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Celeritas, Inc.: Leadership Challenges in a Fast-Growth Industry

Celeritas CEO Philip Boyer was in an upbeat mood during the 90-minute drive back to Boston from his company's off-site meeting. He and his five senior vice presidents (SVPs) had just engaged in a two-day team-building exercise that he believed would reenergize the company and help to jump-start the next phase of growth. His SVPs all seemed to trust and respect the organizational development consultant who had run the offsite, and he was confident that they would follow through on their commitments to enrich the strategic plan and improve their relations with one another. His only concern was that the exercise had uncovered what might be a serious problem with Dave Lloyd, his SVP for Sales and Marketing. "I'll deal with Lloyd after next week's vice presidents' meeting," thought Boyer. He was looking forward to sharing the progress made at the offsite with the 21 vice presidents who would have to implement the executive team's plan.

The Business

Celeritas was a leading firm in the enterprise network optimization industry, a highly competitive industry that provided businesses with solutions to accelerate and enhance their existing computer networks. Until recently, industry revenue had been largely based upon Wide Area Network (WAN) acceleration, a market estimated at $1.1 billion in 2010, with a projected compound annual growth rate (CAGR) of 20% over the next several years. Additionally, facilitation of cloud computing presented a new market opportunity for Celeritas and its competitors. In 2011, cloud computing was beginning to transform IT service delivery. Cloud computing and related technologies offered a centralized system of virtual storage and applications that allowed businesses to access data and applications from anywhere through a high-speed internet connection.

Founded in 2003 by three MIT engineers, Celeritas was among the first companies to offer WAN accelerators to businesses looking to boost the speed and performance of network links at their remote offices. Celeritas' large team of research engineers designed both hardware and software at its Cambridge, Massachusetts, offices. Celeritas had quickly established a reputation for quality and innovation, often being the first to market with product enhancements and new solutions. Annual revenue more than doubled each year until 2008, when growth slowed to 40%. Since then, annual

HBS Professor Michael Beer and writer Ingrid Vargas prepared this case solely as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. This case, though based on real events, is fictionalized, and any resemblance to actual persons or entities is coincidental. There are occasional references to actual companies in the narration.

growth had remained above 20%, but Celeritas had missed its sales targets for the first two quarters of 2011, lowering its projected revenue to $280 million for the year—a 17% increase over the previous year. Several competitors had seen better growth during the past few years, threatening Celeritas's position as a top player. The fact that Celeritas was the last of the six largest industry players to launch products to enhance the new cloud computing technologies added to the negative outlook.

Celeritas executives disagreed on the reasons for slowed growth. Each SVP maintained that his or her own area was running smoothly and that other units had dropped the ball. Sales and Marketing took much of the heat. Boyer believed that high employee turnover, low morale across the company, and lack of cooperation among divisions were the principal problems affecting the business. In fact, he had already tried working with an expert in organizational effectiveness a year and a half ago. That consultant had studied the issues and made some recommendations, but nothing had come of it. Boyer believed that his executive team never took the consultant's work seriously, and had resisted implementing any changes. Undaunted, Boyer had searched for a new "heavyweight" organizational consultant who had experience working with fast-growing high-tech companies; the name that kept cropping up was Carla Reese.

Planning the Intervention

Consultant Carla Reese spent several hours discussing Celeritas's organizational structure and reporting relationships with Boyer. (See **Exhibit 1** for an organizational chart.) Boyer attributed Celeritas's early success in large part to the strong teamwork among the founders and the company's first employees, and he wanted Reese to help reestablish positive working relationships. Boyer explained that in Celeritas's early years, he and his two cofounders made all of the decisions, and the next level of management carried them out without question. A few years ago, one co-founder left to return to academic research and the other left to launch a new venture. Since then, Boyer had run the company on his own. "I'm the only one who has the whole picture, so I'm the one who has to make all the major decisions," he told Reese. "When I took over in 2005, Celeritas had 450 employees. Today we employ more than 1,000. The business has become so large and complex that I need a strong team to help me." Boyer continued:

> I want to delegate more, but that's tough to do when my team is divided and not necessarily seeing the big picture. Each of my SVPs is highly competent within their own functional area. Take Vishal Arul, our chief scientist—he's a brilliant MIT Ph.D. who knows enterprise networking as well as anyone alive. But I'm not sure that Vishal or any of the others has the vision and foresight needed to make the strategic decisions that will have the biggest impact on the future of this company. My approach is to solicit information rather than opinions. I listen to what each of my SVPs has to say, but in the end I make the decisions.

Reese learned that Boyer gathered information via the weekly executive management meeting and through the monthly written reports produced by each SVP. Every Monday afternoon Boyer and his five SVPs met for two hours. (Executive profiles are in **Exhibit 2**.) Boyer would ask each SVP to discuss what was happening in his or her area, including a run-down of major accomplishments and challenges.

> If there's an issue that needs my attention, I'll usually ask for additional data to allow me to make an informed decision. Sometimes I'll ask my SVPs for input on whatever I'm working on, and I might start the next meeting with an update on how I've decided to handle it.

Boyer was concerned about the antagonism that he sensed among his top executives. "I want you to focus on team building," he told Reese. "This group needs to understand that Celeritas's goals take precedence over any divisional objectives." Thinking of the previous year's failed attempt at change, Boyer stressed the need for Reese to gain buy-in from his executives and to be involved in the first stages of implementing whatever changes needed to be made. They agreed to start off with a series of in-depth interviews to identify the key challenges facing the leadership team, and then to address these challenges at an off-site meeting. The third step would be to involve the next level of management—Celeritas's VPs—in the process.

Reese Digs Deeper

Reese held 90 minute one-on-one interviews with each of the five SVPs. Her goals were to get the SVPs to trust her and to gain an understanding of each SVP's interests and concerns. Most of the SVPs expressed skepticism about having anything positive or meaningful come out of the process, but they generally seemed to welcome the opportunity to vent, and made some very revealing comments which Reese took note of for use in the team-building exercise. Much of what Reese heard in the interviews fell in line with what Boyer had related to her. Most saliently, everyone recognized that Boyer made all the major decisions. Only two big surprises came out of her conversations with the SVPs: questions about Boyer's effectiveness as a leader and manager, especially with regard to his indecisive entry into the cloud technology market, and the personal animosity toward sales and marketing head Dave Lloyd that was expressed by all four of his fellow SVPs. Both of these issues could easily derail the team-building process and would have to be handled with care, thought Reese.

Once all of the executive interviews were completed, Reese reviewed her notes and summed up the issues into four main areas of concern to address at the offsite.

- Lack of trust and communication among senior executives
- Inconsistent decision making and follow-through
- Confusion about company goals and priorities
- Poor coordination among business functions and units

The goal was to have an open and honest discussion of each issue and to come to some agreement on how to move forward on each. To help motivate structured discussion at the offsite, Reese prepared a PowerPoint outlining the four issues and illustrating each with a few anonymous quotes taken from the interviews. (See **Exhibit 3**.)

The Executive Offsite

The executive offsite was held on a Thursday and Friday in August 2011. Reese started off the meeting by describing her role and setting a few ground rules:

> Each of you has discussed with me some of the challenges you have faced working with colleagues in this room. Today you are here to talk with each other about those challenges, and how to overcome them. I encourage you to be honest and respectful. To help you do that, I will be enforcing a few simple rules: (1) Stay on topic; (2) When talking about another person, look him or her in the eye; (3) Allow the person being discussed a chance to respond; (4) Any person receiving criticism has the power to stop the discussion and request a move to the next topic.

Next, she used the PowerPoint slides to introduce the four topics that emerged from the interviews, and suggested that they tackle them one by one.

Issue 1: Lack of Trust and Communication among Executive Management Team

To get things started, Reese presented a few of the interview quotes about trust and asked the executives to elaborate or respond. The SVPs hesitated to say anything, but Boyer broke the ice by saying that everyone should feel free to speak his or her mind. He went on to say that he had noticed that his direct reports had a tendency to come to him with concerns about their senior colleagues or their divisions, rather than speak directly with each other. "I can't see why you don't just work out disagreements among yourselves," exclaimed Boyer.

"I think many of the communication issues have to do with our different backgrounds and styles of interacting," volunteered CFO Shawna Davis. "For example, most of you have engineering or mathematical backgrounds and are accustomed to dealing with clear-cut facts, but Dave operates in a world of relationship building and deal-making. Sometimes it seems that you speak different languages."

"I don't think it's a question of not being able to understand each other," said CTO Carlos Rivera, "I think some of our personalities just don't mesh well. It's difficult to communicate with someone who is easily angered."

"Let's be clear," injected COO Mike Harper. "It's impossible to engage in a civil discussion with Dave. He gets very defensive and treats everyone like the enemy."

"I have no trouble expressing myself," countered Sales SVP Dave Lloyd, "and if I have to raise my voice to be heard, I will." He went on to recount the many times that engineering had missed product deadlines, putting client relationships at risk. The others had heard this from Lloyd before, and Arul and Harper joined Rivera in arguing that their divisions should not be held responsible for meeting unrealistic promises made by Sales.

After about 30 minutes of heated discussion, Reese saw the conversation heading toward an impasse, and interrupted the SVPs to introduce the second major issue she had uncovered.

Issue 2: Inconsistent Decision Making

Arul launched into this topic, saying: "I have a problem with any one of us independently going to Phil to make our case and try to get a decision in our favor. Strategic decisions about important things like new products need to be discussed and made as a team."

"The problem is that decisions based on one-on-one meetings with Phil are often reversed when others protest or make their own case," volunteered Harper. "I can't be telling my managers to make changes that will be rescinded days later. That wastes time, frustrates my people, and undermines my authority."

The five SVPs urged Boyer to be more transparent about how and why he reached a particular decision and that once a decision had been communicated, he should remain firm. Boyer looked a bit uncomfortable hearing this from his team, but managed to listen and responded that going forward he would try to be more conscious of the effects of decision reversals. However, he pushed back on the issue of transparency. "I don't believe I have to explain my decisions to anyone but the Board of Directors. Nevertheless, I do bring all of you into discussions of the issues I'm grappling with during our Monday meetings. Everyone has a chance to provide input, and I usually share my own thinking on the subject," said Boyer.

This opened the door to a discussion about the executive team meetings, with the five SVPs agreeing that meetings were not effectively used to deal with substantive matters. "My feeling has been that Phil doesn't want contentious issues discussed at team meetings, and prefers that we come to him privately with such things," said Harper. "I'm wondering why we haven't been using our weekly executive management meetings to address some of the issues that are coming up today," said Davis. "Instead, we usually talk about administrative matters that are not directly connected to corporate goals and strategy."

Issue 3: Confusion about Goals and Priorities

Reese turned the executives' attention back to her slides. "Let's talk about your quotes regarding goals and priorities. It seems to me that there is some disagreement about what the top goals of the company are or should be. How are Celeritas's goals communicated to employees?"

Boyer referred Reese to Celeritas's published mission statement and explained that each year he leads a retreat for senior managers, including his five SVPs and all of their direct reports. "I talk about achievements over the past year and present our goals for the coming year. As long as the vice presidents are communicating these goals to their teams, there shouldn't be any confusion."

"Actually, I think there is confusion, even among senior management," offered Davis. "From my perspective is seems goals are communicated in very broad strokes, leaving a lot of room for differing interpretations." Lloyd agreed: "The top goals tell us about objectives, but there's no clear direction on what path we should take to reach those objectives."

"It often seems that each one of us has our own idea of what Celeritas should be doing now and on the direction it should take for the future," said Harper. "The problem is that some of our ideas are conflicting, so we end up working at odds with each other. We need specific goals and priorities in order to come up with a unified strategy."

Issue 4: Poor Coordination among Divisions

Several of the SVPs had told Reese that there was not much interaction between the various divisions. Coordination was minimal, and unless Boyer specifically dictated cross-division collaboration on a particular project, it didn't happen. While the problem existed across all divisions, the discussion of this issue centered around Lloyd's personality and management style. The SVPs took turns describing incidents in which Lloyd had been overly aggressive or hostile. Reese reminded them to look Lloyd in the eye as they spoke. Boyer remained quiet but was listening carefully to the claims that Lloyd's confrontational style did not fit in at Celeritas. The discussion became quite heated toward the end of the day.

"Dave's people are constantly making promises without consulting with my team," said Harper. "He tells a client that an improvement will be ready by an unrealistic date, then we get pressured to meet client expectations. We have to reorganize production schedules to meet his whims. Basically, we've got the marketing tail wagging the corporate dog."

"It seems like Dave is more concerned with promoting his ego than with what's best for Celeritas. He's like the big man on campus who needs to show off in front of clients by proving that he can make things happen," added Davis.

"None of you get what the role of marketing and sales is," retorted Lloyd. "We build relationships with clients, and they need to believe that we have some pull to get things done for them, or we have no credibility. It's not marketing that's wagging the dog, it's our client base—and that's how it should be!"

"So now you're saying our clients should run the company," exclaimed Arul. "With thinking like that, it's no wonder we're missing sales targets."

"Yes, let's face it," said Rivera. "The reason we're even having this 'team building' is because sales are down. It's not because there's a problem with research, engineering, or operations. All of the other divisions are doing their jobs, so why aren't you doing yours?"

"Because our sales and marketing division is half the size of our competitors'!" yelled Lloyd. Then he took a deep breath and continued with a level tone. "Celeritas is stuck in a time when it was one of the few companies out there selling a new technology. Things have changed, but most of you don't get that. We need to make a serious investment in marketing to move our products."

"Dave, you're the one who doesn't get it," said Arul. "Every dime we spend on marketing is a dime that doesn't go toward technology innovation. If we don't spend enough to take the lead on innovation, someone else will get the next breakthrough and our products will become obsolete."

Lloyd interrupted: "Our clients aren't willing to bankroll the next breakthrough. Celeritas's prices are higher because we need to cover exorbitant R&D costs, while our competitors are offering cheaper solutions to meet the market's immediate needs. Who do you think is winning?"

"We are winning on quality," responded Rivera. "Our products are superior—and if you don't believe that, then you shouldn't be marketing them. Celeritas's reputation was built on cutting-edge technology, and that is the only thing that will get us back on top."

Boyer had become increasingly uncomfortable with the tenor of the discussion, and finally stepped in to calm things down. "We've certainly got a lot out on the table, and I think that's a good thing. These are business disagreements, not personal ones," he said. "Let's remember that we are all on the same team. I say we call it a day and meet up later for dinner."

Preparations for the Second Day

The first day ended at 3:30 pm—an hour and a half earlier than had been scheduled. Reese and Boyer took the time to strategize for day two. They decided to spend the day working on the third issue by having the team define a clear set of goals and priorities in the morning, and then discuss how the divisions would work together to meet those goals in the afternoon. Reese decided not to join the team for dinner to allow them time to relax among themselves.

After a rather tense and quiet dinner, Boyer invited the group to a bar for drinks. Later, Boyer recalled "That was one of the best moves I've ever made," he later recalled. "The six of us had quite a bit to drink and really got loose. It broke the tension, and people started saying how good it had felt to get things out into the open. We were even laughing about some of the arguments we'd had. I'm sure that's what set the stage for the great work we did on day two."

During the second day of the offsite the SVPs appeared less agitated and more willing to listen to each other. "Carla and I clearly picked the right topics for day two," thought Boyer. "The team got down to facts and numbers and as a result there were no emotional outbursts." Boyer was quite pleased with the results of the offsite, and began thinking about next steps during his drive back to Boston.

The Vice Presidents' Meeting

Back in Boston, Reese was planning the next stage of the organizational change process. She was satisfied with how the offsite had turned out, but was more cautious in her optimism than Boyer. She had noticed that Lloyd had held back during the second day, speaking only when directly asked for his input. She was also discouraged by the news that during her 30-minute absence to make a phone call on the second day, the momentum in the room had slowed, and people were less engaged. Still, she and the executives were proud of the strategic planning they had accomplished on the second day, and she was looking forward to leading the meeting where the outlines of the plan would be shared with Celeritas's 21 vice presidents.

Reese had been planning to hold the vice presidents' meeting a week or two after the offsite, but over the weekend Boyer had sent out an email to the SVPs and the 21 VPs who reported to them, announcing they were all required to attend an important meeting Tuesday afternoon. The VPs were not happy about having to clear their schedules on such short notice and some were grumbling as they filed into the large conference room. Boyer stood at the front of the room with Reese sitting close by. "I've brought you together to unveil a new era of teamwork and cooperation across Celeritas. The SVPs and I are fired up about a new approach that is going to smooth the way to increasing market share and profits," said Boyer. "The executive team will be joining us in a few minutes, but first I want to introduce you to Carla Reese, an organizational consultant who has been working with us on this new initiative."

Reese stood up and explained the idea of team building and why Boyer and his staff believed it was important to the continued success of Celeritas. She talked about organizational development generally and outlined the four issues that had been addressed at the offsite. The VPs listened with interest, and Reese could see some of them nodding in agreement. But as Reese summed up the changes that the executives had agreed to make, and how she was confident that with the help of everyone in the room, Celeritas would be reenergized, the VPs became restless and began whispering among themselves.

As soon as Reese opened the floor to questions, one VP stood up and asked, "Don't you think that there may be a couple of people in the executive group who won't change, either because they don't want to, or because they lack the capacity to do so?" Reese responded with a flat "No." She said that she had worked with many groups in the past and that she was convinced that this team was committed to changing and would work hard to integrate and work collaboratively. A flood of negative comments ensued:

> *"This isn't the first time we've heard this. Why should we expect a different outcome from the same things they've tried before?"*
>
> *"Our business issues are at least three years in the making, and we're supposed to believe that they have been resolved in a two-day meeting that we weren't even a part of?"*
>
> *"The SVPs can talk all they want, but it is us and our teams that will make the difference with implementation. Why weren't we consulted about what needs to change around here?"*
>
> *"If I go back and tell my people that everything has suddenly changed, they'll laugh me out of the room."*

When the SVPs joined the meeting, expecting to answer questions about the newly articulated goals and priorities, they were met with disinterested looks. A couple of VPs asked questions, but most of them remained silent, and the meeting came to an awkward close.

The next day, Reese asked to meet with some of the VPs who had been the most negative during the meeting. In private, they were even more outspoken. Among the things Reese heard in the one-on-one meetings with the VPs, a few comments stood out:

> *"Everyone knows that Boyer isn't a leader, but the others are just as bad. They don't delegate well, and two of them are notorious micromanagers."*

> *"It'll take more than a two-day meeting to turn those guys into managers. Most of them are engineers and never had to manage anyone before Celeritas. They don't know how to do it."*

> *"The turnover comes from the lack of autonomy and professional development opportunities at the VP level. Few of us are ever consulted about major decisions that will affect our areas, and we are never involved in strategic planning. This process is just the latest example."*

Six Weeks Later

After the failed VP meeting, Boyer felt dejected. "The team-building processes seemed to have started well, but the vice presidents' skepticism disappointed me." Boyer was further discouraged by the third-quarter results which showed a continuing decline in revenue and income. The SVPs became increasingly vocal about Lloyd's inability to increase sales. Boyer recalled:

> Sales were down and the senior team had lost confidence in Lloyd. His peers had no confidence in his ability to market their products. Lloyd just didn't fit in at Celeritas, and everyone wanted him to go. Morale was lower than ever. The solution was obvious.

After consulting with Reese and the Board of Directors, Boyer asked Lloyd to resign. Lloyd accepted a generous settlement package, and left without argument.

What Next?

Satisfied that he had taken an important step toward reviving the organizational change process, Boyer thought about what he should do next to complete the process. Specifically:

1. How to address the VPs' concerns and their resistance to the organizational change process.
2. How to get his senior team back on track toward growing sales and increasing market share.
3. Whether he should keep Reese on to help salvage the process—or had she lost all credibility with the VPs?

Exhibit 1 Celeritas Organization Chart

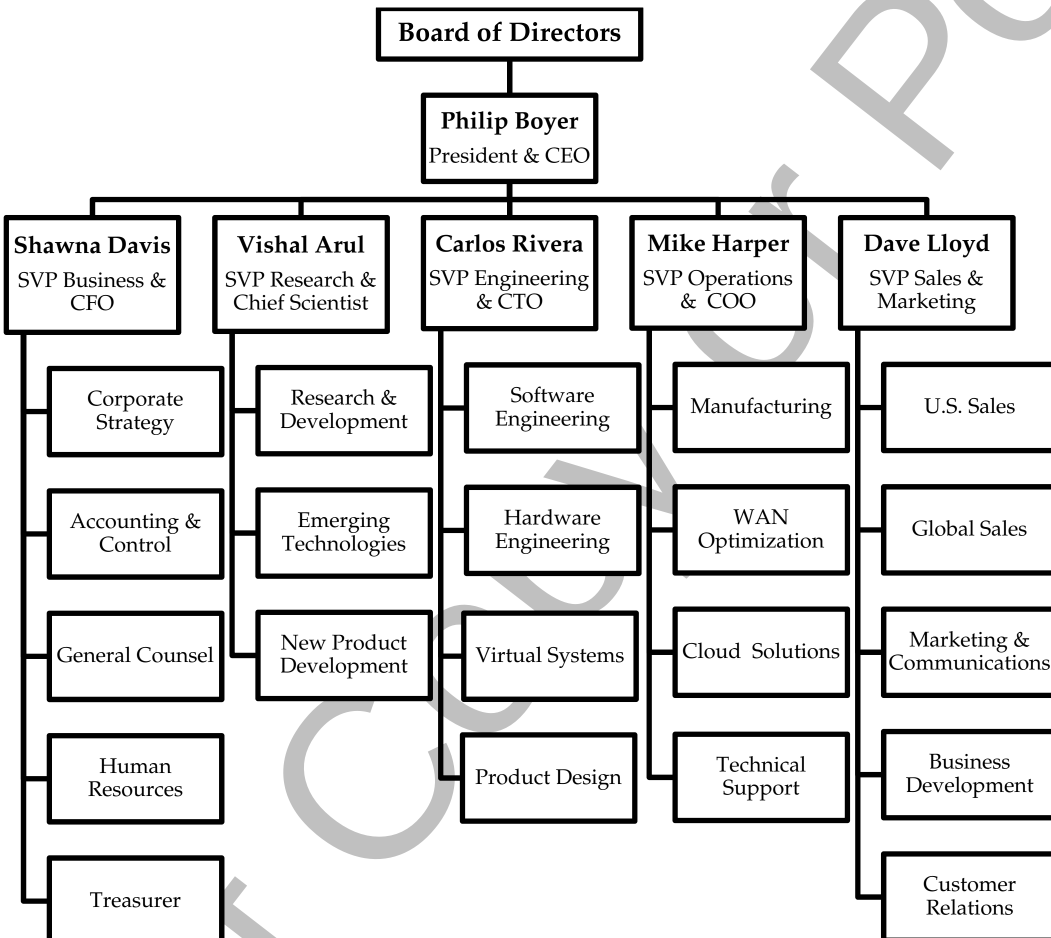

Exhibit 2 Executive Profiles

Philip Boyer, President, CEO, and co-founder, 48 years old. Dr. Boyer received an SB, SM, and Ph.D. in Electrical Engineering and Computer Science from the University of California, Berkeley. He did his post-doc work at MIT in Cambridge, MA, and then worked in MIT's Lincoln Labs for six years before founding Celeritas in 2003 with two of his MIT colleagues. Dr. Boyer holds several patents relating to streaming media, content networking, and other communications technologies.

Shawna Davis, SVP Business & CFO, 41 years old. Ms. Davis received an undergraduate degree in Communication from Boston University, and an MBA from MIT's Sloan School of Management. Before joining Celeritas in 2004, Ms. Davis had held leadership positions in Web design and internet communications firms.

Vishal Arul, SVP Research & Chief Scientist, 36 years old. Dr. Arul earned an SB and Ph.D. in Mathematics from MIT. Prior to joining Celeritas in 2008, he had led research teams at two software firms. Dr. Arul holds numerous patents for internet protocols, network algorithms, and content delivery methods.

Carlos Rivera, SVP Engineering & CTO, 35 years old. Dr. Rivera earned his undergraduate degree in computer engineering from Carnegie Mellon University, and holds a Ph.D. in electrical engineering from MIT. Dr.. Rivera had consulted for numerous firms in the areas of networking and system design before joining Celeritas in 2007.

Mike Harper, SVP Operations & COO, 39 years old. Mr. Harper holds BA in Computer Science from Tufts University and a Masters in Engineering from MIT. He worked at IBM and Cisco Systems before joining Celeritas's founding team in 2003. Mr. Harper was promoted to VP in 2006 and has held his current position since 2009.

Dave Lloyd, SVP Sales & Marketing, 52 years old. Mr. Lloyd came to Celeritas in 2005 with more than 20 years of high-technology sales, marketing, and business development experience. In his most recent former position, Mr. Lloyd had helped grow a small single-product company into an industry leader in networking and security. He received a B.S. in Business Administration from Northeastern University.

Exhibit 3 Senior Vice Presidents' Interview Quotes Presented at the Executive Offsite

Issue 1: Lack of Trust and Communication

- "I can't do my job and plan the way I should because I don't believe that others will meet their deadlines."
- "Some of us are more eager to assign blame than to support the work of the other divisions."
- "We don't share information across divisions. In fact, sometimes it seems that critical information is deliberately withheld."

Issue 2: Inconsistent Decision Making

- I can't get a firm commitment on anything. Every executive decision seems subject to reversal.
- I agree with data-driven decision making, but we can't keep changing decisions each time we get a new piece of information.
- Other divisions make unilateral decisions that affect my division—how am I supposed to deal with that?

Issue 3: Confusion about Goals and Priorities

- It seems that there is no long-term company strategy. Some of us do strategic planning for our divisions, but our goals are not necessarily aligned.
- We don't fully understand each other's functions, and often don't agree with what other divisions are doing.
- Our competitors are killing us because we can't agree on a plan and work together to implement it.

Issue 4: Poor Coordination among Divisions

- There's a lot of overlap between Research and Engineering, but each jealously guards its territory and resources.
- I'm not getting the market information that I need for R&D.
- Our sales people are making promises that my engineers can't keep.