The Leadership Journey

by Leonard D. Schaeffer
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The Leadership Journey
by Leonard D. Schaeffer

Executives’ jobs can shift dramatically depending on the challenges they face. Here’s one CEO’s account of how he progressed through three very different styles of management.

Monday, February 10, 1986 was my first day as chief executive of Blue Cross of California. At a welcoming reception, the company presented me with a sculpture, nearly five feet tall, of a cross carved from blue ice and artistically decorated with succulent pink prawns. The thing was exquisitely beautiful – and the most apt emblem for wasteful spending I’d ever seen. When I asked where it came from, I was introduced to the company’s pastry chef. My first official act was to fire him. After all, Blue Cross of California was at that time the worst-performing of the 77 Blue Cross plans across the country, with annual operating losses of $165 million. With the organization teetering on the edge of insolvency, ice sculpting hardly seemed like a core function.

Sixteen years have passed since I let that pastry chef go. In that time, Blue Cross of California has transformed itself from a floundering bureaucracy into a strong public company called WellPoint Health Networks, one of the largest health insurance organizations in the United States. The company now serves more than 45 million people nationwide through pharmacy benefits, dental plans, mental health plans, PPOs, and HMOs. Better yet, we’ve grown from revenues of $2 billion in 1987 to $16 billion today. We’ve been consistently profitable since 1989.

As the company has changed, I’ve gone through my own transformation as chief executive. The top-down, autocratic style I had to adopt to turn around the business gave way to a more hands-off style that focused on motivating
others to act rather than managing them directly. And more recently, I've been going through yet another shift—away from the participative mode and toward what I call a reformer style of leadership in which the chief executive's role is to represent the company's interests on a broader stage. This style of leadership requires interacting more with customers, elected officials, and other industry executives to help spur fundamental changes in an industry and even in society.

Over the course of my 30-year career, I've come to understand that leadership is about more than heavy-handed action from the top. Its defining characteristics change according to the needs and vagaries of the individual, the organization, the industry, and the world at large. In other words, leadership is not a state, it's a journey. There aren't always sharp dividing lines between one style of leadership and another—an autocratic leader sometimes has to be participative, and a reformer sometimes needs to act like an autocrat. But by thinking clearly about the different roles I've needed to assume at different times, I've been better able to tailor the way I make decisions, communicate with people, and manage my time so that I can address the most pressing needs of the organization at the moment.

**The Autocrat**

Autocracy, which I became acquainted with in the early stages of my career—even before I arrived at Blue Cross—is the most painful, least enjoyable style of management. Yet it has its place, especially in a turnaround situation. When a business needs to change relatively quickly, it's much more important to just make a decision and get people moving than it is to take the time to conduct a thorough analysis and attempt to influence others to come around to your way of thinking. Therefore, I would define the autocratic leader not as someone who bullies others needlessly but as the managerial equivalent of an emergency room surgeon, forced to do whatever it takes to save a patient's life. Autocracy often causes pain and arouses antagonism, and there is simply no way for the chief executive to escape the resentment and blame that will be directed toward him or her. The best the CEO can do to mitigate matters is to assume personal responsibility, act quickly, and stay focused on the mission at hand.

My first lessons in autocracy came during the 1970s, when I served as the director of the Illinois Department of Mental Health (from 1972 to 1975) and as the director of the Illinois Bureau of the Budget (from 1975 to 1976). In the latter position, it was my job to cut the budget in accordance with top-down decisions made by the governor. At that time, many states and municipalities had lost their credit ratings, could not borrow money, and had to make devastating cuts in spending and services as a result. In Illinois, we relied on efficient planning to help us reduce our expenditures and retain our bond rating. By following directives from the top, we did not have to make drastic cuts in services.

In 1977, I went to work for the Carter administration as the chief administrator of the newly created U.S. Health Care Financing Administration. HCFA was charged with bringing under one roof the financing systems for Medicare (which was then part of the Social Security Administration) and Medicaid (which was then part of the Department of Health, Education, and Welfare). The two agencies, which provided health care coverage for the poor, duplicated each other somewhat, wasting taxpayers' money and generating conflicting health care regulations. My directive was to bring a measure of efficiency to the new organization by creating a coordinated approach to purchasing health care services for both Medicaid and Medicare.

Accordingly, I felt that one of the first, most important steps was to get all 4,600 people from both agencies to work at one location. A physical move would offer a chance to build efficiency into HCFA from the start: When workers change offices, their old patterns are disrupted. They meet new people, encounter varied perspectives, and, theoretically at least, suggest to one another different and better ways of doing things. Of course, the resistance to this plan was as predictable as it was loud. Some employees resented having to relocate from offices in Washington, DC, to a new workplace in Baltimore. A few even complained to their representatives in Congress.

To protect the project from strangulation, I had to act autocratically. My mandate was clear, and I discovered a few useful tactics to get people to help me fulfill it. First, it became apparent to me that assuming the responsibility for this high-risk decision could have tremendous power. Once I said the magic words “If this doesn't work, it's on my head,” the politicians and administrators who were objecting to the move began to cooperate and stopped threatening to obstruct the reorganization. Second, I used the element of surprise: Had we announced the consolidation of Medicare and Medicaid in advance, opponents would have had time to block or stall the move. So the staffs were merged during a congressional recess. The surprise worked—HCFA went on to become the Centers for Medicare & Medicaid Services, a unified government health care services agency located outside of Baltimore that today provides coverage and benefits for about 70 million people nationwide.

*Leonard D. Schaeffer is the chairman and CEO of WellPoint Health Networks in Thousand Oaks, California, one of the nation's largest publicly traded health care companies.*
If my experience in state and federal government was autocracy boot camp, Blue Cross of California was the battleground. It was an extremely dysfunctional bureaucracy. The company was born of a merger in June 1982 between two separate Blue Cross organizations (one in northern California and one in southern California), each with its own administrative systems. Neither had annual budgeting or planning processes. By the mid-1980s, millions of customers had fled to alternate health plans because of escalating premiums and diminishing quality of service, and the organization was losing close to $1 million a day. Worse yet was the failure of many self-satisfied Blue Cross executives to identify with their customers. During my first week at the company, I asked senior managers what business the company was in. “We’re in the business of being Blue Cross,” they smugly responded.

With the company hemorrhaging money and with pressure from the board to turn things around quickly, I had to be the bad guy. Within 18 months, I was forced to lay off nearly half the company’s 6,000 employees. I had no problem with getting rid of every one of the senior managers who had run the company into the ground. But it was painful to let go of the rank-and-file workers who were not responsible for the mismanagement. Equally painful was the realization that Blue Cross was at the brink of financial death; if things didn’t change quickly, there would be no health care insurance for millions of Californians.

Certainly, the company acted humanely by providing outplacement services and continued medical coverage, but on a personal level, it was unpleasant to see so many good people lose their jobs because of previous management’s mistakes. It was clear, though, that if we responded too slowly or lost sight of the goal—to pull Blue Cross from intensive-care status—the remaining employees would ultimately lose their jobs, too.

Fortunately, this didn’t happen. By 1989, the company was rebounding from its sizable losses in previous years—its finances were stabilizing, subscriber numbers were slowly coming back up, and earnings were increasing, too. By 1991, the company was reporting profits of more than $13 million per month, and in January 1993, we went public with WellPoint Health Networks, initially establishing the business as an operating subsidiary of Blue Cross of California and then recapitalizing the company in 1996 as the parent.

With the company stabilized and growing, my days of autocratic management were coming to a welcome end. As we began to focus more on creating innovative insurance products and on providing excellent customer service, “any decision” was no longer better than “no decision.”

The Participative Leader

Now my primary role as CEO was to ensure the organization’s long-term success. The company’s priorities had changed, so the way I functioned had to change.

Being a participative leader isn’t always easy, because it requires letting go. I have to trust all the people who work for me to make wise management decisions.

I needed to help the company achieve an industry-leading position by participating in, but not actually making, day-to-day decisions. Autocratic orders wouldn’t cut it anymore; the company was too big. The onus was on those Blue Cross–WellPoint associates who were closest to our customers and partners to make the right decisions and implement them based on their personal knowledge of the industry.

Participative leadership, a term coined by the late University of Michigan researcher Rensis Likert, requires that the CEO receive sufficient information from employees to make important strategic decisions but that he or she leave the implementation of strategy up to the line managers. In my experience, this form of leadership is best carried out by employing a methodology first articulated by consultants at McKinsey: Under loose-tight management, the development of goals, budgets, and strategies is strictly controlled from the top while staff is given free rein to meet those goals, as long as they stay on budget.

Here’s how it works at WellPoint. Each year, WellPoint’s executive management team sets four or five very clear goals for the company. An example might be “Leverage technology as a competitive advantage,” or “Use innovation and service to increase our value to our customers.” We lay out specific strategies for attaining each of the goals, and we print the objectives and the strategies, along with our overarching mission statement, on a pocket-size card to reinforce the message for all of our associates. Each manager must take some responsibility for meeting the goals. For instance, if the goal were “Use innovation and service to increase our value to our customers,” each division president would be required to develop innovative new products or ways to provide high-quality service to WellPoint’s members, payers, brokers and agents, and health care providers—in such a way that the company would see a tangible bottom-line benefit.

If this high-level goal setting sounds like the same thing every company does ad nauseum, it may well be. The difference is that even though we require strict implementation of our strategies (tightness), we put few restrictions on how managers carry them out (looseness). By rigorously adhering to the budget and the established strategies, and by combing through the fine details, WellPoint line managers unearth surprising business opportunities that senior leaders cannot see.

Here is an example. Part of our corporate mission is to offer a choice of health care products that put individuals in...
control of their health and their financial future. So one of our goals is: “We will offer a choice of health services.” In response, Mark Weinberg and Deborah Lachman, both senior leaders in charge of our services for small businesses, scratched their heads and said, “That’s very nice, Leonard, but what do you mean by choice?” I didn’t give them an explanation; it was up to them to use their knowledge of the market to figure it out. Their mandate was to provide more choice to customers while simultaneously realizing a 15% growth rate in the small-business segment. As long as what Mark and Debbie did stayed within regulatory and ethical bounds, the means were their own. They could hire whomever they wanted and could assign tasks however they wished, without an okay from me. If I disagreed with their choices, I would merely shake my head and keep my mouth shut.

The “tight” part of the equation came into play as Mark, Debbie, and their team charted their progress toward the goal. First, they developed a primary plan of attack (Plan A) and two contingency plans, then they set a series of milestones for each. Quarterly, monthly, weekly, and even daily, the group monitored its success in developing a new product that would give customers more choice. The information about everything the group was doing was logged into our company intranet so Mark, Debbie, their managers, and I could quickly check the progress against the milestones at any time. If they met or exceeded their plan, as most associates do, everything was fine. If they didn’t, they would implement one of their two contingency plans (Plan B or Plan C). No one would tell them to do their work, given the amount of time required to develop, implement, and track goals. But employees tell me that the strict guidelines actually make it easier for them to manage their daily work because they never lose sight of their mandates. They understand their priorities.

Moreover, the research process that falls out of adhering to the budget and the goals sometimes yields innovative ideas. Mark and Debbie, for example, conducted a careful review of the available information on small-business insurance plans and discovered that no one was offering individual employees a choice of coverage. Instead, small businesses were buying one-size-fits-all plans that could satisfy general needs but that didn’t cover special ones. Their further research revealed much about individual concerns within small businesses: Owners, for example, tend to prefer top-of-the-line service that covers, say, their acupuncture treatments. Younger workers just want to know that if they break a leg snowboarding, their hospital care will be paid for. And diabetic employees want their chronic-care services affordably covered by an HMO, especially if their condition worsens.

After collecting this data, Mark and Debbie wondered if it might be possible to average health care insurance costs across a small business. If the owner was willing to pay a little more for expensive premium coverage and the young person opted for catastrophic insurance only, the small company would be able to afford a plan that could cover chronic illnesses (like diabetes), too— all for the same price as their current insurance. Working with Blue Cross’s actuaries, Mark and Debbie and their associates analyzed in detail the sales, trends, and historical growth of our product lines and services. Several what-if models led them to discover that, in fact, it would be possible to offer a mixed bag of coverage to all the customers in their market segment for a competitive price. The team developed EmployeeElect, an umbrella service that lets employees at small businesses choose from nine types of health care coverage to meet their individual needs. They presented me with the idea, and I wholeheartedly approved. Today, EmployeeElect is one of our most popular plans.

Our tight processes take time, but they work. In fact, they’re helping us win the health care industry’s tortoise-and-hare race. In the early-to-mid-1990s, our competitors were boasting aggressive growth rates of 30% to 50% and pursuing lots of M&A deals. But our budgetary processes told us that it wasn’t

**A reformer demonstrates what is possible.**

He or she defies convention and stubbornly tries to make the world a better place.
I have been able to spend more time practicing a reformer style of leadership. A reformer demonstrates what is possible. He or she defies convention and stubbornly tries to make the world a better place.

I feel as though my personal challenge is to change the universally disliked managed-care industry so consumers will feel they can trust their insurance providers. Doing this requires taking some chances. In July 1998, WellPoint undertook a drive to make the allergy drug Claritin and several other antihistamines available over the counter. The idea sprang from our tight planning process: The biggest threat to our ability to keep our prescription drug benefits affordable is the spiraling costs of the medications themselves. Of course, we do everything we can to shift these costs to those prescription drugs that offer the most value to our customers. That means offering generic drugs where appropriate and educating our members about the importance of keeping to their prescription drug regimens. But we needed to do more.

Robert Seidman, WellPoint’s chief pharmacy officer, looked carefully at our prescription costs and found that one of the most commonly prescribed categories of drugs among our subscribers was allergy medicines such as Claritin, Allegra, and Zyrtec. These medicines are sold over the counter in most countries and, when taken at the recommended dosage, can have fewer side effects than nonprescription allergy remedies. Rob noted that a single, first-time prescription for Claritin, for example, including the visit to the doctor, cost $165. Refills were $65 each. The most popular over-the-counter alternative to Claritin is Benadryl, which is available for about $4.50. Benadryl is just as effective as Claritin in treating allergy symptoms, but its sedating side effects make it unsafe to take while driving or operating machinery. In fact, hundreds of people die each year in Benadryl-related accidents. All of which led us to wonder: “Why should patients and insurers have to pay $165 for a prescription drug that has minimal side effects while it costs $4.50 to get a drug whose side effects can harm you?”

Rob began scrutinizing the FDA rules for converting a drug from being available only by prescription to being available over the counter. In the process, he discovered two things: First, no company outside the pharmaceutical industry had ever petitioned the FDA to do such a thing. Second, there was no rule or law preventing a nonpharmaceutical company from doing so. Rob also discovered a little-known law that said any drug that can be taken for a condition that can be self-diagnosed, that will successfully treat the condition, and that is safe and effective for the consumer when used without a doctor’s supervision, does not require a prescription. Accordingly, we submitted a petition to remove Claritin, Allegra, and Zyrtec from the prescription list, and an FDA panel approved it. Once an FDA commissioner approves the panel’s recommendation, the drugs will be available over the counter, and the overall cost of prescriptions will drop for patients and insurers. More important, consumers will be able to afford an effective allergy medicine that will not harm them.

Our objective was not to hurt the drug companies; we’re in favor of any prescription drugs that truly help patients and add value to the health care system. But the petition seemed like a sensible move, one that would remove unnecessary costs from the system. In the process, I also discovered that it is possible for a corporate leader to create real, industrial-scale change.

Being a reformer is gratifying, but it has its challenges, too. The demands on my time are much greater than they were when my job was focused exclusively on WellPoint’s well-being. I spend 30% of my time meeting with people outside the company, primarily industry and government representatives, discussing health care practices and policies. And as a reformer, I’ve become the point person for their tough questions. Some people seem to think I carry a crystal ball that allows me to peer into the future of health care in the United States. I don’t, despite the fact that I spend most of my time—on planes, in the office, and sometimes in bed at two in the morning—thinking about it.

In each phase of my leadership journey, I’ve had a concrete goal—consolidate two large organizations, fight for corporate survival, drive my company to achieve success in the marketplace, or change the health care industry for the better. Being able to shift my management style as each of these new challenges appeared has been extremely effective for me. It’s not always easy to put on a different leadership cap or alter the way you assess a business situation. Under pressure, most people fall back on the style or approach that worked in the last crisis they faced. But old approaches rarely work in new and demanding situations.

Ultimately, the demands of the marketplace have shaped my leadership journey. Indeed, I’ve learned that by paying attention to processes and aligning teams so that they are as dedicated to fulfilling goals as I am, it’s possible to create something that lasts much longer than anything carved in ice.

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