HARVARD | BUSINESS | SCHOOL

9-494-055
REV: SEPTEMBER 27, 2018

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Rudi Gassner and the Executive Committee of BMG International (A)

Rudi Gassner, CEO of BMG International, paused and glanced around the hotel suite at the members of his executive committee. They were not coming to any consensus on the issue at hand. It was May 1993 and the BMG International executive committee was gathered for one of its quarterly meetings, this time in Boca Raton, Florida, during the annual Managing Directors Convention.

Gassner had just congratulated Arnold Bahlmann, a regional director and executive committee member, on his recent negotiation of a reduced manufacturing transfer price for the upcoming year's production of CDs, records, and cassettes. Because business plans for the year had been established in March based on the assumption of a higher manufacturing cost, the new price would realize an unanticipated savings of roughly $20 million.

As a result of these savings, the executive committee now faced some tough decisions. First, they had to decide whether or not to change the business targets for each country to reflect the new manufacturing price. If they chose to alter the targets, they had to address the even more delicate matter of whether managing directors' bonuses, which were based principally on the achievement of these targets, should be based on the old or new figures.

Gassner had already discussed this issue with Bahlmann and CFO Joe Gorman, who had run calculations on the impact of the new price for each operating company. These had been distributed to the executive committee before the meeting. Through previous discussions and evaluation of the financial impact, Gassner had formulated his opinion about what should be done.

In his mind, the issues were clear. BMG International had achieved tremendous success and growth in its short lifetime of six years, and the regional directors (RDs) and managing directors (MDs)[1] had every right to feel good about their exceptional performance. (See **Exhibits 1** and **2** for company organization charts.) But now Gassner wanted to guard against the company becoming a victim of its own success. He knew that they would have to carefully monitor the economics of the business and maintain their agility in order to meet the challenges of the future. In light of these concerns, Gassner felt that the MDs should be held accountable for the savings from the reduced manufacturing price.

[1]Managing Directors managed local operations in a particular country; each MD reported to one of five Regional Directors.

Professor Linda Hill and Research Associate Katherine Seger Weber prepared this case. It was reviewed and approved before publication by a company designate. Funding for the development of this case was provided by Harvard Business School and not by the company. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

The executive committee needed seriously to consider not only adjusting the targets, but also the bonus basis. As he explained, "It seemed fair to me. These were windfall profits coming to the managing directors, and they didn't even have to lift a finger to get them. I didn't want them to become complacent during the year."

The executive committee, however, seemed unwilling even to entertain this possibility. Gassner suspected that some of the RDs were taking the "path of least resistance" because they did not want to return to their MDs and announce that the bonus targets had been changed. His frustration mounting, Gassner wondered if he should drop the issue for now or provoke them by saying what was on his mind: "Listen guys, you're thinking too much like MDs. You should be thinking about what is good for the whole company."

Company Background

BMG International was a subsidiary of Bertelsmann AG, a German media conglomerate with over 200 companies and 50,000 employees operating in 37 countries. Founded in 1835 as a lithographic printing company in Guetersloh, Germany, Bertelsmann's interests had grown to include businesses in music, film, television, radio, book, magazine, and newspaper publishing and distribution, as well as printing and manufacturing operations. Still headquartered in the small rural town, Bertelsmann had become the second-largest media enterprise in the world, with 1992 sales of $9.7 billion.

Bertelsmann's corporate charter mandated autonomous business divisions and entrepreneurial operating management, and emphasized respect for the cultural traditions of each country in which it operated. Each business unit had its own, usually local, entrepreneurial management with operating control over its business plan, the development of its assets, its human resources, and its contribution to overall profitability. Delegation of responsibility and authority was supported by performance-linked compensation for managers and profit-sharing by all employees.

In 1986, Bertelsmann entered the U.S. market with its purchases of Doubleday and Dell, two large publishing houses, and RCA Records, which had made music history with Elvis Presley in the 1950s. On acquiring RCA, Bertelsmann organized its worldwide music holdings—which also included the American record label Arista, the German label Ariola, and various smaller labels and music publishing and marketing operations—into the Bertelsmann Music Group (BMG). With RCA, BMG entered the ranks of the "Big Six" record companies—CBS, Warner, BMG, Capitol-EMI, PolyGram, and MCA—which supplied 80% of worldwide music sales.[2]

BMG was headquartered in New York under German Chairman and CEO Michael Dornemann, who split the company's operations into two divisions: the United States and the rest of the world. In the United States, BMG's priority was to stem the losses from RCA (which posted a $35 million deficit in 1987) and build market share for the flagging U.S. labels.[3]

With BMG's overseas holdings, Dornemann formed an international division and hired German-born Rudi Gassner, then executive vice president of PolyGram International, as president and CEO (see **Exhibit 3**). According to Dornemann, Gassner "had the right background in the music business

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[2] Purkiss, Alan, "Let's Hear It for the Unsung Hero," *Accountancy*, June 1992, pp. 70-73.

[3] Dannen, Frederick, *Hit Men: Power Brokers and Fast Money Inside the Music Business* (New York: Vintage Books, 1991), pp. 246-261.

and the right international experience. He best fit the leadership qualities we were looking for."[4] At its inception in 1987, the international division, also headquartered in New York, comprised operations in 17 countries across the globe. Gassner described the fledgling organization as "a patchwork of companies around the world. It had no mission, no goals, and in total, it didn't make any money. . . . The only way from there was up."[5]

In his first six years, Gassner led the company, which he named BMG International, through a tremendous period of growth. By launching new satellite companies, purchasing small labels, and forming joint ventures, BMG International's presence had expanded by 1993 to include 37 countries. Sales had increased an average of 20% annually, reaching $2 billion in 1993 (two-thirds of BMG's overall revenue that year). International market share, which was near 11% in 1987, was a healthy 17%, and as high as 25% in some territories.[6]

BMG International was responsible for marketing and distributing top-selling U.S. artists such as Whitney Houston and Kenny G across the globe.[7] In addition, the company developed such artists as Annie Lennox and Lisa Stansfield (Britain) and Eros Ramazzotti (Italy) in their local territories to be marketed worldwide. On a local level, groups such as B'z (Japan) and Bronco (Mexico) were extremely successful, selling in excess of 1 million units in their respective countries. The company also had extensive classics and jazz catalogues, with artists such as James Galway and Antonio Hart. (See **Exhibit 4** for roster of top-selling artists.)[8]

Rudi Gassner and BMG International

In 1987, at the age of 45, Gassner became the CEO of the newly-formed BMG International. "It was a once-in-a-lifetime opportunity," he reflected, "to build what I think a global company should look like." When he arrived at BMG, Gassner adapted quickly to the Bertelsmann culture. "My 17 years at PolyGram gave me the experience to run a global business; that was my know-how," he explained. "But on the other hand, I very much liked the Bertelsmann style. It was very close to my personal style." One of his colleagues at BMG described Gassner's transition:

> Rudi came from PolyGram, which had a very different culture. The Philips PolyGram culture is highly politically charged; it is much more "stand by your beds when the senior management comes in." Rudi changed a lot when he came to BMG. He saw the value in the Bertelsmann managing style; he saw the freedom to do things, and he took it. He passed it on as well.

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[4] "BMG's Five Year Man," *Music Business International*, Vol. 3, No. 1 (January 1993), p. 18.

[5] Ibid.

[6] According to Gassner, a 1% worldwide market share gain was worth around $250 million in revenue. ("Charting the Future" speech, May 1993, Boca Raton, Florida.)

[7] The "prestige market" of the U.S. was the most important supplier of recorded music around the world, and BMG's Arista, led by long-time music executive Clive Davis, had launched two global superstars, Whitney Houston and Kenny G, who reached No. 1 and 2 on the *Billboard* album chart. In 1993, Houston's soundtrack for *The Bodyguard* sold 20 million copies and became one of the top-selling albums of all time, fueling a significant portion of BMG's revenue in the U.S. and abroad. (Lander, Mark, "An Overnight Success—After Six Years," *Business Week*, April 19, 1993, pp. 52-54.)

[8] In addition, BMG International had an agreement with MCA/Geffen to market and distribute that company's products outside the U.S. The MCA/Geffen deal gave BMG International access to such stars as Guns 'N' Roses, Nirvana, Aerosmith, Bobby Brown, and Cher.

Building BMG International

One of Gassner's first priorities was to instill this culture in the newly acquired companies. He reflected on what he inherited when he joined BMG:

> My first step was basically to get to know the companies and the problems hands-on myself. RCA had been centrally managed out of New York, and the managers in the companies had the attitude that "I'm not doing anything unless somebody tells me what to do." I would find them hiding under tables. I spent the first two years preaching my gospel and saying to the managers, "You are responsible. I can give you advice, but don't send me a memo asking me to sign off here. You are in charge: you are Mr. Italy; you are Mr. France; you are Mr. Belgium."

At the same time, Gassner also began to communicate his vision for BMG International. "There were basically two strategic targets in my mind," he explained:

> One was globalization. Globalization allows you to serve a bigger world market. Every time we added a new country, we would increase our revenue accordingly. The other strategic target was domestic repertoire. I had a great fear of being too dependent on English-speaking repertoire. I made it clear to the managers that their foremost responsibility was developing domestic talent. Joint ventures and acquisitions were another way to add local repertoire.

Gassner also instituted yearly business plans with each of his managing directors. He described the process:

> We [Gassner and each MD] do a budget once a year. The budget is between you and me. I want to know where you are going and how much investment you will need. We talk about revenues and profits. I make a very aggressive bonus plan for them to be able to make a lot of money; if they exceed their targets significantly, they can make up to half their salary as a bonus. In America, this might not have been so sensational, but for those countries who were not used to that, it was pretty new.

According to Gassner, "the majority of the guys came through with flying colors." For those who did not fit with the new program, Gassner held "career counseling sessions," as one colleague referred to them: "When Rudi conducts a career counseling session, it's pretty much over. But he's so smooth and so good at it, that it takes them about a week to figure out that they may have just been fired."

Gassner also turned his attention inward, focusing on his corporate management structure. "One advantage, obviously, was that nothing existed. I could do it any way I wanted. That was fantastic." He made Joe Gorman, who had been the senior finance executive for RCA's international arm, the chief financial officer of BMG International. During Gassner's first two years, Gorman accompanied him as he travelled around the world assessing each operating company.

Gassner's next corporate hire was Heinz Henn to coordinate global A&R marketing.[9] Henn had spent 17 years at EMI in international positions. He described his job interview with Gassner:

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[9] "A&R" was a record industry term that stood for "artist and repertoire," record company products. In record companies, investing in A&R to develop talent was analogous to a manufacturing concern investing in R&D. "A&R marketing" was essentially product marketing.

> Rudi and I met for the first time on February 17, 1987, at the Park Lane Hotel and had breakfast together. What got me the job was that I ate two breakfasts—I was really hungry that day. He was impressed that somebody could eat two full breakfasts on a job interview.
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> Seriously, Rudi asked me what I would do if he gave me the job, and I told him that I would do things differently than they had been done so far in the industry, particularly [the companies] where we had both come from. I wanted to cultivate local talent in individual markets to build hot acts which we could launch globally. He totally agreed with me. Ever since, he's let me do what I wanted to do.

Gassner described the need for Henn's role:

> Heinz has a dual role: he not only has to break local artists worldwide, he also has to sell Whitney Houston to all the local companies. We need Heinz because the interests of the countries and the regions stop at the borders, and we need a global view on artists. This will give us the competitive advantage; there's more money to be made outside the borders if you do it right.

Henn added:

> You have to have coordination between the regions as far as marketing and promotion activities are concerned because recording and marketing expenses are far too great these days for any one [local] company to be able to earn back its investment in one country only. It requires coordination between regions and also globally.

To round out his corporate staff, Gassner added a human resource executive, Ira Sallen, and legal counsel, Jeff Liebenson. Sallen would be responsible for negotiating and maintaining the managing directors' contracts, as well as for worldwide personnel and organizational policies. Liebenson would serve as in-house counsel, assisting in the intricate contracts that were part of operating a complex global enterprise.

Gassner also instituted an annual Managing Directors' Convention in which Dornemann, Gassner, the corporate staff, and all of the MDs and joint-venture partners (JVs) would converge from around the world. A major objective of the annual MD Convention was to provide a forum for the MDs and JVs to give repertoire presentations to each other in an attempt to sell their local repertoire to the other countries.

Creating a Regional Structure

As BMG International's number of operating companies continued to grow, it became impossible for Gassner directly to oversee them all. By 1989, he concluded it was time to aggregate the countries into five regions and hire a regional director for each, a plan he had had in mind from the beginning. (See **Exhibit 2** for organization chart and **Exhibit 5** for revenue and profit distribution by region.) The role of the RD would be "to provide leadership for the region; to oversee the strategic development of the region, in conjunction with the whole company; and to manage the managing directors." He explained:

> I divided Europe into three different categories: the United Kingdom, German-speaking territories, and the rest of Europe. At that time, the German-speaking territories contributed about 50% of our profit, so they were a very important group unto

> themselves. I promoted Thomas Stein, who was the managing director of the German company, to regional director.
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> The United Kingdom, despite its relatively small profits, was our largest source of repertoire, a major supplier. I promoted John Preston, who was the MD of RCA Records U.K., to be the regional director of that region.
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> The MD for Ariola Spain, Ramán Segura, was an outstanding executive who also had, at that time, regional responsibilities for Ariola's Latin American companies. So I kept Spain/Latin America together as a region and made Segura the RD.
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> Now I needed someone for the rest of Europe. I hired Arnold Bahlmann, who was working in strategic analysis for Michael Dornemann. He was not one of the music managers coming through the ranks. He had never had a line job in his life. Still, I thought, you don't necessarily need the detailed day-to-day experience of running a company to manage a regional territory. It was an organizational task, and I thought Arnold had very good people skills. I thought he was ideal, though it was a hell of a risk to put him in.
>
> At the same time as I promoted John Preston to RD in the United Kingdom, I asked the chairman of the RCA U.K. label, Peter Jamieson, to go out and establish our Asia/Pacific market. I thought Jamieson was just the right person for the job. He accepted, and he's done a brilliant job building companies and repertoire in that region.

Gassner maintained the annual business planning system he had established with the MDs, but he now worked through the RDs. As Segura described it, "We are involved throughout the process, but Rudi has final approval." BMG International's fiscal year started July 1 and ran through June 30. In January, the MDs began to prepare their business plans, developing targets for critical measures such as revenue, *betriebsergebnis*[10], return on sales, market share, revenue per employee, days inventory, and days sales outstanding. Gassner was as much interested in the assumptions used to arrive at the targets as the figures themselves; MDs were expected to include an in-depth analysis of the risks and opportunities they faced based on the current economic climate and market, new A&R releases, and their priority artists.

In February, the MDs met with the RDs to review their plans; the RDs then met with Gassner to discuss regional as well as local goals. Gorman described Gassner's stance in these meetings: "Rudi has a reputation for being tough—fair, but tough. One of the reasons he has that reputation is that he makes you do things which you know you should do, but which you don't want to do." One RD described these sessions as "the famous February meetings. Rudi and I dislike each other a lot in February. But by March we usually agree."

In March, the RDs returned to the MDs with a final plan and targets; Gassner and Gorman joined many of these sessions (see **Exhibit 6**). At this point, the MDs would have a final opportunity to discuss their plans and the targets would be agreed upon. Gorman described these meetings:

> March is the critical planning month for us. We tell everybody, look, when the meeting is over, we all walk out of here with the same goals. Period. We can sit in the room an

[10] *Betriebsergebnis* was a German accounting term roughly translated to mean profit plus interest costs. The official language at BMG International was English (German was never spoken if a non-speaker was present); *betriebsergebnis* was the only German word the company used.

> hour, or we can sit there for two days, but in the end nobody is going to leave this room disagreeing on what the goals are. In these meetings, MD bonus criteria are also defined, since *betriebsergebnis* is the primary criterion for bonuses.

One RD described Gassner's approach:

> Rudi plays a different role with each MD, depending on their personality and where he wants the country to go. Sometimes he plays the good cop, and other times he plays the bad cop. He's very versatile, and very results-oriented. When necessary, he knows how to hit people's hot buttons and make them squirm.

According to one MD:

> Rudi knows the business inside and out, and he has an amazing grasp of the details. When he is going through these plans, he will go into particular line items if he wants to. These business plans are like contracts between Rudi and me. Face-to-face with him, I am committing to try to make this target. It's like a moral imperative to get it done.

According to Bahlmann, "The business plans serve their purpose well. If you ask me if I enjoy them—no. It's not enjoyable. I hate the process. But it works." Stein concurred: "The business plans help me explain what I think should be done in my region. It's a fair process because it's based on an objective financial measure." Another RD, however, commented on the danger inherent in the system:

> The business plan process is a necessary and effective tool. But the danger is that it becomes too inflexible. Instead of a jacket which guides, a sort of loose piece of clothing which shapes the way we operate, it becomes a straightjacket and restricts the way we operate.

Even with the addition of the regional directors, Gassner maintained close contact with the local companies around the world. "I emphasize what I call a very flat hierarchical structure," he explained. "I'm never too far removed from what's really happening." While he was primarily in contact with the RDs, Gassner always reserved the right to call the MDs directly, and they "feel absolutely free to call me about anything," according to Gassner. "But they all know that it is a two-way information system. Whatever they tell me, they know I will pass on to their regional director. And whatever they tell the RD, they know he passes on to me." When possible, Gassner made it a point to reach further into the organization by talking informally with local employees "just to double-check that my messages come through."

Gassner's style of running a global business was extremely demanding. Travel was a way of life: he and his corporate staff spent 50% or more of their time away from New York headquarters, and the regional directors traveled constantly throughout their regions. According to Gorman,

> Rudi believes that you are not managing an international company unless you travel extensively, because it's all about people. The financial statements are fine, the statistics are fine. But in the end, you have to sit down with somebody in a room and talk to them to get a real sense for the people and for what's going on. There are things that always come out "by the way . . . ." When you go out to dinner or you're at a concert until 4:00 in the morning, a lot of this comes out.

The Executive Committee and the ECMs

In 1989, after he had established his corporate staff and the regional structure, Gassner formally created an Executive Committee consisting of the five regional directors, the four senior staff members, and himself as the leader (see **Exhibit 7**). He recalled:

> I had always intended to have an executive committee. I always wanted to run a business on the basis of a European board system, like a *vorstand*:[11] although it is chaired by one person and members have their own portfolios [regions], the committee decides business issues jointly.
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> The way I see it, the board should decide about important issues strategically or from an investment point of view. And I wanted everybody to be involved in the process, despite the fact that some issues may not have a direct consequence for their region.
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> You cannot run a global organization without breaking it down into regions—it just becomes impossible. On the other hand, you have to have a global strategy. In our business, the regions are interlinked by artist agreements and by the exchange of repertoire. So it needs both a regional organization and a global vision.

Bahlmann recalled Gassner introducing the concept of an executive committee by describing it as "the group which will lead BMG International." Gassner decided that the committee would meet four times per year at the New York headquarters to discuss current operating issues, and once a year outside of New York to examine long-term strategy. Before each executive committee meeting (ECM), members were polled for agenda items; Gassner then, as he described it, "edited" the suggestions to create the agenda, which was circulated to the group.

Gassner described the first ECM:

> We needed to define the limitations and boundaries of authority among ourselves and the MDs. What should we allow our MDs to do without our approval? What should they have to bring to your level? What should you then bring to my level? We needed certain regulations; it makes our lives easier. It was interesting because of the history of the group coming together—they had not been organized before in a way that had these limitations, and they didn't like it.
>
> I also had to explain the role of the New York staff. There was a lot of theoretical discussion about, for example, Heinz's responsibility. What can Heinz say about my repertoire and my country? How can Heinz say I have to spend a certain amount of money on an artist that is not valid for my region? My answer to that was always that Heinz cannot say. He can only sit down with you and try to convince you that this is the right thing for you. You've got to see the staff as somebody helping you; it is not some governing body who tells you what to do. They have a dotted-line relationship with your people.

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[11] A *vorstand* was a German managing board consisting of full-time executive members who carried out the day-to-day operation of the company. It was distinguished from the supervisory board (*aufsichtsrat*), which consisted of shareholders and employee representatives. (Parkyn, Brian, *Democracy, Accountability, and Participation in Industry* (Bradford, West Yorkshire, England: MCB General Management Ltd., 1979), p. 105; and Kennedy, Thomas, *European Labor Relations* (Lexington, Massachusetts: Lexington Books, 1980), p. 185.

Preston described his perspective on the early meetings:

> At first, there was no role for the RDs. Rudi had things he wanted to do; the agenda was laid out, and we would discuss ways of implementing the agenda. The staff people went into the meetings very well prepared and tried to establish a couple of policies with the help of Rudi in order to structure the business. It took us a certain amount of time to find a way of really working together.

Bahlmann echoed the same point:

> Rudi needed to establish himself and the regional structure; it was like him telling us, via the agenda, what we're going to do. It was our "educational process." Although I think we sometimes found it frustrating, we were so busy with our own companies [regions], there was not a lot of resistance.

Gassner found this lack of "resistance" somewhat disconcerting. According to Gorman,

> I remember after the first two ECMs, Rudi saying to me, "Everybody's too nice." He expects strong dissenting opinions. He doesn't want a bunch of people just sitting there mildly accepting anything. To him, a heated argument over an opinion is part of the fun of the job, I suppose. But if you're not used to this, and when I first started with him I wasn't, it jars you a little.

In time, however, the RDs became more vocal. According to Henn, "It took quite some time until the group felt comfortable enough with each other that they dared to say what they really wanted to say." According to the RDs, the shift in the ECMs was due to their growing confidence and success in running their regions. As Bahlmann noted:

> About two years ago it turned around. The regional directors and the managing directors make the decisions about the operating businesses and acquisitions. Today in the ECMs, we go more into other issues. More and more, we are finally making decisions together and running the business as a team.

Preston also commented on this shift in emphasis: "In the beginning, the staff and Rudi were more dominant. But now, it's more balanced between Rudi and the RDs, and then the staff."

Working Together

By 1993, the executive committee and the ECMs had been in place for four years, and the meetings had fallen into a fairly regular pattern. Each agenda would include a presentation by Gorman on current financial results relative to targets; a discussion by Henn about A&R developments, new releases, and priority artists; a briefing by Sallen on significant worldwide human resource issues; and an update on each region by the RDs. Gassner described the importance of these regional reviews: "I want to give them room to explain to their colleagues what they're up to. Even though it's not relevant to somebody running South America, for example, he should listen, in my opinion, to what happened in Korea and how we do business in Korea. Here is where I try to get them involved in the global strategy."

Outside the ECMs there was frequent contact between Gassner and each RD. Contact among the RDs varied, and was most frequent among three of the European directors: Bahlmann, Stein, and Preston. Because they shared so many of the same circumstances and concerns, Gassner established a European subcommittee in 1991. As he explained,

> I created a European board because I didn't want to be in the middle of those discussions all the time. It seemed natural to make Arnold the chairman, since he is also the head of European-wide manufacturing and distribution. I told them: "You guys deal with European issues. Europe is your baby. If you cannot agree, I get the minutes and then I will make a ruling."

Since its inception, the European board had been very effective in achieving the purpose he had intended, according to Gassner:

> They deal with issues that are really not relevant to anybody else before they get to the ECM. They even discuss the ECM agenda before the meetings, and they sometimes come over with what I call a "prefabricated opinion." So now sometimes I have to work to break this group up a little bit.

Depending on their regional circumstances, the roles of the RDs varied significantly. Bahlmann, Preston, and Stein, for example, focused on continuing to carve out market share and bring costs down in their increasingly mature markets. Because of his region's importance as a repertoire supplier, Preston was seen as the "repertoire expert"; Bahlmann, on the other hand, was the "strategy expert." Segura and Jamieson were most concerned with establishing new companies and developing talent in the relatively undeveloped markets of Asia and Latin America. Jamieson commented on the satisfaction of being a "pioneer," as he called it: "Asia/Pacific is a huge, multicultural, diverse, economically varied region which is on exactly the opposite side of the world from America. It has the most growth potential and the most musical excitement, really. It's a very, very exciting place to be." Segura described the unique challenges in his region: "I am constantly battling against the terrible political and economic instability that affects some of the countries in my region. These situations cannot be solved with easy solutions or off-the-shelf business recipes."

Over time, the executive committee members developed a strong sense of mutual respect for one another. According to Henn:

> Everybody in that room is the *best* at what he does. The absolute best, and we all know it. It's pretty amazing. We're also total egomaniacs, the whole group of us. But in this company we still work as a team because we give each other the space to be the fool that everyone can be sometimes. Nobody's perfect.

Another RD commented, "I wouldn't necessarily choose these guys as my friends, but when we get together it's pretty awesome."

The group maintained a balanced mix of camaraderie and competition. Gassner, who himself used to play professional soccer, described the committee as "more like a soccer team than [an American] football team"; they frequently played heated games of golf or soccer when they were together. Stein remarked with a laugh, "It's all healthy competition—it's very healthy as long as I'm on top of the others. But seriously, it's a good sort of competitiveness. We are all ambitious people, but we respect each other; there is no jealousy."

Another executive committee member mentioned a different aspect of competition: "Rudi is only 51 [years old], far from the required retirement age of 60; but chances are good that he could move on to other things at Bertelsmann. As a result, there is a certain amount of jockeying for position within the executive committee, and people wonder if a non-German could ever be tapped to run this company."

As for Gassner's role in the ECMs, committee members had varying perspectives. Stein commented that "Rudi has a good relationship with the team. He knows when to be part of the team, and when to say yes or no. But he's always open-minded, and you can discuss things with him; it's like a partnership with him." According to Sallen, "Rudi does a lot of consensus-taking. He floats ideas by people, testing them on the group. He does impose his will, but not often. While he does not hand down many edicts, it is generally clear to all what his feelings are on most issues."

Jamieson, however, observed: "Debates in the ECMs are very rare. Rudi's not a man who needs or wants too many debates. I have never had an informal brainstorming session with him, a relaxed, almost agenda-less discussion. Rudi's management style is essentially autocratic." Henn commented:

> Rudi's brilliant. He's a tyrant; no, not a tyrant, a dictator. He has to be. You don't have a leader if you don't have a dictator. If you don't have a dictator, you won't be successful. Show me a company run by democracy, and I'll show you a loser. There's always got to be one person in charge and plenty of followers.
>
> He's very smooth. If he thinks we're coming to a conclusion that is not what his opinion is, he will make sure the whole thing will turn his way. He has the ability to make you feel it was your idea, and if that doesn't work, he'll tell you to go and do it anyway.

Many committee members agreed that it could be difficult to change Gassner's mind. According to Stein, "To influence Rudi, you have to convince him. You have to be prepared properly with logical arguments." Preston added: "You have to be prepared to stand up for your argument. A lot of what he is testing is how much you really believe in what you are saying."

One RD noted that "Rudi usually does not allow himself in any way to be influenced by people who are not speaking directly about the areas for which they are responsible. In other words, he'll be very receptive to me for everything within my area, but when I stray into areas of the general good, I find him very unreceptive. I also find that I can influence him more one-on-one than I can in the ECMs."

Stein commented that he used the ECMs "as a tool to influence things in a way that I think they should go and to make the other RDs aware of things. Whether or not the committee agrees with me is another question." Preston agreed, explaining that he viewed participation in the ECMs as an important responsibility, even if it was sometimes hard to have much influence: "I believe that I have a job in the context of the group to say the things that I believe in order to get the group to behave in ways that I think are the right ones."

Bahlmann described the ECM as "an opinion-building exercise," explaining that:

> Real decisions about who gets money for what acquisitions occur outside of the meetings. The other thing is that there has always been money there to do what we wanted. So for me, the group has never been tested to see whether we can really work as a team under pressure when it comes to a fight over who will get funds for what investment.

Jamieson commented:

> Sometimes I feel that the main benefit of my coming all the way from Hong Kong to New York for the ECM is the ability (a) to meet my colleagues and chat with them from time to time, and (b) to have my separate meeting with Rudi, which is my best opportunity to influence him.

> We have had some good meetings, and we have had some terrible meetings. Rudi occasionally runs them in an open way in which debate is invited and variations to policy are considered. In reality, there is not a team "working together" at the top; there are executives implementing predetermined policies in different areas. The enormous geography makes it difficult to manage by consensus. With Rudi, you know what you have to do, and you have the freedom to execute the policies in your own region with your own style. Nevertheless, you have to realize that Rudi's style works for him; the proof is his incredible success over the past six years.

Gassner suspected these feelings and opinions in the group. "Many of them probably think I am influencing them more than I should," he commented.

> Sometimes I hear grumblings and they say that they can't always express their long-term ideas at the meetings because the meetings are so focused. I think they feel a lot of things are a bit too prepared or precooked. It's true—they have a difficult time convincing me. I am a person who likes to win an argument.
>
> But my opinions are not just invented on the spot. I usually discuss issues one-to-one with certain people beforehand. If I have a subject on the agenda, I almost always have an opinion of what I think the outcome should be. And then in the ECM, I see if my belief is confirmed. Occasionally, I may not go ahead with my original idea because I see that the entire group is going in another direction. In that case, I will take a step back and try to analyze it one more time, and I may change my mind. But if I see that they agree, or if it's just very important to me, then I obviously try to push it along.

Reflecting on his original hopes for the role of the executive committee, Gassner commented:

> It turned out to be a little bit different than I thought. I thought there would be more interface on strategic issues. I had hoped that they would contribute to problems which went beyond their ultimate responsibility.
>
> In part, I guess it's because it's such a diverse group of people. Segura, for example, is an outstanding executive, but because he thinks his English is limited, he would rather discuss issues separately with me than in an open meeting. Bahlmann, on the other hand, is very interested in global strategy though sometimes he doesn't have as much impact as he would like to have. Stein and Jamieson are somewhere in the middle, and they are driven primarily by the success of their own regions. Preston is highly intellectual; he is also the biggest repertoire supplier, and sometimes he thinks we're not paying enough attention to his repertoire. It's a combination of very diverse people. That's probably why the results are still so much influenced by me.
>
> And it may very well have to do with me and the way I run things. I think I know what is good for us. Therefore, when I'm convinced that that's the right way to go, it takes a great effort to get me off that route. However, because it has been successful, it has been hard to say that I should change my style.

The May 1993 ECM

Gassner opened the 1993 Managing Director's Convention in Boca Raton with a speech in which he stressed that the company's key success factor for the future was creating repertoire. "It's local artist development, it's joint ventures, it's acquisitions. That is the way we are going to grow. That is how we will reach our goal of becoming Number 1," he told the audience. He also congratulated them on another year of success in surpassing their business targets, but joked that "I am so naive; you must be lowballing your plans every time, because you have never missed them."

The week-long convention also included a session by Henn on developing A&R; a financial presentation from Gorman in which he emphasized the need to reduce costs and improve efficiency as markets matured and growth in the record business leveled off; a presentation about new recording and media technologies; and a speech by Dornemann about the future of the emerging Entertainment Group at BMG.[12] While the RDs attended, they played no formal role in the convention.

Whereas the focus in past conventions had been primarily on growth, the topics which formed the agenda for the 1993 MD Convention—global artist development, new technologies, BMG's expansion into new entertainment arenas, and cost control—emphasized disciplined management to position BMG International for the next phase. The MDs were excited about the important new role that BMG International could take on in the future. As Gassner told them, "We're the only company in Bertelsmann that is really global; we're the only ones in Japan, and we have over 300 people there. If Bertelsmann wants to sell film or video games globally, we are there. We have something Bertelsmann can build on."

On the other hand, many of the MDs expressed skepticism about Gassner's "conflicting messages." As one stated, "You can't grow market share unless you're willing to spend money, and you can't cut back on investing in new acts, because you never know who might be the next Rolling Stones." Gassner, however, did not see his goals in conflict: "Yes—it's inconvenient on the one hand to grow and on the other hand to control your costs. It's a difficult task, but I expect both. I cannot allow anyone to just charge ahead regardless of cost. I expect a balance; and I know they can do it."

These issues also figured heavily into Gassner's agenda at the May ECM, which took place during the convention. He knew that the future challenges would demand more cooperation and global strategic thinking on the part of the executive committee. They had all been extremely successful so far in their own regions, but a regional focus alone would no longer be enough to guide BMG International through the uncertain and ever-changing terrain of the next five years.

The Reduced Manufacturing Price

The reduced manufacturing price was a result of negotiations undertaken by Bahlmann with Sonopress, Bertelsmann's central manufacturing operation in Europe, which supplied product to the European countries. These countries were required to purchase a certain percentage of their CDs, records, and cassettes from Sonopress, and as part of his responsibilities as the head of central manufacturing, Bahlmann negotiated the transfer prices annually by comparing Sonopress's bid to those of outside vendors. Because the non-European countries did not source through Sonopress, they would not be affected by the new price.

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[12] In response to trends toward multimedia entertainment technology, Dornemann had begun to look toward expanding BMG's reach in the entertainment industry to include television and even film. Industry analysts speculated that Dornemann was interested in purchasing an independent film studio, but such a deal had not yet materialized. In September 1993, BMG announced a joint venture with Tele-Communications, Inc., the largest cable system operator in the U.S., to launch a hybrid music video/home shopping cable channel that would rival MTV and VH-1. (Robichaux, Mark and Johnnie L. Roberts, "TCI, Bertelsmann Join to Launch Music, Shopping Cable Channel," *Wall Street Journal*, September 17, 1993.)

As Gassner might have predicted, when he brought up the issue at the ECM by congratulating Bahlmann, Preston shot Stein a knowing glance. Preston was required to source his manufacturing through Sonopress even though he could get a better price by using a U.K. vendor. As he explained:

> Because the United Kingdom is such a large repertoire supplier, I have volume benefits which I offer Arnold. He takes my volume, combines it with the other European countries, and negotiates a manufacturing rate with Sonopress in Munich, and then I buy the product back with the exchange rate working against me. Austria pays the same price as I do, getting the benefit of my volume scale.

Gassner then raised the question of what to do in response to the new prices. There was a long pause at the table. Bahlmann responded first by suggesting that the "extra" profit from the regions be placed in investment funds for each territory. Stein argued that this was not necessary "since the money's always there if the investment is good anyway." The group agreed that the money did not need to be placed in a separate fund, but be left to each company to decide how to use.

"OK, so what about the targets?" Gassner asked. Looking down at his copy of the calculations that Gorman had distributed before the meeting, he continued, "There are significant variances here. An MD's *betriebsergebnis* in some cases could be increased by as much as 50% due solely to the price reduction."

Segura then spoke up: "This doesn't affect me in my region, so I can be objective.[13] We have never before changed targets once they have been set. Not for any reason. So I don't see why we should change them this time." Preston added: "I agree. Some years, I'm hurt by the transfer pricing and exchange rate, but our targets have never been eased to reflect this. So why would we change them now that it's working the other way? It doesn't seem fair."

Indeed, many of the executive committee members found the issue an unusual one for the ECM agenda. As Gorman explained,

> To tell you the truth, I was a little surprised when Rudi asked me to calculate adjusted business targets to reflect the new manufacturing price. I know I'm the one who has been pushing reexamination of our cost structure. But we've never changed the targets. Whether you acquired a company, lost a company, lost a customer, had a major bankruptcy, an artist didn't release—we've had everything you can imagine happen, and I do not remember ever adjusting the targets for anybody, for any reason.

Gassner said, however, that he was concerned that some of the MDs might become "complacent" because their *betriebsergebnis* target would be substantially easier to meet if it were not adjusted. "I want to maintain the challenge of an aggressive bonus target, I want the MDs to be held accountable for the savings. I want them to realize that it isn't just a Christmas gift," he explained to the group.

No one at the table responded or looked in Gassner's direction. Gassner then wondered how he could get them to address the question of changing the targets, a possibility they seemed unwilling even to consider.

[13] Since the Latin American region included Spain and Portugal, Segura was affected minimally by the reduced price.

Exhibit 1 Bertelsmann Music Group Organization Chart

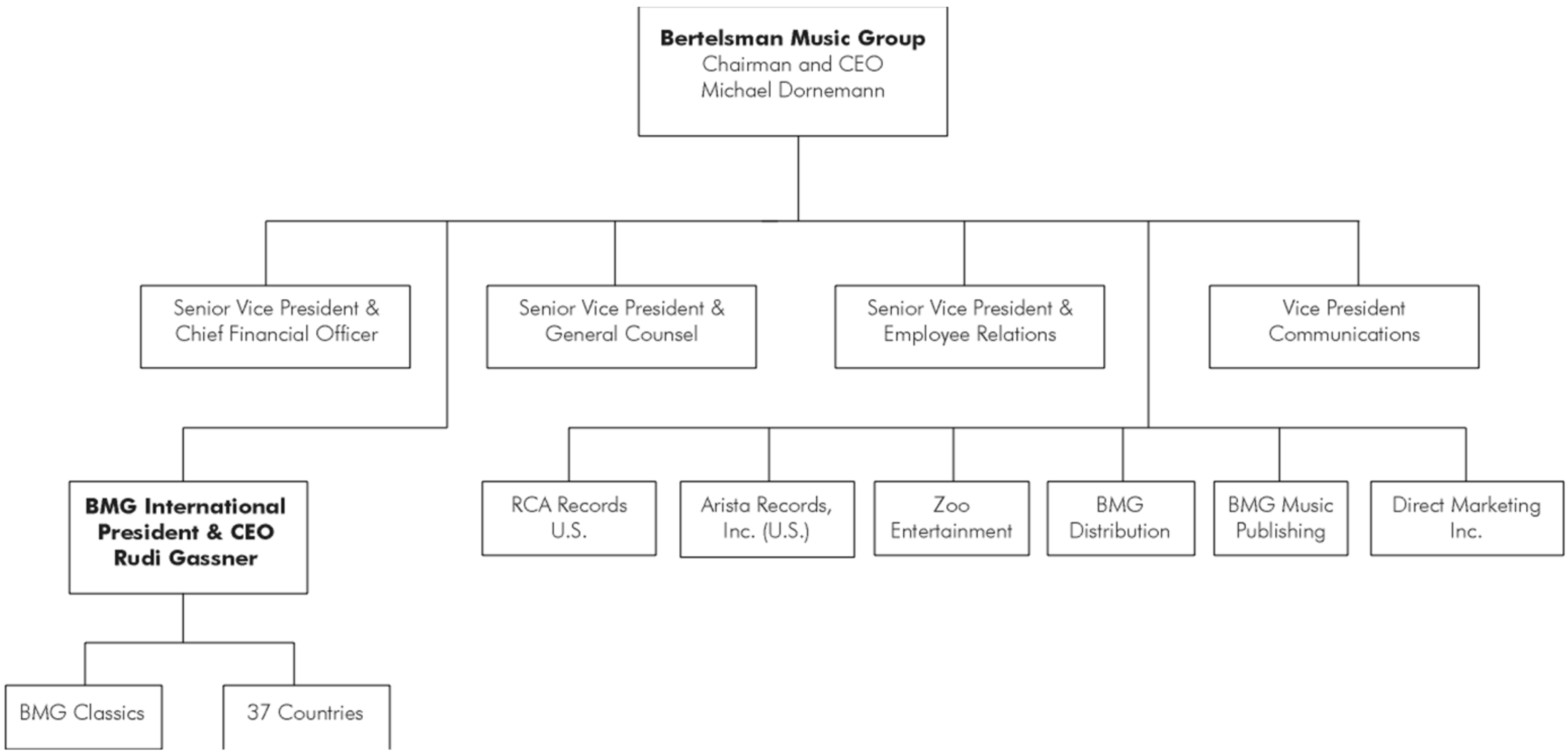


Exhibit 2 BMG International Organization Chart, 1993

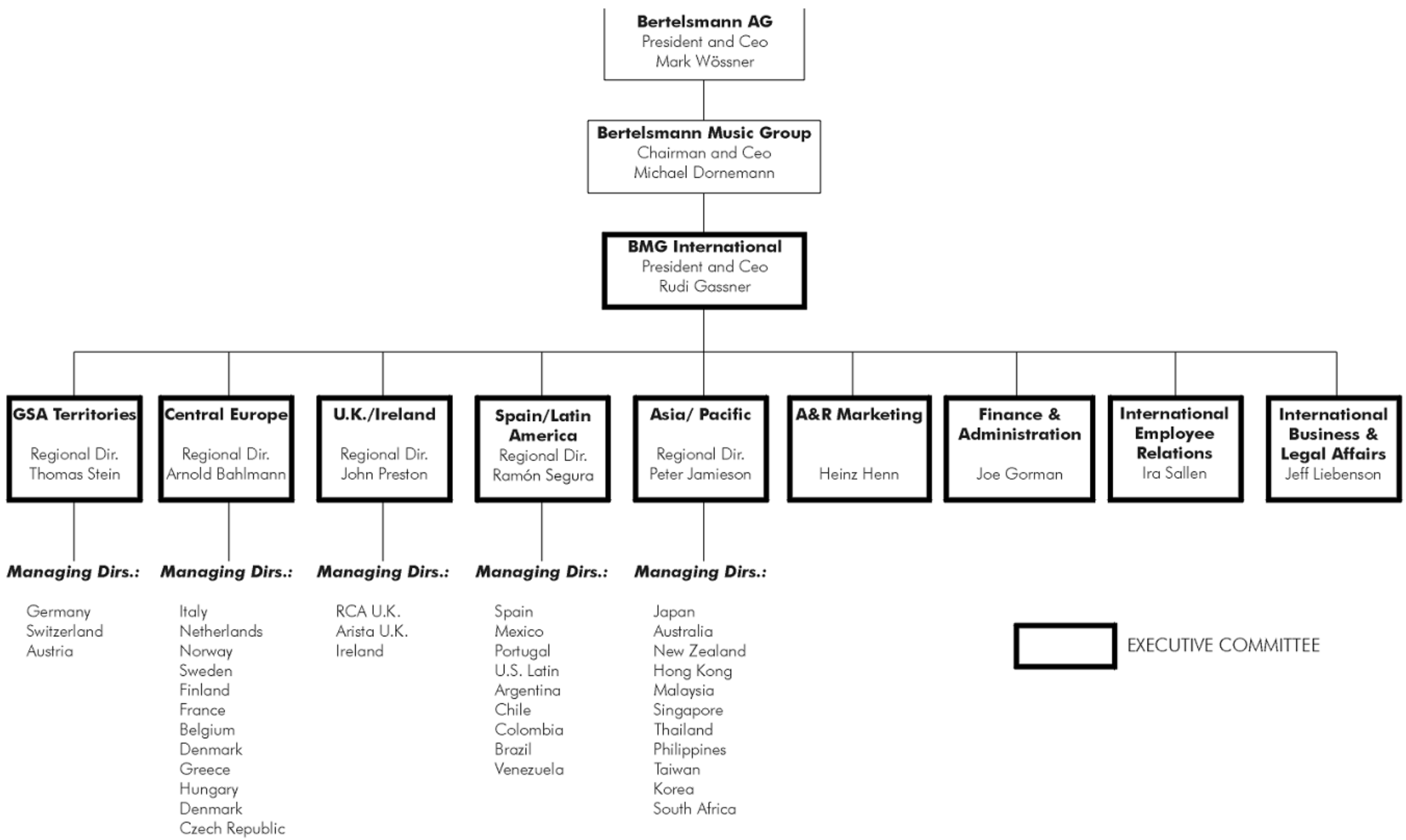


Exhibit 3 Rudi Gassner Career Highlights

Rudi Gassner
President and CEO, BMG International
German, 51 years old

- 1984-1987: Executive VP, PolyGram International, London
- 1983-1984: President, Polydor International (PolyGram), Hamburg
- 1980-1983: President, Deutsche Grammophon (PolyGram), Hamburg
- Fall 1979: Harvard Business School Program for Management Development (PMD)
- 1977-1980: Managing Director, Metronome (PolyGram), Hamburg
- 1969-1977: Sales Manager, Deutsche Grammophon (PolyGram), Munich
- 1964-1969: Music Wholesaling, Munich

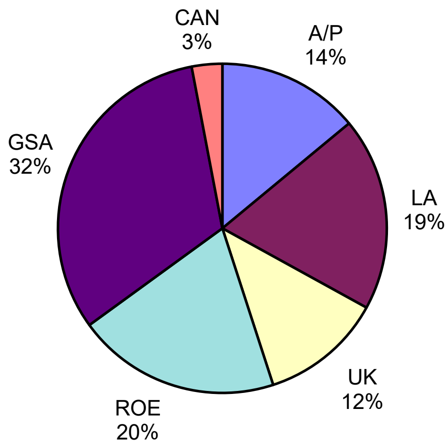
Exhibit 4 Selected BMG International Top-Selling Artists, 1993

Artist	Country of Origin	Units Sold 1992/1993 (in thousands)
***Global Superstars*:**		
Whitney Houston	United States	11,800
Kenny G	United States	2,200
Annie Lennox	United Kingdom	1,200
David Bowie	United Kingdom	700
SNAP	Germany	700
Dr. Alban	Germany	600
***Regional Superstars*:**		
Vaya Con Dios	Belgium	1,300
Juan Luis Guerra	Dominican Republic	1,100
Eros Ramazzotti	Italy	1,100
Die Prinzen	Germany	900
Take That	United Kingdom	700
Bonnie Tyler	Germany	500
***Local Superstars*:**		
B'z	Japan	5,700
Bronco	Mexico	1,300
Joaquin Sabina	Spain	500
José José	Mexico	400
Lucio Dalla	Italy	250

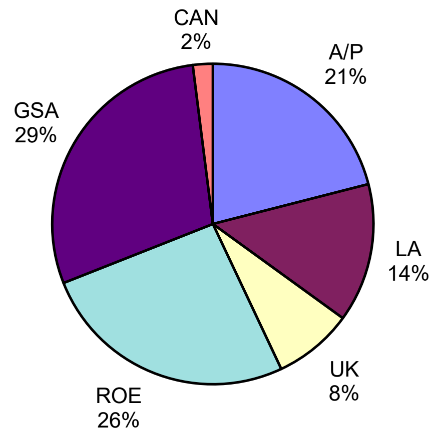
Exhibit 5 BMG International Revenue and Operating Result Distribution by Region

Net Revenue by Region:

1988/1989

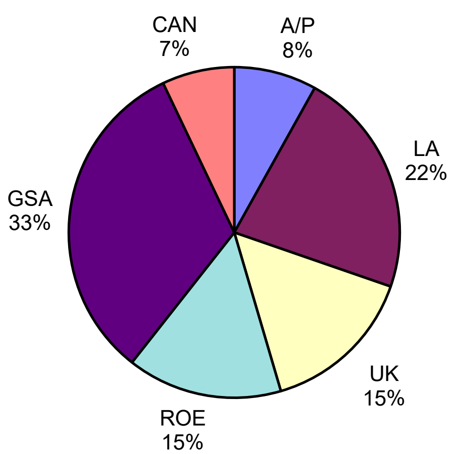


1992/1993

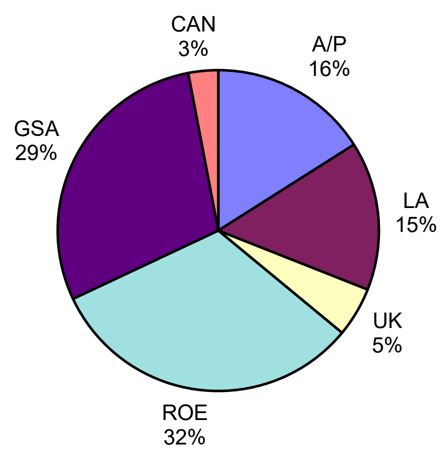


Operating Result (Betriebsergebnis) by Region:

1988/1989



1992/1993



Legend: A/P = Asia/Pacific; Can = Canada; LA = Latin America;
GSA = Germany/ Switzerland/Austria; ROE = Rest of Europe;
UK = United Kingdom.

Exhibit 6 March 1992 Business Planning Meetings Attended by Rudi Gassner and Joe Gorman

Location:	Date:	Review:	
Munich	March 1	10:00 AM	Belgium
		11:30 AM	Netherlands
		2:00 PM	Italy
	March 2	10:00 AM	UK-RCA
		2:00 PM	UK-Arista
		4:00 PM	UK-Distrib.
	March 3	10:00 AM	GSA Overview
		11:30 AM	Munich Ariola
		2:00 PM	Germany Ariola
		3:45 PM	Hamburg Ariola
	March 4	10:00 AM	Germany Ariola
		11:30 AM	Austria
		2:00 PM	Switzerland
	March 5	10:00 AM	France Ariola
		11:30 AM	France Vogue
		1:30 PM	France RCA
		4:00 PM	European Regional Overview
New York	March 10	10:00 AM	Canada
		2:00 PM	Home Office
Hong Kong	March 16	10:00 AM	Australia
		3:00 PM	Hong Kong
	March 17	10:00 AM	Japan
		3:00 PM	Taiwan
	March 18	10:00 AM	South Africa
		3:00 PM	Malaysia
	March 19	10:00 AM	Asia/Pacific Regional Overview
New York	March 24	10:00 AM	Mexico
		2:00 PM	U.S. Latin
		4:00 PM	Portugal
	March 25	10:00 AM	Brazil
		2:00 PM	Spain
	March 26	10:00 AM	Latin America Regional Overview

Exhibit 7 BMG International Executive Committee

From left to right: Arnold Bahlmann, Thomas Stein, John Preston, Rudi Gassner, Heinz Henn, Peter Jamieson, Ramón Segura, Joe Gorman (***not pictured***: Ira Sallen, Jeff Liebenson).

Exhibit 7 (continued)

Regional Directors

Arnold Bahlmann
Senior VP, Central Europe
- German, 41 years old.
- Promoted from: Senior VP Operations, BMG.
- 3 years strategic planning, Bertelsmann.
- Doctorate in Political Science.
- Master of Business Administration.

Thomas Stein
President, GSA Territories
- German, 44 years old.
- Promoted from: Managing Director, BMG Ariola, Munich.
- 14 years sales, marketing, and management in record business.

John Preston
Chairman, BMG Records (UK) Ltd.
- Scottish, 43 years old.
- Promoted from: Managing Director, RCA Records, U.K.
- 19 years retail, marketing, and management in record business.

Ramón Segura
President, Spain and Sr. VP, Latin America
- Spanish, 52 years old.
- Promoted from: MD, Spain, and VP Latin American Region, Ariola Eurodisc.
- 31 years sales, A&R, marketing, and management in record business.

Peter Jamieson
Senior VP, Asia/Pacific
- English, 48 years old.
- Promoted from: Chairman, BMG Records U.K.
- 26 years marketing, sales, and management in record business.

New York Corporate Staff

Heinz Henn
Senior VP, A&R/Marketing
- German, 38 years old.
- Promoted from: Director of International Division, Capitol/EMI America Records.
- 17 years A&R/marketing, promotion, and management in record business.

Joe Gorman
Senior VP, Finance and Administration
- American, 50 years old.
- Promoted from: Director, Operations Planning, RCA Records (U.S.).
- 10 years finance at RCA Records.
- 5 years Arthur Young & Company.
- Master of Business Administration.
- Military service, Captain, U.S. Army.

Ira Sallen
VP, International Human Resources, BMG
- American, 39 years old.
- Promoted from: VP, Human Resources, Clean Harbors, Inc.
- 4 years corporate human resources.
- 2 years Consultant, Arthur Young & Company.
- 5 years research and clinical psychology.
- Master of Business Administration.

Jeff Liebenson
VP, Int'l. Legal and Business Affairs, BMG
- American, 40 years old.
- Promoted from: Director, Legal and Business Affairs, SportsChannel America.
- 15 years legal experience, including 12 in entertainment industry.
- J.D and LL.M. law degrees.