

Interview

Inside the New EDS

An Interview with Michael H. Jordan,
Chairman and Chief Executive Officer, EDS, Plano, Texas



Michael H. Jordan

EDITORS' NOTE Prior to joining EDS in March 2003, Jordan served as chairman and CEO of CBS Corporation (formerly Westinghouse Electric Corporation), a dual post he held from 1993 to 1998. Before that, he was a partner with Clayton, Dubilier and Rice, a prestigious private investment firm; spent 18 years with PepsiCo, Inc., where he served in numerous senior-executive positions, including CFO and president and CEO of PepsiCo Worldwide Foods; and was a consultant and principal with McKinsey & Company. Additionally chairman of the National Foreign Trade Council, a trustee of the Brookings Institution, a member and former chairman of the U.S.-Japan Business Council, a member and former chairman of the United Negro College Fund, and a member of the boards of several small, privately held companies, Jordan holds a B.S. from Yale University and an M.S. from Princeton University, and performed a four-year tour of duty with the U.S. Navy.

COMPANY BRIEF Plano, Texas-based EDS is the world's largest independent systems-management and services firm. The company's core portfolio comprises information technology, applications and business-process outsourcing, and information-technology transformation services. Serving both governmental

and business clients worldwide in industries including financial services, transportation, manufacturing, consumer products, retail, energy, health care, communications, entertainment, and the media, EDS employs approximately 117,000 people in 60 countries. With more than \$20 billion in annual revenue, the company is listed on the New York and London stock exchanges and is ranked 87th in the Fortune 500.

EDS has gone through some major changes over the last few years. Are you happy with how the transformation has progressed?

Yes, I am happy. We have made a lot of very significant changes in the last two years. This type of turnaround usually has two phases. The first is focused on clean up, and the second is focused on growth. We have completed the clean-up phase, and I think all of the problems are really behind us. We've laid a very solid foundation in terms of our technology strategy and our plans to rationalize the workforce. We've also streamlined our processes to enable us to compete more effectively in the market, and we can now serve major corporations with the products and services that are really important to them.

How difficult is it to compete in the systems-management marketplace? Often, the types of services sound very similar from one company to the next.

Differentiation is difficult, and one reason is exactly that: All the services sound very similar. Traditionally, EDS has been a stronger deliverer than a talker, when it comes to services. Going forward, we want to keep the same focus on making things happen, but expand on our vision and communication.

Are the major multinationals your primary focus?

Yes, our primary business focus is the global 1,000. Those are the companies that have the scale and complexities that we serve with our skills and our evolving platform.

Where do you foresee most of your growth coming from in the near

future – the United States or international markets?

We've got a lot of work to do in the United States, and there are a lot of potential opportunities here. We also have strong pockets of potential growth in some international markets. As yet, we don't have a uniform penetration in Europe, outside the U.K., and we don't have a strong presence in North Asia. So those regions are developmental priorities for us.

What is your approach to growth in China? That country is getting a great deal of attention from many major multinationals.

At this point, China has not developed in a way that suits the product line of any outsourcer. We have a presence in China, through General Motors, and we have set up a China development office. We're looking around for platforms and partnerships to build our business in that country. For instance, we're partnering with the leading computer-security firm in China, which has strong links with the government. We're looking for partners in financial services. In other words, we're putting our irons in the fire, and we're hoping that a few cows will come along for us to brand.

Do you focus on any industries in particular?

We primarily work with governments around the world, and with financial-services companies, which are big users of computer services. Manufacturing companies are also major clients of ours – for instance, DaimlerChrysler – and the healthcare industry is a fourth sector that presents good opportunities for EDS. We have a nice business in health care.

How important is it for you to get personally involved with client relationships? Is it difficult to find time to spend with clients?

It's very important, and I have spent a lot of time and effort this year building relationships with clients. I'm supported by a great team of senior managers, but I still interact a lot with clients, sometimes even flying to London or Toronto to attend customer events. Thanks to airplanes, I can do things like that.

At what level does EDS build rela-

tionships within its client companies? Do you always deal with the CIO?

It depends on what we're selling. If we're selling a desktop support system, we tend to deal with the CIO or someone below him or her. When we're selling the transformation of the entire enterprise, including outsourcing human resources, then we interact at a higher level. We talk to the human-resources officer or the CFO, and they then pitch the deal to the CEO.

On the topic of human-resources outsourcing, you have a partnership with Towers Perrin. What made you feel that Towers Perrin was the right partner for EDS, and what's your outlook for that segment of the business?

I'm very enthusiastic about it. Before we inked that partnership, we had small positions in human resources, but we did not have the domain expertise to really drive this part of our business forward and become a leading player. We certainly had the technology skills to run call centers, but we didn't have other crucial expertise. We chose Towers Perrin because, out of all of the consulting companies, it is by far the most global. So that fits our culture very well. Plus, Towers Perrin already had a benefits-administration business, and we were looking for a partner that had that capability. We work together very well.

Will partnerships and acquisitions continue to be an important part of your growth strategy?

We will certainly continue to partner, and we'll also look for acquisitions that make sense for us. In the future, our principal aim will be to add core businesses to our portfolio. We may divest in some areas and redeploy the capital into areas that are more important to us.

How has the deployment of technology evolved at EDS?

In its early days, EDS was very technically strong. It had a way of managing its data center that was very leading edge. In the last 10 or 15 years, we've broadened our focus to become all things to all people. But we realized that, in that modality, the cost of supporting 200 separate software platforms was eating our lunch. And so we have evolved a partnership strategy through the EDS Agility Alliance with major hardware and software suppliers to create preferred platforms that will give us very superior economics. So, yes, technology is important to us, but technology in relation to meeting our clients' needs, as opposed to technology that makes our servers run faster.

Furthermore, we've instituted our own program – "EDS on EDS" – where we've become our own client. That tells our clients we wouldn't sell an IT product or service that we weren't prepared to use ourselves.

Do you think the financial community has fully understood the transformation of EDS and your vision for the company?

Analysts are beginning to understand. I think EDS is like a lot of companies that were high flyers in 2000. Problems emerged, and people have long memories. Plus, this can be a hard business to understand. Nevertheless, I think analysts are beginning to get a handle on our story. They are waiting for the dust to settle and for things to pop out in terms of numbers: improved revenues, margins, and so forth. We're doing some of that, but we have more to do. More important than the analyst community are our major



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shareholders. I think they understand our potential, and our aim of getting our margins up to 8 percent.

Governance issues have been thrust into the spotlight by the recent high-profile scandals and subsequent new legislation. Do you think the business community has won back the public's confidence?

Hopefully we won't see lapses in integrity on that scale again, but there's always going to be somebody who does something wrong. Clearly, we have gone through a sea change since the '90s. CEOs have gone from being rock stars to being bums. I think the reality is somewhere in between. Ultimately, you just need to do the best job possible, and be open and honest when you have problems. That has always been my philosophy.

You're known as a fixer. Now that you have transformed the company, are you going to stay?

When I signed up, I told the troops and the board that I would be there for two to three years, probably through the end of 2007. It's going to take that amount of time to cement the changes.

People are often resistant to change of any kind. Was it difficult to get employees to support the transformation process?

People certainly appreciated the fact that there was a transformation strategy in place. People are buying into that, and our clients are too. Because of that, morale within the company has turned around dramatically in the last two years. One great example of this came quite recently:

To save cash, we gave bonuses in the form of stock options. There was some differential investing, depending on stock price performance, and when the first vesting tranche was about to hit, we were prepared for people to bring the system down. But instead, very few people decided to cash out. I was sitting there like the Maytag repairman, waiting to cash everybody out, and I realized that people had started to believe in the company.

You brought in some new people on the management team. Are you happy with the talent you have in that area, and elsewhere in the company?

We continue to look for ways to strengthen our leadership team, but broadly speaking, we haven't really had any problems attracting good people. If people have a background in this industry, they get excited about working for EDS. I think it's an attractive place to be.

You have worked with a great many people over the years. What do you think they would say if they were asked what it was like to work for Michael Jordan?

I suppose they'd say that I know what I want, and if I'm not getting it, I'll probe from every different angle until I do. I'm sure they sometimes think I'm a little opaque, but I'm quite sure of what I want. My goal is always to build a leadership team that is self-reinforcing and self-managing. We just made a major change in how we run the organization, in that EDS used to be very centrally driven. Every little thing had to be approved. We didn't change the structure, but we went to the regions in the U.S. and Canada and said, "Right, now you're a team. This is your business, and we're going to give you decision-making authority. We're going to give you tools. We're going to look at your accounts, your costs, and your sales performance, but you're the ones who have to initiate the change. You have to tell us what you want us to do to support you, rather than us sitting out there telling you in detail what to do."

A lot of people said this approach would never work. But everyone signed up and did their own thing, and we have just finished our first round of monthly reviews. Everybody was blown away by how the regional teams took ownership of identifying problems, solving them, and asking for help. Before we instituted that new system, they didn't want anybody coming into their territory.

So we're changing the culture of the company and making it more open and collaborative. We want it to be a problem-solving culture, rather than a punishing culture, because we can do things so much better if we get our act together and get people on the same page. At the end of the day, I lead according to two words: direction and inspection. You've got to put inspection mechanisms in place, but they can't be punitive. And you've got to let people know that you're there to help. ●