

## ONLINE SIMULATION SCENARIO INTRODUCTION

*Change Management: Power and Influence***Scenario 4: CEO**

You are the CEO and founder of Spectrum Sunglass Company. As Spectrum enters its second decade of operations, its immediate future is looking bright. Externally, the consumer sunglass market is growing again, and competitive pricing pressures have subsided. Spectrum recently rehired some of the workers laid off during the last recession, and many departmental budgets have been restored to well-funded, pre-recession levels. A potential new product design has received positive focus group feedback after the first phase of development; furthermore, some exciting branding deals with Hollywood celebrities are under negotiation. Everyone at Spectrum is looking forward to growth and enhanced earnings.

While you generally feel good about the state of the business, you just turned 60 years old, and are beginning to think about your legacy. You are reading more and more professional articles emphasizing the importance of sustainable development for business and linking the themes of sustainability and innovation, such as “Why Sustainability Is Now the Key Driver of Innovation.” At work, you are frustrated that you don’t have any new sunglass products to offer to the vocal customers who increasingly express concerns about Spectrum’s environmental impact. Not only does sustainable development make sense to you personally, from both a moral and an economic standpoint, but you also see this as an opportunity to differentiate Spectrum’s products and overall company from your competitors, who focus primarily on price and design. Fortunately, something happens at a trade show that enables you to act.

At a Spectrum executive strategy retreat in October, you ask for a special, unplanned session to discuss the conversations you recently had with the company’s largest retail customer, BigMart, which has more than 1,000 locations across the continental United States. Sales to BigMart constitute 30% of Spectrum’s annual revenues, representing the company’s top account. Recently, at the annual sunglass-industry trade show in Las Vegas, a BigMart vice president approached Spectrum’s booth. The executive explained that he was now in charge of national sunglass procurement for BigMart and that BigMart

recently started an in-house labeling program whereby products that received a "Green Stamp" manufacturing certification for environmental friendliness would get special promotion. BigMart's in-house market research revealed that even its most price-sensitive consumers were starting to prefer green products within their price range. The VP explained that BigMart was now considering recommending that all its suppliers go through the Green Stamp certification process.

As your colleagues at the Spectrum retreat listen to your presentation, they become increasingly agitated. To the CFO's question of what BigMart's specific terms are, you reply that Big Mart wants Spectrum to reduce its dependence on petrochemical raw materials (such as polycarbonate plastics) in the sunglass manufacturing process from 90% to 50% within two years. The company has also given Spectrum a quantitative target and deadline to meet. Furthermore, BigMart's VP not-so-subtly threatened that if Spectrum doesn't respond within three months with a detailed implementation plan of how it is going to reduce its manufacturing dependence on petroleum, then BigMart will consider cancelling its contracts with Spectrum and shift business to a competitor that has indicated its willingness to comply with these demands.

After you lay out the demands from BigMart, you state that while the timing is unexpected, you think this is a positive growth opportunity for Spectrum to develop a unique product line for a mass-market customer base and that you think Spectrum is up to the challenge. At this point, Spectrum's Sales and Marketing VP, Leslie Harris, enthusiastically chimes in, agreeing with your perspective. She says that a sustainability feature will help distinguish the company in the long term and that this marketing angle may open up new consumer markets for Spectrum's products (such as exporting to more environmentally conscious countries in Europe), as well as strengthen its brand among U.S. consumers.

However, Paul D'Arcy, the CFO, cuts short Leslie Harris' explanation, angrily commenting that Spectrum can't afford to start a sustainability project just because BigMart demands it. Because Spectrum is highly levered, a drop in profitability might put at risk the company's ability to meet its debt covenants. The CFO thinks that any green raw material substitutes for petroleum would likely be too expensive for Spectrum's manufacturing process, and with no pricing flexibility it would negatively impact Spectrum's profit margins. Just when you start to think up counter-arguments to the CFO, you get a double whammy in the form of Luke Filer, VP of Operations, who says that there is no way that the production operation will support another major change in raw material inputs. The Spectrum plant has just spent the past 12 months undergoing a grueling Six Sigma quality certification process, and the Spectrum Production

Manager is extremely reluctant to retrain, retool and retest to accommodate the use of "unproven" environmentally friendly raw material substitutes. Adding fuel to the fire, Louise Orysh, the Benefits Administrator, comments that Spectrum is still recovering from the recession and has only recently begun hiring back workers and therefore a dramatic shift to focus on sustainability may be premature.

Breaking the impasse, Mary Gopinath, the VP of Human Resources, suggests that Spectrum needs to give the BigMart request serious thought and proposes that you, the CEO, head a cross-functional task force to come to a compromise solution. You agree, suggesting the following plan for the team's work: (1) that the four additional members come from Marketing, R&D, Finance, and Production; (2) that they devote at least 75% of their time to developing a proposal for BigMart that is acceptable to all four departments; (3) that you will devote 50% of your time to the task force, while juggling your responsibilities as CEO; and (4) that the task force will present Spectrum's senior management team with a financially acceptable plan to use petrochemical alternatives within three months.

The management team at the retreat concurs with your task force proposal. As the retreat ends and everyone heads to dinner, you start pondering the numerous issues and obstacles to overcome in developing an acceptable plan for BigMart within three months. Your central challenge is to convince your team that a dramatic change in the organization's strategy and products is necessary and that environmental sustainability is critical to the firm's future – no small task in a relatively short period of time. However, when BigMart tells Spectrum to jump, the usual response is to ask, "How high?" Fortunately, you also have the formal authority and widespread respect throughout the organization to tackle this challenge in a meaningful way.

## Scenario 4: Organizational Structure for Spectrum Sunglass

