 large decisions identified to take cost out and cash conservation, with focus on the U.K. segment
- Integrate airline business and separate tour operations
- Cost out program with cost champions and built into performance management
- New strategy high tech, high touch, personal and trusted

3. APPLY THE RIGHT DISCIPLINES / ASSESS & REFINE

Apply the Right Disciplines:
- Realize Strategic Alignment and Engagement:
  - TC leaderhip council implemented
  - New Executive committee aligned with strategy
  - Board supportive of management and strategy
- Get The Right Prople In Place:
  - New top management team
  - Executive development program for 50 of Top 150
- Be Data Led:
  - Pulled data from the periphery to support informed restructuring
  - Largest customer survey in travel industry (18,000 respondents)
- Articulate The Purpose, Take Calculated Risks And Get Pace:
  - Develop the long-term vision/strategy
  - Cost out program and restructuring

- Simplify labels and launch under the Sunny Heart Brand
- Align TC Culture to digital
- Set up e-commerce centre of excellence

Stakeholder Management:
- Externally gain the trust and alignment with banks, debtors and creditors
- Internally, align and engage leadership and the workforce to deliver the strategy

Focus on Future:
- Evolution of airline industry
- Growth Markets such as China
- Continue to drive efficiency and implement strategy
- New customer centric business model

Chart annotations (left to right along timeline):
- Third Profit Warning in 2011
- Emergency delay in full year results
- Emergency working capital facility
- New Chairman joins and implements stabilization plan
- New banking facility agreed
- New CFO announced
- New CEO announced
- Growth Strategy and Restructuring accounced
- £1.6 bn refinancing
- Launch of Sunny Heart Brand
- New CEO announced
- 400 million Euros bond issue

Y-axis: 0, 20, 40, 60, 80, 100, 120, 140, 160, 180, 200
X-axis: JUN 2011, DEC 2011, JUN 2012, DEC 2012, JUN 2013, DEC 2013, JUN 2014, DEC 2014, JUN 2015

BAE SYSTEMS TOTAL PERFORMANCE CULTURAL TRANSFORMATION

This case study is the result of analysis of interviews conducted with the following participants who were involved in the transformation of BAE Systems:

- **Ian King** | Chief Executive Officer | *BAE Systems, plc*
- **Philip Bramwell** | Group General Counsel | *BAE Systems, plc*
- **Sir Peter Mason** | Former Senior Independent Director | *BAE Systems, plc*
- **Sir Richard Olver** | Former Chairman of the Board | *BAE Systems, plc*
- **Sir Roger Carr** | Chairman of the Board | *BAE Systems, plc*

INTRODUCTION

The Al-Yamamah arms deal between BAE Systems and the Kingdom of Saudi Arabia had been in place for decades when allegations of bribery started appearing in the media in 2001. The following year, whilst already suffering from damage to its reputation, the company faced losses of hundreds of millions of pounds from problems with the Astute submarine and Nimrod aircraft programmes for the U.K. MoD. The Al-Yamamah deal then became an almost permanent topic in the media and with protest groups and was increasingly undermining the company's reputation.

"[BAE Systems] was not believed by regulators, it was not believed by the public and increasingly it was not believed by politicians. So we were, in some senses, in something of a death spiral."

BAE Systems was facing a 'Reputational Disruption' that could ultimately undermine the company's license to operate.

In 2004, the U.K. Serious Fraud Office (SFO) initiated a formal investigation into the allegations responding to national and international pressures, only to be discontinued in 2006 for the sake of "U.K. national interest" in the words of the then Prime Minister Tony Blair. This intervention by the U.K. government was seen as unacceptable by the U.S. government and the Department of Justice (DoJ) initiated

its own investigation in 2007. The investigation culminated with BAE pleading guilty to not keeping correct 'books and records' and receiving what was then a record fine of $400 million. The company was not convicted for bribery and thus escaped blacklisting for future contracts.

In a bid to respond to these serious challenges and recognising that the company's business development structure required a complete change, the company initiated global ethical and business practices transformation across all aspects of its business late in 2006.

RECOGNISE THE DISRUPTION: A CIVIL PERCEPTION PROBLEM OR RISK OF LOSING LICENCE TO OPERATE?

When Dick Olver began his role as Chairman on July 1, 2004, the problem was being framed as a "civil society perception problem" and not a serious reputational disruption that could ultimately threaten the company's licence to operate.

There were talks of a U.S. break-up bid for the company and continuous leaks to the press about the ongoing SFO investigation. Politicians were frustrated that the company's

reputation was declining "*from national champion to national disgrace.*" The company was losing trust and influence.

"It had been so widely pilloried it had no legitimacy in the eyes of the media. Years of silence had left it basically rendered without a voice."

The prevailing view was that the constraints arising from the large number of classified defence and intelligence programmes run by the company were incompatible with the principle of being more transparent. As such, it was thought that the problem, particularly in so far as it related to government-to-government programmes, should be resolved at governmental level. This appeared to leave the company drifting without a clear strategy.

We were told how Chairman Dick Olver was not constrained by the past and was able to 'call out the issue'. In his first annual report to shareholders, he announced the establishment of a Corporate Responsibility Committee (CRC), chaired by a non Executive , as:

"Social, environmental and ethical aspects of a company's business operations are increasingly of interest to a broad stakeholder community."

He then followed a persistent, yet measured, approach over the following three years to make fundamental changes to the Board, the Executive team and the way in which the company engaged with regulators, politicians and the public.

"In my opinion the Chairman, is at that point the accountable Executive, because the reputation of the enterprise is at risk."

REALISING BOARD ALIGNMENT AND PIVOTING THE ISSUE

When Dick Olver was appointed as Independent Chairman in July 2004, the Board comprised six Executive directors and six Non-Executive directors, one of whom had been on the Board for 10 years.

Over the next 18 months, Dick led a fundamental refresh of the Board. He appointed three new Non-Executives during 2004, one in 2005 and a further two in 2006. Five Non-Executives retired over this period.

> ## IT HAD BEEN SO WIDELY PILLORIED IT HAD NO LEGITIMACY IN THE EYES OF THE MEDIA. YEARS OF SILENCE HAD LEFT IT BASICALLY RENDERED WITHOUT A VOICE.

During 2005, two of the former Executive directors left the company and in 2006 a further three departed. Dick reported to shareholders in February 2008 that the current chief Executive would be retiring later that year as he had reached his normal retirement age after 42 years with the Group. Over the three and a half years since his appointment the new chairman had led a complete refresh of the Board so that only one Non-Executive and one Executive director (the CFO) remained.

Dick Olver had also encouraged the hiring of a new external General Counsel, Philip Bramwell, in 2007 with a mandate to restructure BAE's legal team and to help develop a plan for BAE to regain control of the agenda. This wholesale changing of the Board was clearly a difficult and time-consuming step. None of the top team was accused of any wrong-doing. Dick Olver and Philip Bramwell counted on the strong experience of Non-Executive Director Peter Mason to help reshape the Board composition.

"I understood that the Chairman had no power to do anything until and unless they had a Board aligned with them."

"I was determined that we were going to have a world-class Board."

Secondly, he encouraged the CEO to undertake an external review of the top 50 Executives in the business to ensure that the most effective were being identified and promoted, and appropriate action was being taken on those who were no longer performing at the required level. This had a major impact on the top level Executives in the business and is a process which BAE continues to use today.

Thirdly, Dick Olver initiated an independent review of the company's standards of business as a means to regain control of the agenda and enable regulators to be engaged in an appropriate and constructive manner. In 2007, prior to the commencement of the U.S. DoJ investigation, he went outside the world of both defence and business, and approached Lord Harry Woolf, former Lord Chief of Justice, to conduct the review. Lord Woolf's unimpeachable integrity and high profile gave the company the opportunity to regain credibility and be taken seriously in its efforts to reform. Whilst Lord Woolf was initially apprehensive, given his lack of defence sector experience, he put together a powerful review committee which included the former CEO of Coca Cola, Doug Daft, the much respected banker and former chairman of Barclays David Walker, and the Director of the Institute of Business Ethics Philippa Foster Back.

"Once we'd got the Board engaged and aligned, we had a two prong strategy: 1) to fix the company; 2) to engage with the forces outside the company who'd started to shape its destiny, instead of this being done by the Board and the Management."

All Board Members were asked to sign irrevocable written resolutions committing to support the agreed strategy and prior to the start of the Woolf Committee's work, Dick Olver announced publicly that BAE would commit to implement all of the recommendations of the Committee's Report when it was published.

Headlines in the Financial Times reflected exactly the desired effect. On the 6th of May 2008 the Financial Times announced: "Woolf hands BAE a weapon to fend off critics" and in the following day the chairman's convictions were underlined "Chairman hopes Woolf findings will usher in cultural revolution."

"You need an absolute resolution and an inner calmness to execute a change like this."

IT WAS YOURS TO CONCEIVE, ITS MINE TO IMPLEMENT: BAE SYSTEM'S TOTAL PERFORMANCE

The Woolf Report was completed and released in May 2008 and comprised 23 far-reaching recommendations and over 1,000 discreet change items. Following some debate, it was ultimately agreed that the required cultural change was best led by the CEO and the Executives.

"So there was a need to do something, to culturally do something; to change perception of the company; to change perception of the industry. To step out and boldly go where perhaps you wouldn't want to go and be seen as a leader."

Informed by the external review of top talent, the board had identified Ian King as a potential future CEO, and following benchmarking with external candidates promoted Ian to CEO. In addition to his strength as a performance manager, they considered that he had the requisite qualities to design and implement a major cultural change program. Ian personally led the implementation throughout the company, subsequently refreshing it to keep it current.

"Boards cannot implement culture. Boards need to incentivise and catalyse Executives in the culture."

"If it's a cultural change and it's important, then the CEO has to lead it because at the end of the day the only person who can do trade-offs between functions and trade-offs between businesses is the CEO. If it's not owned and led by the Chief Executive then it isn't going to happen."

The Board monitored the implementation by the Executive team through the Corporate Responsibility Committee. Regular independent reports were also provided to the U.S. Department of Justice by Lord Gold, who had been appointed as 'Corporate Monitor' following the Company's settlement.

The company's values were changed to "Trusted, Innovative and Bold" to reflect a new era. They were signed off by the Board and disseminated throughout the company.

Ian King and his team had crafted a detailed cultural change program around the notion of "Total Performance" whereby every decision taken at any level or region needed to consider all aspects of business equally. The Economist cited "Mr. Clean, Ian King wants to transform the way the world's third-biggest defence company does business."

"You have an equal obligation as a leader in this company to satisfy all aspects of your business not just what we do financially, how we're meeting our programs, how we´re satisfying our customers, and the other stakeholders; but also how we do business ethics, the acceptable business conduct. The 'everything' matters."

This principle emanated from the Board throughout the business and a number of initiatives helped to make the program a reality. There are now distinct roles and

responsibilities at board level and all incidents are reported to the Board under the Corporate Responsibility Committee (CRC). The CRC also reports externally via the Annual Report.

All processes and policies were reviewed and signed off by the Executive team. There is a living list of 'acceptable' countries in which to do business that is updated every year. The company trained its 90,000 employees in the new Code of Conduct which is regularly revised and re-issued by the Board.

The company introduced Ethics Officers throughout the organisation and established Ethics Help Lines. Employees are now encouraged to self-report every doubt or incident and have the freedom to withdraw from deals in which they feel 'uncomfortable'. A culture of trust was built by the CEO and Executive team and employees explained how they now feel safe in bringing potential issues to the attention of management without fear of punishment or unfair treatment.

"The company moved from being rules-based to a culture of being principles-based, where employees are trusted to apply their own judgment as to the extent to which the company is adhering to its values."

The fact that BAE was a highly process-oriented company, with deep engineering and accountancy skills sets, meant that there was already a culture of discipline, which was important to the success of the program. The CEO was able both to let go of much of the old legacy, yet build on existing strengths to shape the future.

CELEBRATING SUCCESS AND LEARNINGS FOR THE FUTURE

The real test of a business ethics programme is when a company has to turn down business. The company effectively refused to do business in certain regions unless ethical standards were met.

"We walked away from several hundred million of business, as we could not execute it in our way."

They also declined to supply some operational air forces unless they changed their terms of business. BAE held strong to its principles and customers that initially resisted have now realised that they may have to change themselves.

> THE COMPANY MOVED FROM BEING RULES-BASED TO A CULTURE OF BEING PRINCIPLES-BASED, WHERE EMPLOYEES ARE TRUSTED TO APPLY THEIR OWN JUDGMENT AS TO THE EXTENT TO WHICH THE COMPANY IS ADHERING TO ITS VALUES.

"We have changed international business models in military procurement by taking a stand."

Today the company explained how it tries to be in a permanent state of awareness and readiness to prevent ethical standards being overlooked. For example, when the financial crisis started in 2008, BAE doubled its awareness and internal communication and tightened all processes and procedures.

Yet maintaining a permanent state of awareness is difficult. Sustaining it and not letting it fade from corporate memory is hard work and never ending.

"How do you keep it current? How do you keep it so that people are proud of it? How do you add something to it that's evolution not revolution because what we did before was revolution, so we've done that. Now we're going to have to evolve and positively evolve."

"…what was done, was done with considerable rigour and in such a way that it became part of the DNA of the company… if you look at the ten years that has elapsed since this actually occurred, I would say at every level in the business there is a total understanding of the way we do business."

A board committee structure now exists to own each internal aspect of BAE Systems' Total Performance initiative to ensure it is aligned with the company's mission and permanently on the Board's agenda. The Chairman, NEDs and members of the CRC also conduct independent visits to operations, especially in high-risk areas.

Having implemented a fundamental transformation of its culture and business practices, BAE Systems is now approached for advice by other firms with similar reputational challenges. The change is impressive: it has successfully turned its standards around from a situation where they threatened the ability of its major U.K. and U.S. customers

to do business with them to define a new standard, and the U.K. and U.S. governments have regained confidence in the company's standards of conduct.

"…every time I spoke to large groups of people all over the world I reinforced the message about it's not just how much money we make, it's how we make money and that's a reinforced message so everybody knew that the change in chair didn´t change the standard."

APPENDIX A: BAE'S TIMELINE OF EVENTS

TIMELINE OF EVENTS	LEADERSHIP RESPONSE	% PHYSICIANS SAMPLED BY U.S. WORLD NEWS
1999: First Allegations **2001:** Media campaign commences	**Board:** • Defensive of the past • Denial • Leadership Vacuum • Astute submarines / Nimrod aircraft issues	**Drift Phase** • Public perception very adverse • Political pressure • Licence to operate at risk
July 2004: SFO Investigation **Dec 2006:** SFO abandons KSA aspects **July 2007:** DoJ initiates investigation Woolf Review Starts	**Chairman Dick Olver leads:** • New General Counsel Philip Bramwell • Hired Board alignment • Lord Harry Woolf to conduct a review	**Pivoting Phase** • Media / Activist campaigns continue • Political pressure intensifies
May 2008: Woolf Report is published **May 2008 – Present:** Woolf Report is implemented **February 2010:** DoJ/SFO settlement…	**CEO Ian King leads:** Global cultural transformation based on the Woolf Report recommendation: • CEO Ian King is appointed • Corporate Responsibility Committee • New set of values • Total performance • Code of conduct • Operational framework	**Recovery Phase** • Company receives praise on the way it handled the issues • Relationships with regulators are re-established • Customer relationships re-framed under a new set of values and principles • BAE Systems ultimately seen as leading the industry in terms of ethical and business conduct • Company adopts "Inspired Work" as part of its brand, re-invigorating employee pride in the Company and its work
February 2010-present: DoJ/SFO settlement…	**Company Leadership:** Embedded in the company's culture – total performance	

APPENDIX B: BAE'S TIMELINE OF EVENTS

1. RECOGNIZE THE DISRUPTION	2. DETERMINE LEADERSHIP, STRATEGIC DIRECTION & ALIGNMENT	3. APPLY THE RIGHT DISCIPLINES / ASSESS & REFINE

Recognise and Size the Disruption:
- Initially framed as a public perception issue, and later under Dick Oliver as a serious reputation issue.
- License to operate at risk
- Political Pressure
- Very adverse public opinion

BAE's Cultural Transformational Program:
- Board Corporate Responsibility Committee Installed
- New set of values: Trusted, Innovative and Bold
- Total Performance Concept
- Code of Conduct globally applicable
- Operational Framework fully revised to incorporate new principles
- Living list of acceptable countries to do business with

Woolf Report Published

SFO Abandons

Nimrod and Astute Cost Overrun and Contract Negotiation

Media Campaign Commences after 1st Allegations in 1999

DOJ Initiates Investigation Woolf Review Starts

SFO/DoJ Settlement

July 2004: SFO Investigation

Key Actions:
- Sir Peter Mason supports sir Dick Olver to get direction and alignment
- General Counsel Phillip Bramwell hired Board Members to sign irrevocable declarations of support
- Lord Harry Woolf to conduct the review - Pivot Phase
- Publicly commit to implement Woolf Report
- CEO Ian King is announced

BAE Posts Poor Profits In December 2002 As A Result Of Ongoing Nimrod And Astute Problems

Global Financial Crisis

SHARE PRICE

BARRATT DEVELOPMENTS ROAD TO RECOVERY: THE 2008 FINANCIAL AND PROPERTY CRISIS

This case study is based on an analysis of interviews conducted during the first quarter of 2015 with the following participants:

- **David Thomas** | Chief Financial Officer | *Barratt Developments plc*
- **Gary Channon** | Chairman and Chief Investment Officer | *Phoenix Asset Management Partners, Ltd*
- **Mark Clare** | Chief Executive Officer | *Barratt Developments plc*
- **Mark Rolph** | Senior Independent Director | *Barratt Developments plc*

- **Richard Brookes** | Managing Director East Region | *Barratt Developments plc*
- **Steven Boyes** | Chief Operations Officer | *Barratt Developments plc*
- **Tristan Chapple** | Analyst | *Phoenix Asset Management Partners, Ltd*

INTRODUCTION

The Barratt Developments' Board was under fire. It was early 2008 when U.K. banks stopped lending and what at this stage looked like yet another cyclical property downturn, turned into a dramatic disruption to the business. Barratt's sales during 2008 dropped by over 40 per cent and prices fell on average by 25 per cent. Barratt's challenges were compounded by a significant acquisition in April 2007 which added £1.3 billion of debt to an otherwise debt free business. The share price dropped dramatically from a high of £8.55 in February 2007 to a low of £0.32 in October 2008.

In April 2008, the Financial Times announced "Barratt slump continues to rattle housebuilding sector" and in July the same publication referred to the company as a walking-dead: "Barratt manages to lift the coffin lid a fraction."

Despite pressures from the media, analysts and City investors alike, the Board persevered and gave the CEO the trust and cover that he needed. In turn, the CEO marshalled the business' "depth and breadth" of industry expertise and acted swiftly and with determination, applying the business disciplines needed to see Barratt 'through the woods.' Here's how Barratt did it.

RECOGNISE THE DISRUPTION: IS THIS ANOTHER CYCLICAL PROPERTY DOWNTURN?

One thing that all Barratt Board Members agreed upon is that the mortgage market collapse, initiated in September 2007 with Northern Rock's demise, was highly unpredictable in terms of its reach and impact on the industry. Although there were growing issues during 2007, such as a series of interest rate increases and some loss of customer confidence, the prevailing view through the first quarter of 2008 was that it was yet another traditional downturn or house building cycle. The full extent of the problem had not yet emerged and was not regarded as life threatening.

"When the U.S. collapses happened, we were into completely virgin territory here. So the big problem was just saying, how do we scope this problem, is this a traditional recession, in which case we know what we're doing? Is this a matter of life and death, in which case we really don´t have all the answers to this."

The difference to previous property downturns was the speed at which it happened, which left the company with less time to respond. Banks didn't just ease gradually off mortgage supply; rather they "pulled the plug" and there was a massive market correction.

For the finance Executives, it was equally important to understand the common factor with other property

downturns, which was affordability. In 2007, the average homeowner was spending more than 40 per cent of their net income on mortgage payments. The problem was that nobody wanted to be the person to 'call out the issue' first:

"Nobody wants to cut off say a third of the company's operational capability and find out that you were the guy that called it too soon."

Barratt turned to its Board Members who had been through a number of downturns to try and understand the likely duration and impact of the problem, and determine the correct course of action. Initially the view was that the effect would be short-term and that recovery was likely to occur relatively quickly, as had happened with previous 'corrections.'

The reality was that the full impact of the 'credit crunch' was still to come, with two further 'step downs' in lending availability in April 2008 and the coinciding collapse of Lehman Brothers in October:

"The CEO called a recovery subtly before it had happened, then Lehman's went bust and things got much worse."

DETERMINING THE RIGHT LEADERSHIP

As the downturn unfolded, Barratt's situation became more precarious. Having orchestrated an acquisition at the top of the market and with significant debt, many voices coming from the City, from investors to analysts, called for the head of the CEO.

However, the Board, Chairman and the firm's top shareholders gave the CEO the backing he needed in order to pursue a recovery plan with a focus on Barratt's long-term sustainability.

"The Chairman has been incredibly supportive all the way through. There were some really quite challenging periods but the Board was always supportive to what we were trying to do."

Executives and Non-Executives described a CEO who was abundant in the necessary leadership preconditions. He displayed emotional resilience to persevere in difficult conditions and had strong communication skills. He aligned the company to the strategy by communicating relentlessly, consistently and clearly. He was seen as a positive person who could energise his team, even in the darkest of scenarios:

> DURING EXTRAORDINARY DISRUPTIONS THERE IS NO ROOM FOR AN UNALIGNED, UNENGAGED BOARD AND TOP TEAM. MEMBERS OF BARRETT'S BOARD DESCRIBED HOW THE CHAIRMAN AND THE CEO HELPED TO CREATE A CONSTRUCTIVE BOARD ENVIRONMENT THAT ADDRESSED ANY UNRESOLVED CONFLICTS AND PROVIDED SUFFICIENT STABILITY TO ENSURE A UNIFIED AND WELL-ALIGNED BOARD.

"In terms of leadership, our Chief Executive led us extremely well, he made us face reality."

The other characteristics highlighted by his peers included a leadership style focused on trust and empowerment of the senior Executives. This meant the depth and breadth of the team's industry experience was recognised and used to complement the CEO's own strengths and weaknesses. The CEO also displayed an honesty that shareholders, the Board and his team truly appreciated.

"That's credit to the CEO that he hasn´t built a whole personality. What he's built is a good firm."

During extraordinary disruptions there is no room for an un-aligned, unengaged Board and top team. Members of Barratt's board described how the Chairman and the CEO helped to create a constructive board environment that addressed any unresolved conflicts and provided sufficient stability to ensure a unified and well-aligned Board.

"You don't want people feeling comfortable, but you want people feeling stability. If you've got people sitting around the table that are worried about their jobs, there is no way that you're going to get the best performance from them."

FORGING BARRATT'S STRATEGIC DIRECTION & ALIGNMENT

In response to the disruption, board engagement increased significantly in terms of number of meetings, detail of Board papers and Non-Executive input. Initially the Board shared its experience and skills to contribute to the "directional response" and to ensure that Executive action was appropriate. Once alignment around the strategy was achieved, the Board coalesced around the Executives to facilitate the implementation of the plan and to monitor progress.

The board environment was described as open and transparent, and energy was focused on resolving the challenge rather than on 'own-agendas.' This helped to deploy a swift response.

"I think the positive for me was that the Board was united, very proactive in taking action."

Crucial to ensure initial and continuous alignment between the board, the Executive team and the "directional response" was the Chairman. According to some shareholders, the Chairman was outstanding. As part of his role, he gathered independent information, conducted site visits without the CEO and observed middle management training from the back of the room.

He also genuinely listened to shareholders. For example, he took direct action in response to competitor analysis insights, kept the Board focused on the long-term and provided the cover and the confidence needed for the CEO to continue on the "Road to Recovery."

Evidence suggests that the discipline of "Ensuring a Constructive Chairman-CEO Relationship" had been successfully applied throughout the disruption, which enabled the company to deliver clear messages and engage effectively with stakeholders.

"You've got to have clarity of purpose, you've got to communicate it very clearly, you've got to be relentless in your focus, you've just got to keep going. And if you're all fighting with each other you're never going to get anywhere."

The directional response had to be assessed, refined and adjusted at times, as different events would alter the assumptions under which plans were made.

"It wasn't death by 1,000 cuts, it was arguably two deep cuts and then no more. It was difficult to gauge how bad the market would get, but we made two cuts and then moved on."

SPEED OF RESPONSE AND APPLYING THE RIGHT DISCIPLINES IS CRITICAL

1. ARTICULATE THE PURPOSE, TAKE CALCULATED RISKS AND GET PACE

As soon as the full extent of the 'credit crunch' was understood, the company went into proactive response mode, stopping all new land investment and rapidly reducing the costs of the business. The strategy was composed of three broad stages:

I.   Impose very tight disciplines (cost and WIP) into the business

II. Centralise all investment authority

III. Refinance the business

The response in terms of cash conservation, including not paying out dividends and cost reduction, was formulated and presented to the Board. Once agreed upon, this approach cascaded down to the top 50 senior Executives of Managing Directors and Regional Managing Directors within the Senior Leadership Group.

"Speed of response is absolutely critical, either simply to manage your survival or to seek or gain competitive advantage at a time when you and your peers are both trying to hit the sweet spot in the market."

Still, a number of dilemmas were faced by the Executive team and the Board during this stage in terms of balancing the short-term needs with Barratt's long-term sustainability.

A key dilemma was to understand how to cut hard and fast without destroying the firm's core competencies and capabilities for future growth.

Striking the right balance between existing needs and future growth meant Barratt had to maintain its competitive advantage through delivering top sales and great product design and delivery. Pushing product design and investing in

the development of new ranges of house types, designs and technical planning helped to secure future growth.

Under the banner of "Planning for Recovery" (with its forward-looking message), the CEO went on an eight-week tour through the business, directly communicating face-to-face with thousands of employees. There were three clear and simple messages:

I.   Drive for cash

II. Reduce costs

III. Deliver on sales

"In terms of what they did operationally, they were superb. They did the right things. They didn't abandon the future, they didn't damage the business so that you had a shell afterwards."

2. BE EVIDENCE LED

Throughout the disruption, information flow from the periphery to the centre improved greatly. Barratt's ability to pull data right through the organisation and produce detailed reports enabled the board to effectively categorise and size the disruption, determine the directional response and then revise and refine their plans.

3. ENSURE EFFECTIVE STAKEHOLDER MANAGEMENT

Stakeholder management and communication was emphasised as an absolutely crucial discipline.

"The communication was absolutely critical because we were dealing with multiple stakeholders. Stakeholders were there in spades and if we didn't manage them, whether it's the banks, investors or media, then that would have had a detrimental effect on what we were trying to deliver."

The CEO and Chairman played to their strengths and delivered high quality stakeholder management both internally and externally.

" THE BOARD ENVIRONMENT WAS DESCRIBED AS OPEN AND TRANSPARENT, AND ENERGY WAS FOCUSED ON RESOLVING THE CHALLENGE RATHER THAN ON 'OWN-AGENDAS'. THIS HELPED TO DEPLOY A SWIFT RESPONSE. "

"They would spend hours talking to a sales advisor or a forklift driver on site, and you knew from the words they used that they really cared. This sort of messaging can be much more effective than if it were to come from the top, down."

CHOOSING THE POINT TO INVEST AGAIN

One clear challenge for the business was when to start investing in the land market again. Without making such advances, the business would have continued to shrink and the opportunity to acquire good land at the bottom of the cycle would have been lost.

In January 2009, the market started to stabilise in terms of pricing. In the previous six months, the average property sales price had declined by as much as 30 per cent, which had the effect of driving down the cost of new land. At this point the Chief Executive , with the support of the Board, took the decision to start investing, albeit at low levels. Every piece of land acquired was approved centrally, a discipline that still exists today.

With almost no competition for land, the company was able to acquire some of the best opportunities available. Based on this success it then took the step of going to shareholders to raise additional funds to accelerate its rate of acquisition, something shareholders fully supported.

Since that time the group has invested over £4 billion in new land, which has driven the record performance now being delivered.

DECLARING SUCCESS AND LEARNINGS FOR THE FUTURE

Barratt has now declared victory. It is effectively debt free and analysts expect record profits for FY15. In addition, the company is once again delivering high returns on Capital Employed and its market capitalisation is now at an all time high. After nine years as CEO, Mark Clare handed over the reins to David Thomas (previously the Group Finance Director) to provide the long-term leadership for the next stage in the company's development.

The management team compiled and documented its experience through the 2008 downturn up to 2013 in two 'books' which serve as guidance for current and future Executives and other employees on how to manage large disruptions.

"I always say in times of peace, prepare for war; we're in an upturn, when is the next downturn going to be and how we're going to manage our downside risk. I think there's been some good learning."

A completely different approach now exists within Barratt, with dedicated Executives in the business looking at trends in the mortgage market, lending, availability of funding and various sources of mortgage products.

An exhaustive crisis management model with various levels of indicators and responses (a weather warning type of system) has been implemented at Board level. The lessons should remain for future generations and perhaps a more risk conservative approach will persist in the business.

APPENDIX A: BARRATT DEVELOPMENTS' TIMELINE OF EVENTS

1. RECOGNISE THE DISRUPTION	2. DETERMINE LEADERSHIP, STRATEGIC DIRECTION & ALIGNMENT	3. APPLY THE RIGHT DISCIPLINES / ASSESS & REFINE

Enablers:
- Trust
- Resilience
- Industry Experience on Board
- No Egos involved

Right Source of Leadership:
- CEO supported by the Board despite market and analyst pressures

Strategic Direction & Alignment:
- Re-scale the business and run for cash

Dilemmas:
- How much to cut?
- How to cut hard and fast without losing capabilities for future growth?
- Buy back stock or cut down debt?

Key Actions:
- 30% of Headcount reduced
- 850 million asset write-down
- Sell non-performing assets
- Renegotiate banking facilities
- Stop buying land & reduce stock/WIP
- CEO communicates with all employees across the country in a 8-week tour:
  - Reduce costs
  - Drive sales
  - Deliver cash

Apply the Right Disciplines:
- **Stakeholder Management:** new way of approaching relationship with banks and proactively engaging with media
- **Articulate the Purpose, Take Calculated Risks and Get Pace:** communicate clearly consistently and constantly the purpose and strategic direction throughout the company
- **Be Evidence Led:** lead indicators and better Information systems
- **Ensure constructive Chairman-CEO relationship:** ensure a united front
- **Realise strategic Alignment and Engagement**

Focus:
- Manage Growth Rates
- Succession Planning

Chart: MARKET CAP (MILLION £) vs years 2006–2015

Annotations on chart:
- Sept. 2007 Northern Rock collapses
- Another Cyclical Downturn?
- April 2008: Bear Stearns demise
- 40% of sales and 25% of prices drop in 6 months
- U.K. Banks stop lending
- Bob Lawson appointed Chairman
- Rights Issue
- Sept. 2008 Lehman demise
- Re-starts buying land
- U.K. Banks restart lending
- Economic Recovery Record Profits Expected
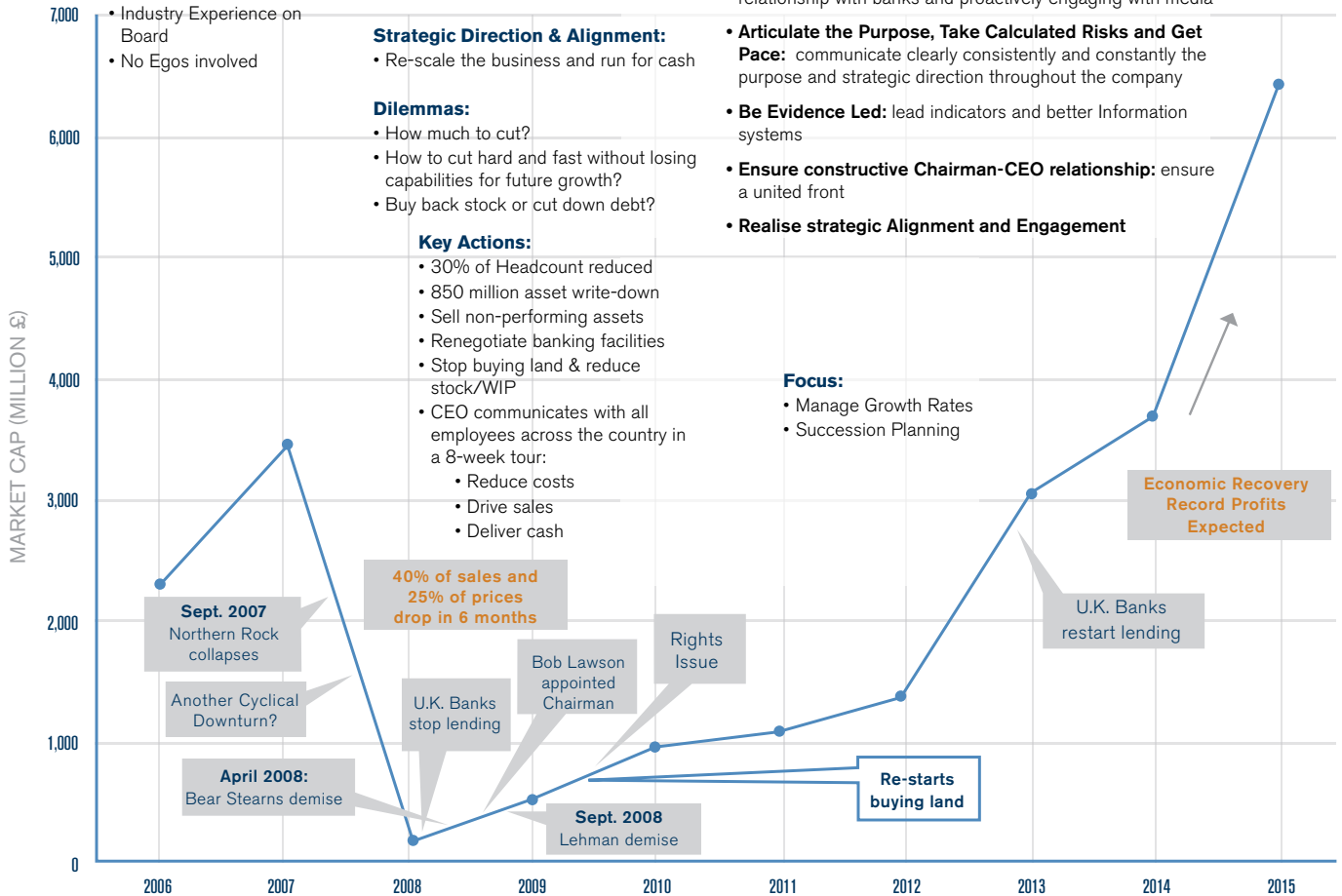
SKYPE TECHNOLOGIES: REVIVING THE DISRUPTOR

This case study is based on an analysis of interviews conducted during the first and second quarters of 2015, as well as an analysis of relevant documentation. The following participants took part in the study:

- **Miles Flint** | Former Chairman of the Board | *Skype Technologies*
- **Jim Davidson** | Founder | *Silver Lake*
- **Niklas Zennström** | Founder | *Skype Technologies*

- **Ben Horowitz** | Investor and Founder | *Andreessen Horowitz*
- **Mark Gillett** | Former Chief Operating Officer | *Skype Technologies*

INTRODUCTION

In October 2005, eBay acquired Skype for a total of $2.6 billion[1]. At the time, Skype had significantly disrupted the telecommunications and internet market. Between 2005 and 2007, the founding team ran the business from within eBay and managed to sustain performance. However, in the two years that followed, eBay changed management and struggled to integrate Skype with its existing services and realise the benefits of using Skype to enrich the experience of eBay consumers.

The impact of the global financial crisis, coupled with internal inertia, caused Skype's performance to suffer heavily with eBay taking a $1.4 billion write down in October 2007[2], ultimately resulting in eBay seeking to sell the business in September 2008. The business also faced litigation over Skype's intellectual property[3].

"Skype had become the Kurt Cobain of technology companies – wildly popular, deeply troubled." (Fortune Magazine)

Despite the challenges, Silver Lake Partners and other investors saw a great investment opportunity and on September 1, 2009, a consortium led by Silver Lake Partners acquired 65 percent of Skype's shares for all cash consideration of approximately $1.9 billion, valuing the business at $2.75 billion. Following a strategic realignment and rapid transformation, Skype continued its journey of

'Creative Disruption', reaching 170 million connected users in more than 190 countries, 25 percent of all international long distance (ILD) minutes and over 12 billion billing minutes by 2010.

What follows is insight from inside a disruptor from Skype's key Executives and Board Members on the journey from opportunity identification to transformation and value creation.

CALL OUT THE OPPORTUNITY

It was September 2008 when Lehman Brothers collapsed and the world economy contracted. Internet businesses suffered considerably with the downturn and Skype in particular was facing its own specific challenge to align the entrepreneurial culture established by the original founders with the more corporate culture of eBay.

"A series of management blunders turned a fast-growing startup into a cesspool of mediocrity and bureaucratic infighting. It was as if someone opened the fuel tank on a rocket heading to the moon." (GigaOm, Sept 2009)

"…as usually happens when the founders leave, so too do a lot of the original people, and there are new hires coming on board…so a little bit of that entrepreneurial spirit can be lost."

Disputes over intellectual property with the Skype founders and disagreements over the strategic direction of the business paralysed Skype at a time when it was facing potential

competition from some very large and well-established companies. AT&T, Google and Microsoft and Facebook were all trying to develop digital communications solutions. John Donahoe had succeeded Meg Whitman who had acquired Skype for eBay, and could dispassionately evaluate the situation.

Silver Lake identified Skype as a potential investment opportunity and initiated conversations to establish a consortium to acquire a substantial portion of equity from eBay. The consortium was purposefully diverse, including the Canadian Pension Fund Investment Board as institutional investor, eBay as previous owner, Silver Lake as private equity partner and newly minted technology venture capitalist Andreesen Horowitz whose founders had navigated the original internet growth boom. There was also at least one other potential rumoured bidding consortium separate from Silver Lake.

Whilst the Silver Lake consortium were agreeing to buy 65 percent of Skype from eBay, the founders of Skype used the investment vehicle Joltid to file a lawsuit against Skype seeking injunction and damage over intellectual property (IP), particularly with regard to a piece of technology known as "GI code." This threatened the whole deal and growth prospects of Skype and was one of the first challenges faced by the consortia.

"The price of Skype was objectively low enough that people were bidding but there was very good reason for this which was the IP litigation with the founders. I think everybody determined that from a legal standpoint the litigation threat was real in the sense that if the founders went to court and won they could shut down the service. And so that was why there weren´t very many bidders, it looked like a very dangerous deal on the surface."

Silver Lake put in place a risk mitigation strategy by identifying an exceptional team who they believed could rapidly rewrite the underlying code from scratch if the consortium was to lose the intellectual property litigation. This enabled them to maintain a clear investment thesis. With a global communications market worth $1.7 trillion, Skype, the leading global internet VoIP provider, was seen as a great opportunity. There was significant potential for value creation with various opportunities to improve operations and accelerate growth in core

> ## SILVER LAKE IS POTENTIALLY MAKING A MAKE OR BREAK DECISION FOR THE FIRM, ONE OF THE LARGEST INVESTMENTS UP TO THAT POINT FOR SILVER LAKE.

business. There were untapped growth opportunities in small and medium enterprises, mobile, advertising and new geographies. Moreover, Skype had highly attractive financial characteristics including a low tax rate and capital expenditures and an attractive working capital profile. Skype was a potentially highly strategic target for some large tech acquiring companies such as Apple, Google and Microsoft and had strong IPO potential. With this in mind, investors could see a favourable buy-in valuation relative to the growth outlook.

"Silver Lake is potentially making a make or break decision for the firm, one of the largest investments up to that point for Silver Lake."

The deal was signed on September 1, 2009 with the consortium led by Silver Lake Partners acquiring 65 percent of Skype's shares for all cash consideration of approximately $1.9 billion[4] valuing the business at $2.75bn.

DETERMINING THE RIGHT LEADERSHIP, OPERATIONAL AND STRATEGIC DIRECTION

By the end of October 2009, following an extensive dialogue with Joltid, the IP issues were resolved and Skype acquired the rights to the GI code. In exchange, Skype founders received an approximately 15 percent stake in the consortium and corresponding Board representation.

The investors were diverse, encompassing entrepreneurs, Silicon Valley venture capitalists, more traditional private

equity, institutional investors and the previous strategic owners. Whilst Silver Lake had the largest stake, it was deliberately decided to appoint an independent chairman. Silver Lake did not have a majority, therefore this decision was itself a collaborative decision amongst the investors. Silver Lake looked for someone who had a good perspective on technology companies, was demonstrably independent and objective, able and willing to work with all Board Members and most importantly, someone the Board and management could trust. It was announced that Miles Flint, previously CEO of Sony Ericson who had successfully managed the complications of joint venture technology business, would become Chairman in January 2010.

"Miles was somebody who was very accomplished and trusted. He had two things, he had an understanding of technology and fabulous knowledge of the communications markets and how companies were addressing issues as they evolved. Things were changing rapidly."

Immediately upon taking control, the new Board wanted to obtain their own on-the-ground view and a subset of the Board spent an intensive period with the business, undertaking in-depth interviews with multiple levels of managers.

"We just said, look we've got some people who really get this, let's put them on a plane and send them to where more than 50% of the employees are and spend a week there. And we flew out and we met with CEO minus two, minus three, maybe even down to minus four in some cases."

This revealed that while many people were good, in developing its market focus the company had lost its focus on product, which is critical for a technology disruptor. For example, Skype was still a single platform application, did not yet have a mobile client and the whole product development process was slow and effectively broken. The Board decided to put Mark Gillett, an Operating Partner from Silver Lake (and the individual previously identified to lead the code rewrite if necessary), into the business as a partner to the CEO, and ultimately to serve as Chief Development and Operations Officer. His role was to fix these issues, and he successfully navigated this role transition. He stepped down from his PE role on the Board, formed a successful partnership with the CEO and management team and built new capability and pace in both product development and operations.

Determining strategic direction and implementing the correct leadership were two critical success factors for Skype. However, maintaining strategic direction and alignment was an ongoing challenge. What was Skype's purpose, its structure and the overall strategic direction?

The change in the business was broad reaching and operational. Many of the job roles in the company had been unclear and operations were fragmented internationally. The majority of employees participated in an assessment process and had to apply for roles which were defined in the new organisation. This helped determine who "wanted to be on the bus" for a very different journey.

The Board needed to agree whether Skype's competitive advantage lay in the internet or in the telecommunications industries, determine its market positioning (C2C versus B2B), address how it would sustain its disruptive growth and turn a strong cash flow, whether it would partner with potential competitors such as Google, Apple, Facebook and Microsoft or attempt to grow on a solitary basis, and what was the best structure and operating model to deliver profitable growth. Those amongst the consortium who saw Skype as an internet company advocated accelerating investment in research and development (R&D) whereas those who saw it as a telecommunications player pushed for cost controls and a focus on pricing and business development capability.

As the former Chairman explains:

"…[there was] an organisational structure logic which was unclear, and part of the reason that it was unclear was no one had really figured out whether Skype was a Telecoms asset or an Internet asset, and the truth is it's a bit of both. It seemed that people from North America tended to look at it as an Internet business and people from Europe tended to look at it more as a Telecoms business."

Articulating the purpose meant answering the questions of what business is Skype in and where was Skype going. These contrasting views from the Board were ultimately resolved through a common denominator in the investor Board: disruptive capacity.

"…they all understood disruption; they've all seen it or caused it. So you have eBay, Marc Andreesen and Ben Horowitz [from Netscape]… and the original Skype guys…I think ultimately that's why the telecom versus internet question was resolved that if you are a disrupter there are many more disruptive opportunities in the internet space than there are in the telecom space…"

The chairman role was equally important in creating alignment within the Board.

"The first leadership dimension you need is alignment from the boardroom ...and a coalition of the willing. As the Board progresses, I believe you need clear anointment of leadership."

"[Miles] is unflappably calm...and he holds his own counsel extremely well. He was able both to share his perspective and to enable others to share their perspective without carrying any bias. And he was both able to draw people in and to gently contain members of the Board which I think is a very important chairing skill when you've got a big roomful of people."

Management was able to quickly adapt to the changing strategic landscape. Google, Apple and Facebook had initially been viewed as potential partners, but as soon as it became clear that they would launch their own products and potentially risk the investment and Skype business, a strategic decision was required on the tenure of the investment. It was decided that it should be a long term hold, which meant it had to be improved operationally, with a focus on the product and leadership of the product. There was a need to transform the business.

The CEO, Josh Silverman, a former eBay Executive , was regarded as a great marketing and communications Executive . He provided the leadership to initiate the transformation and conduct much of the initial re-organisation. However, having decided to transform and improve the product and operations of the business, he and the Board determined that a new CEO with a strong background in technology and product development was required.

After extensive discussions, Skype announced Tony Bates as the new CEO in October 2010, to join Mark Gillett, Chief Development and Operations Officer and Jonathan Chadwick as Chief Financial Officer.

"...as we went through those discussions (i.e. what should be Skype's direction)...we came to the conclusion that we needed to change the leadership, the CEO. ...I think he [Tony Bates] was absolutely the right guy because he understood telecoms, he understood internet, he understood hardware... and he understood the technology, he moved very fast and he was prepared to make tough decisions quickly."

"... CONSTANT ALIGNMENT REQUIRES VIGOROUS DISCUSSIONS, SO THE PROCESS CAN BE QUITE CHALLENGING BUT IT'S NECESSARY TO DO THAT."

With the new CEO on-board, Skype was able to complete the transformation of the business which ultimately included replacing core systems and a comprehensive transformation of product, structure and people. During this disruptive period, it was important that roles were clearly defined and supported by exceptional communication and alignment.

"...it's very important in a complex disruption that the individual and collective roles of the Board are clear... I think we were probably talking daily during this time period.. [before close]"

"... constant alignment requires vigorous discussions, so the process can be quite challenging but it's necessary to do that."

During the peak of the transformational efforts, Board Members convened, often over Skype as much as weekly often with the CEO and CDOO. As the effort matured and the new CEO settled in, a new more structured and more typical rhythm of formal board meetings established.

APPLY THE RIGHT BUSINESS DISCIPLINES: SKYPE'S TRANSFORMATION AND GROWTH

Skype's successful transformation and disruptive growth draws particularly on five disciplines which were critically important in generating value:

I. Continually driving strategic alignment at the top.

II. Getting the right leadership team who understand the business, identify challenges and deliver fast results.

III. Articulating a purpose for the business, taking some calculated risks and importantly, doing this at pace.

IV. Having a constructive and supportive Chairman / CEO relationship throughout the process in order to reduce complexity and ensure that the investors are clear and supportive of management's strategy.

V. Being evidence-led and getting the facts to inform Board decisions.

1. REALISE STRATEGIC ALIGNMENT AND ENGAGEMENT

Ensuring continuous alignment at Board level was fundamental so that the management team could pursue the transformation and revival of Skype. The mix of investors with varying views on technology, investment horizons and organisation structure meant that difficult alignments needed to be managed, primarily by the Chairman of the Board. The Chief Executive could then drive the business around a common direction and understanding. The Chairman commented:

"Everyone wanted to make a success of it. The question then was how?"

Ultimately, the Board coalesced around the common objective of realising their investment, which was successfully achieved despite the difficult alignments throughout the process.

2. GET THE RIGHT PEOPLE IN PLACE

According to Skype's Chairman, appointing the wrong people could have easily derailed the whole venture.

There were long debates with the board about who should be the CEO and the management team needed to take up the challenge to quickly reform Skype and lead the eventual IPO. Mark Gillett, who had more than 16 years of experience at Silver Lake, Alvarez & Marsal and a number of software and electronics businesses, was appointed early on to the position of Chief Development and Operations Officer. Jonathan Chadwick, who had worked for more than 20 years with McAfee, Cisco and PWC, took charge as Chief Financial Officer. Ultimately, the Board decided to appoint Tony Bates as CEO, who had vast diversified experience in the tech industry with companies such as Cisco, Tokbox, Youtube and Lovefilm. Together this team was able to deliver an effective transformation of Skype.

"…the one skill that the effective CEOs need to have, is they need to have great people doing their most important things…"

When recruiting the Executive team, it was just as vital to have people with the right experience:

"What we were looking for was people who had managed and experienced significant change, who were biased towards companies that knew how to deliver a product."

3. ARTICULATE THE PURPOSE, TAKE CALCULATED RISKS AND GET PACE

The transformation of Skype was achieved rapidly between January and December 2010. In parallel, a carve-out from eBay included core systems replacement, real estate separation and the creation of an independent legal and regulatory functions, while the transformation continued with a fundamental reorganisation of product, structure and people and process.
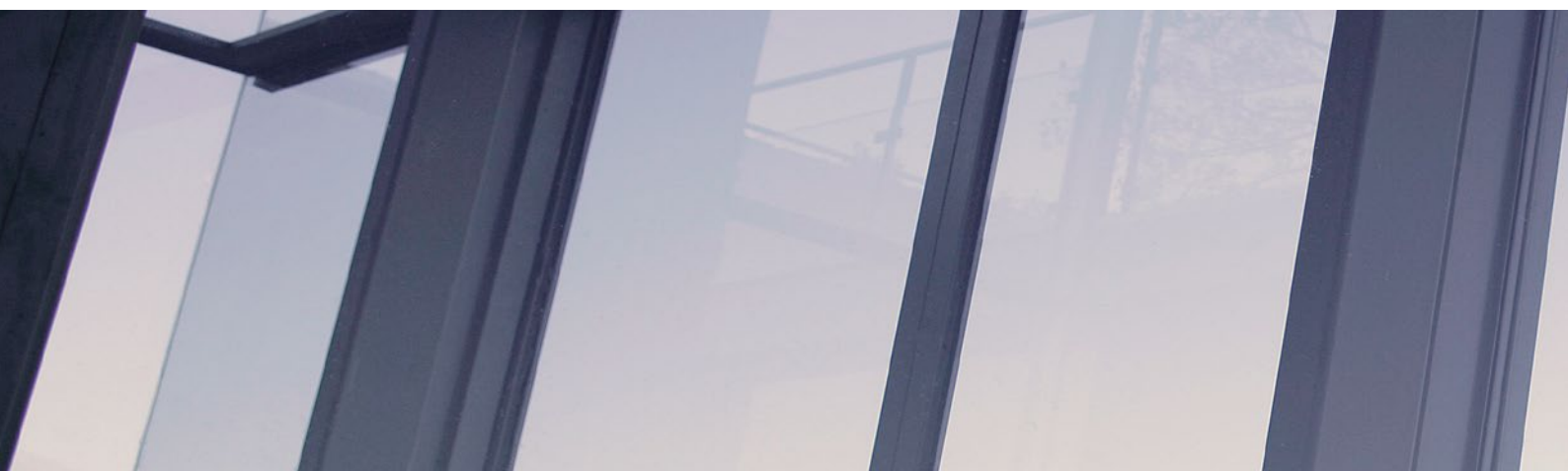
On the product side, products were broken down into both intern (shared) technology and externally facing 'release vehicles' and large, project oriented teams reorganised into smaller more nimble product teams. An agile development process was put in place which could deliver new releases to market 90-day or less increments, compared with the previous timescales of well over 12 months. On the people and structure side, new job families and career ladders were created and a product and process matrix was embedded in the organisation with a set of accountabilities and performance indicators.

In addition to the organisation-wide talent re-evaluation, significant time and millions of dollars was invested in a training and development program to align staff with a new operating philosophy and product development process. These actions reinvigorated Skype's ability to innovate and grow.

"The critical thing was really getting a grip on the software engineering and product development process."

4. ENSURE CONSTRUCTIVE CHAIRMAN / CEO RELATIONSHIP

Another key discipline critical to the success of Skype was a constructive Chairman / CEO relationship, which enabled trust to be built into the Board and ensured the necessary alignment and support for managerial action. The former Chairman explains:

"…to me the Chairman/CEO relationship is almost the beginning and the end of successful boards…it was much more a coaching, grown-up discussion between…kicking issues around and just sharing perspectives and experience of things we'd seen before that had worked and hadn´t worked. It was collegiate and collaborative."

"…part of the Chairman's role is coaching the CEO to develop his or her skills."

> " WHAT WE WERE LOOKING FOR WAS PEOPLE WHO HAD MANAGED AND EXPERIENCED SIGNIFICANT CHANGE, WHO WERE BIASED TOWARDS COMPANIES THAT KNEW HOW TO DELIVER A PRODUCT. "

In addition it was critical that there was strong trust and working relationship between the CEO, CFO and the Chief Development and Operations Officer. This could have been complicated given that one had formerly been a deal partner in one of the investors. However, it seems that this triumvirate formed a trusting relationship, focused primarily on the success of the company. All three subsequently went with the eventual sale to become senior Microsoft Executives.

5. BE EVIDENCE LED

There was a great deal of information provided to the investors and Board, including internal strategy decks and internal planning. But the investors wanted to obtain a third viewpoint and, as previously discussed, they undertook in-depth site visits and staff interviews to ensure that they really understood the realities and had first-hand experience of the issues, and progress being made.
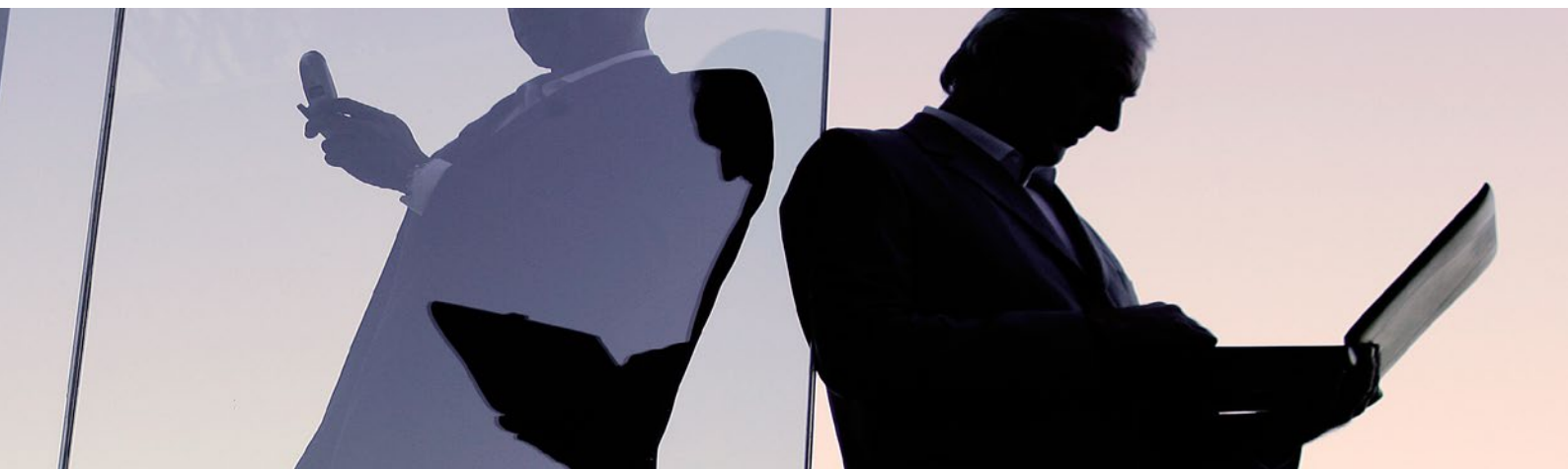
DECLARE SUCCESS: A WIN-WIN TO ALL THOSE INVOLVED

By the time Skype launched its IPO process it was already a member of the exclusive "100-100" club, with an online engagement of over 100 minutes per user per month and over 100 million active users per month. It had 170 million connected users in more than 190 countries, 25 percent of all international long distance (ILD) minutes and over 12 billion billing minutes in 2010.

The IPO process sparked the interest of major strategic acquirers and Skype was in fact not taken public but sold to Microsoft for $8.5 billion. This was more than a threefold increase in value within less than two years.

Skype's story has been recognised as a success for both sellers and buyers. For the equity sponsors, they received over three times return on equity. This meant eBay was able to recoup its initial investment (and a profit), CPP Investment Board ensured a good return for its pensioners and the Skype founders realised additional cash for a business they lost ownership of several years before. Andreesen Horowitz achieved a great return and started consolidating its reputation as a leading technology venture capitalist.

For Silver Lake, this strong result ensured good demand for their Fund Four, which was in fact oversubscribed[5] from a target of $10 billion. Not only was great value generated for the consortium members, but it appears as if the deal has been successful from Microsoft's perspective as well.

"I think it wasn't just a question of the investors getting a good return in a comparatively short period of time, at post disposal it continued to do very well."

"…two subsequent years, this wasn't flash in the pan it was sustainable change and transformation… it is momentum and people buy growth."

"…to fulfil my initial objective when we started the company,… if Skype would have a successful IPO and be a thriving, let's say independent company, that would be something I would be more pleased from a personal legacy point of view. But from a financial outcome I think this was a very good outcome."

APPENDIX A: SKYPE TIMELINE OF EVENTS

1. RECOGNIZE THE DISRUPTION / OPPORTUNITY	2. DETERMINE LEADERSHIP, STRATEGIC DIRECTION & ALIGNMENT	3. APPLY THE RIGHT DISCIPLINES / ASSESS & REFINE

Silver Ladke Recognized and Sized The Opportunity:
- $1.7 trillion global comms marker
- Leading global Internet VoIP provider
- Various opportunities to improve operationa and accelerate growth in core business
- Multiple future growth opportunities
- Attractive financial characreristics: low tax rate and capex and attractive working capital profile
- Several strategic acquirers and strong IPO potential
- Attractive buy-in valuation relative to growth outlook

2005-2007:
- Lack of synergies
- Clash of corporate and entrepreneurial cultures
- Low focus on product
- eBay / founders relationship
- IP issues over source code
- Performance implications under increasingly competitive environment
- Paralysis

2005:
- eBay acquires Skype for $2.6 billion

September 1st, 2009:
- Deal signed / announced to acquire 65% of Skype

September 16th, 2009:
- Joltid files law suit seeking injunction / damage

October 28th, 2009:
- IP issues resolved / Skype acquires rights to GI Code / Founders join the board / All litigation dropped

Key Actions:
September - December 2009
- Post-deal engagement with management and carve-out from e-Bay

January 2010:
- Miles Flint appointed Chairman

Key Actions:
January = June 2010: Skype 's Transformation
- Focus on product
- New organization structure
  - Product catalogue
  - RACI Matrix
  - Career ladders
  - Job families

August 2010:
- Skype attempts IPO

October 2010:
- CEO Tony Bates announced

May 2011:
- Microsoft acquires Skype for $8.5 billion (over 3x equity)

Key Board Disciplines:
- Continually driving **strategic alignment and engagement** at the top
- Getting the **right leadership team** who understand the business, can identify challenges and deliver fast results
- **Articulating a purpose for the business, taking some calculated risks** and importantly, **doing this at pace**
- Throughout the process, **having a constructive and supportive Chairman / CEO relationship** in order to reduce complexity and ensure that the investors are clear and supportive of management's strategy
- **Being evidence-led:** getting the facts to inform Board decisions

Chart data points: 2006: 8, 2007: 10, 2008: 14, 2009: 20, 2010: 25, 2011: 30

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CONTRIBUTING MEMBERS

Alvarez & Marsal, Henley Business School and the Steering Group would like to acknowledge and express their gratitude for the valuable and insightful contributions made by the following contributors through in-depth interviews, roundtable discussions and case studies.

PHASE 1 INTERVIEWS AND ROUNDTABLE DISCUSSIONS

PARTICIPANT'S NAME	CURRENT ROLE & KEY FORMER ROLES[1]	COMPANIES
Marcus Agius	Senior Independent Director Non Executive Chairman Former Chairman	BBC PA Consulting Group Barclays
The Lord Allen of Kensington CBE	Chairman Chairman Former Chairman Former CEO	ISS A/S Global Group, 2 Sisters Food Group EMI Granada Group, ITV
Dr Paul Atherton	Non-Executive Director Chairman Co-founder	Imperial Innovations Group Nexeon, Phase Focus, Infinitesima, NanoVentures Queensgate Instruments
John Barton	Chairman Former Chairman	easyJet, Next, Catlin Group Cable & Wireless Worldwide, Wellington Underwriting, Brit Holdings
Sir Win Bischoff	Chairman Former Chairman Former Chairman & Interim CEO Former Chairman & CEO	Financial Reporting Council Lloyds Banking Group Citigroup Schroders
Sir Victor Blank	Chairman Former Chairman	Social Mobility Foundation Lloyds TSB Bank, Trinity Mirror, GUS
Richard Bobbett	CEO	Airwave
Andrew Campbell	Director of the Ashridge Strategic Management Centre	Ashridge Business School
The Lord Carter of Barnes CBE	Group CEO Chairman Executive VP Former CEO	Informa Ashridge Business School Alcatel-Lucent Ofcom
Mark Clare	Group CEO Non-Executive Director Former Deputy CEO and MD	Barratt Developments United Utilities Group British Gas Residential Energy
Gautam Dalal	Governing Council Former Chairman & CEO	SOAS, University of London KPMG India

[1]**Note:** current role and key former roles are stated at the time of interview.

PARTICIPANT'S NAME	CURRENT ROLE & KEY FORMER ROLES[1]	COMPANIES
Stephen Dauncey	Director of Finance and Business Services	Highways Agency
Gareth Davis	Chairman Former CEO	William Hill, Wolseley, DS Smith Imperial Tobacco Group
Robert Dover	Former Chairman/CEO Former Vice President	Aston Martin Lagonda, Jaguar Land Rover Ford Motor Company
Warren East CBE	Non-Executive Director Former CEO	BT Group, Rolls-Royce, De la Rue, Dyson James Group ARM Holdings
Miles Flint	Senior Advisor Former Chairman Former President	Silver Lake Partners Skype Sony Ericsson
Sir Roy Gardner	Chairman Senior Independent Non-Executive Director Non-Executive Director Former CEO Former Chairman	Mainstream Renewable Power Ltd William Hill Willis Group Holdings Plc Centrica Plymouth Argyle Football Co, Manchester United Compass Plc
Sir Christopher Gent	Advisor Chairman Former CEO and Honorary Life President	British Airways GlaxoSmithKline Vodafone Group
Sir Peter Gershon CBE	Chairman Former Chairman	National Grid, Tate & Lyle, General Healthcare Group Premier Farnell
Mark Gillett	Managing Director & Head of Value Creation Former Corporate Vice President	Silver Lake Partners Skype, Lync
Ben Gordon	Chairman Non-Executive Director Former CEO	Powerleague Group Britvic, St. Ives Mothercare
Harriet Green OBE	Former CEO Non-Executive Director	Thomas Cook Group, Premier Farnell BAE Systems, Emerson Electric Co
Tony Hayward	Chairman CEO Former Group CEO	Glencore Genel Energy BP
Stephen Hester	Group CEO Former CEO Former Deputy Chairman	RSA Insurance Group RBS Group, The British Land Company Northern Rock
Jeff Hewitt	Senior Non-Executive Director and Audit Committee Chair	Vesuvius

[1]**Note:** current role and key former roles are stated at the time of interview.

PARTICIPANT'S NAME	CURRENT ROLE & KEY FORMER ROLES[1]	COMPANIES
Richard Hooper CBE	Chairman Senior Independent Director Former Deputy Chairman	Broadband Stakeholder Group VocaLink Ofcom
Ian King	CEO Former Non-Executive Director Former CEO	BAE Systems Rotork, Alvis Alenia Marconi Systems
The Baroness Lane-Fox of Soho CBE	Chancellor Non-Executive Director Co-founder and former Group MD	Open University Marks & Spencer Lastminute.com
Jim Leng	European Chairman Non-Executive Director Former Chairman	AEA Investors Alstom, AON, Genel HSBC, Corus Group
The Lord Livingston of Parkhead	Former CEO Former Group Finance Director	BT Group Dixons Group
Ian Marchant	Chairman Non-Executive Director Former CEO	Wood Group, Infinis Energy Aggreko SSE
Steve Marshall	Executive Chairman	Balfour Beatty
Sir Ian McAllister CBE	Former Chairman	Network Rail, Ford Motor Company U.K.
Glen Moreno	Chairman Non-Executive Director Former Deputy Chairman Former CEO	Pearson Fidelity Lloyds Banking Group Fidelity International
Dr John Neill CBE	Chairman & Group CEO Chairman Non-Executive Director	Unipart Group Atlantis Resources Rolls-Royce
David Nish	CEO Non-Executive Director Chairman	Standard Life U.K. Green Investment Bank Long Term Savings & Life Insurance Committee
Archie Norman	Chairman Former Chairman Former Non-Executive Director	ITV ASDA Group Railtrack Group, British Rail
John Ormerod	Chairman Non-Executive Director	Tribal Group Computacenter, ITV, Gemalto NV
Professor Richard Parry-Jones CBE	Chairman Senior Independent NED Former Chief Technical Officer	Network Rail GKN Ford Motor Company
Belinda Richards	Non-Executive Director Former Non-Executive Director Partner, Global Head of Merger Integration and Separation	Grainger Plc Friends Life Plc Balfour Beatty Plc Deloitte

[1]**Note:** current role and key former roles are stated at the time of interview.

PARTICIPANT'S NAME	CURRENT ROLE & KEY FORMER ROLES[1]	COMPANIES
Cathryn Riley	Non-Executive Director Former Group CIO / COO	Equitable Life Assurance Society IPF Plc ACE European Group Limited ACE Underwriting Agencies Ltd Aviva Plc
The Lord Rose of Monewden	Chairman Former Chairman & CEO Former CEO	Ocado Group Marks & Spencer Arcadia Group
Richard Sermon MBE	Chairman Vice Chairman & Joint Honorary Secretary	Gryphon Corporate Counsel City & Guilds
David Smith	CFO Former CFO	Rolls-Royce Edwards Group
Just Spee	CEO	Endemol
Robert Swannell	Chairman Former Chairman Former Senior Independent Director	Marks & Spencer HMV The British Land Company, 3i Group
Christine Tacon	Non-Executive Director	Met Office Anglia Farmers Ltd
Ian Tyler	Chairman Non-Executive Director Former CEO	Cairn Energy, Bovis Homes Group Al Noor Hospitals Group BAE Systems, Cable & Wireless Balfour Beatty
Simon Walker	Director General Former CEO	Institute of Directors BVCA
John Weston CBE	Chairman Former CEO	MB Aerospace, Torotrak, Fibercore, Accesso BAE Systems
Bob Wigley	Chairman Advisor Former Chairman	Stonehaven Search, Orca Exploration Group BlueGem Capital, Partners, Tetronics Hibu, Expansys
Mark Williamson	Chairman Senior Independent NED	Imperial Tobacco National Grid Alent
Sir Andrew Witty	CEO	GlaxoSmithKline

[1]**Note:** current role and key former roles are stated at the time of interview.

PHASE 2 CASE STUDY INTERVIEWS

PARTICIPANT'S NAME	CURRENT ROLE & KEY FORMER ROLES¹	COMPANIES
BAE Systems Plc		
Ian King	CEO Former Non-Executive Director Former CEO	BAE Systems Plc Rotork, Alvis Alenia Marconi Systems
Philip Bramwell	Group General Counsel Former Secretary and General Counsel Former Chief Counsel Mergers & Acquisitions European General Counsel	BAE Systems Plc Telefonica Europe Plc BP, Plc BellSouth Corporation
Sir Peter Mason	Chairman Non-Executive Director Senior Independent NED Former Senior Independent NED Former CEO Former Chairman and CEO	Thames Water Plc Spie SA Subsea 7, SA BAE Systems Plc AMEC Plc Balfour Beatty Limited
Sir Richard Olver	Former Chairman	BAE Systems Plc
Sir Roger Carr	Chairman	BAE Systems Plc
Barratt Developments Plc		
Gary Channon	Chairman & CIO	Phoenix Asset Management Partners, Ltd
Tristan Chapple	Analyst	Phoenix Asset Management Partners, Ltd
Steven Boyes	Chief Operating Officer	Barratt Developments Plc
Richard Brookes	Managing Director East Region Operations Director Finance Director	Barratt Developments Plc David Wilson Homes David Wilson Homes
Mark Rolfe	Senior Independent NED Non-Executive Director Chairman Former Non-Executive Director Finance Director	Barratt Developments Plc Debenhams Plc Lane Clark & Peacock LLP The Sage Group Plc Hornby Plc Gallaher Group Plc
David Thomas	Chief Financial Officer Former Deputy CEO and Group CFO Group Finance Director	Barratt Developments Plc GAME Group Plc Millennium and Copthorne Hotels Plc

¹**Note:** current role and key former roles are stated at the time of interview.

PARTICIPANT'S NAME	CURRENT ROLE & KEY FORMER ROLES[1]	COMPANIES
Thomas Cook Plc		
Frank Meysman	Chairman	Thomas Cook Plc
Harriet Green	Former CEO	Thomas Cook Plc
James Sanford	Group Head Investor Relations Former Head of Transformation Former Head of M&A	Thomas Cook Plc Thomas Cook Plc Thomas Cook Plc
Michael Healy	Chief Financial Officer (CFO)	Thomas Cook Plc
Paul Callaghan	Head of Transformation	Thomas Cook Plc
Peter Fankhauser	CEO Former U.K. CEO	Thomas Cook Plc Thomas Cook Plc
Simon Taurins	Managing Director	Credit Suisse Investment Banking Division
Skype Technologies, SRL		
Mark Gillett	Former Chief Operating Officer (COO) Partner	Skype Technologies Silver Lake
Miles Flint	Chairman	Skype Technologies
Jim Davidson	Founder and Chairman	Silver Lake
Niklas Zennström	Founder	Skype Technologies
Ben Horowitz	Investor and Founder	Andreessen Horowitz

[1]**Note:** current role and key former roles are stated at the time of interview.

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