Motorola's Chairman and CEO Retires

At the close of business on 19 September 2003, Motorola announced that Christopher Galvin, chairman and chief executive officer, informed the Board of Directors of his decision to retire. Galvin has agreed to remain as chairman and CEO until his successor is named and will work closely with the board’s search committee to identify a replacement.

Galvin joined Motorola in 1967 and was clearly groomed from that point forward to lead the company founded by his grandfather. Galvin has been the chairman and CEO for the past six-and-a-half years and has guided the company through challenging times. The decision to step down was a surprise and was abruptly announced at the end of the business day. A difference in view on the progress, pace and strategy of the company’s rebuilding was cited as the reason for Galvin’s decision. Motorola has seen several substantial changes under the guidance of Galvin: The company has made $19 billion in acquisitions and divested an additional $7 billion. The company went through a major cultural change as Motorola lost its top position in wireless communications in the late 1990s. The business units are run by their own president and are accountable for individual profitability without undue influence from other sectors. In recent years, Motorola has launched a major, global brand campaign, MOTO (primarily within the PCS division), and re-implemented an efficiency program following Six Sigma principles. Motorola has been cash-flow positive for the past 10 quarters and reduced operating expenses, including employee head count, as a result of the recent global telecommunications downturn.

Gartner Dataquest Perspective

Gartner Dataquest views Galvin’s retirement as an opportunity for Motorola to accelerate the company’s turnaround and as a potential step to regaining the top spot in the global wireless communications market. This could, however, be a long-term setback if the new CEO sacrifices successful longevity for short-term gain. Gartner Dataquest has been disappointed by the recent setbacks in Motorola’s turnaround as the semiconductor sector (SPS) has yet to return to profitability and PCS (mobile phones) has seen several key delays in product launches. These delays have contributed to loss of market share in 2002 and despite assurances to the contrary, looks likely to impact PCS in 2003 as products are once again delayed. Citing a differing view of the "pace, strategy and progress" of the company’s restructuring leads Gartner Dataquest to believe Galvin’s replacement will make some significant changes shortly after taking the helm. Speculation as swirled for many quarters that Motorola should sell the unprofitable semiconductor business, and it is likely the new leader would attempt to do that. This would clearly benefit Motorola's current balance sheet; however, there are potential problems with this strategy. In 2001, Motorola unsuccessfully attempted to sell the loss-making wireless infrastructure (GTSS) business, as a suitable deal could not be struck. Motorola has since restructured the business and returned it to profitability in an extremely difficult environment. Retaining GTSS is strategically important, as
Motorola can offer device and network solutions to customers, potentially providing an advantage. If Motorola is unable to find an adequate buyer for the SPS group, it could drag on the company’s balance sheet for several quarters and in the end still require a major and costly overhaul to catch up. Additionally, while Motorola has limited its reliance on vertical integration as this strategy has recently fallen out of favor, the economies of scale for an appropriately vertically integrated company can be positive. This will require dynamic and creative leadership to succeed in the fast-paced fluid environment. Further, Motorola has invested and developed significant resources in SPS as well as other sectors, and in the long term, Motorola will only be successful if it is able to capitalize and profit from being a technology leader and less a manufacturer of technology. Motorola must do more to license and promote the intellectual property it currently possesses across all sectors, including SPS. Motorola will be less able to leverage that intellectual property as a smaller company.

While Gartner Dataquest is optimistic that a new CEO will accelerate the company’s turnaround and help solve the problems in SPS and, more recently, PCS, the selection of the new leader is obviously crucial. Many have speculated that current President and COO Mike Zafirovski would eventually succeed Galvin, as he was credited with the swift and significant turnaround in the PCS division in 2000 and 2001. The abrupt nature of Galvin’s retirement may actually hurt Zafirovski’s chances for taking the helm, as his tenure with the company has been relatively short. The potential of losing Zafirovski if he is not named the successor, however, may be enough to entice the board to give him the nod.

Galvin can and should rightfully be given credit for making significant improvements to Motorola during his tenure. He is not viewed as a forceful leader but rather has put the pieces and people in place for the company to be more successful. The board’s impatience with recent setbacks and a differing of philosophy have led to Galvin’s abrupt departure. It remains to be seen if this shake-up results in a positive long-term effect. Gartner Dataquest remains optimistic that it will; however, several significant challenges remain for the new leader of this $27 billion behemoth.

By Paul S. Dittner