

Major Yahoo reorganization looms

February 25 2009, By Pete Carey

Yahoo's new chief executive, Carol Bartz, is set to announce a major reorganization of the company, sources say, raising expectations that the stumbling Internet giant may get back on track after a punishing year.

Yahoo had no comment, but sources familiar with the company said organizational changes are in the works but not ready to be announced.

With top Yahoo executives scheduled to address analysts at conferences in New York, Chicago and San Francisco this week and next, Yahoo watchers are expecting announcements fairly soon, perhaps as early as this week.

What Bartz has planned has been the subject of intense speculation for the past few days on various blogs and Web sites. Her last job was at AutoDesk, where she favored a traditional, top-down management structure far different from the one that has been in place at Yahoo for years.

But management experts say that a more traditional structure may be just what is needed - at least for now.

Stanford University management expert Robert Sutton blogged Monday that lack of a clear strategy and "dysfunctional internal competition" are among the organizational problems that "help explain how they got into their current mess."

Given the range of problems faced by the company, "strong centralized

management is probably the best answer right now," wrote Sutton, who is professor of management science and engineering in the Stanford Engineering School and the author of several books on management.

But Yahoo probably also needs a more cooperative culture, Sutton said in an interview. "Google on paper doesn't look that different, but Google has a culture where cooperation is basically required."

Jeffrey Lindsay, an analyst with Sanford C. Bernstein, said Bartz should "put in a very old-school reorganization, strip out a bit of costs, and probably take out some of the least productive senior officers."

"It's probably not the best reorganization you could do, but it will have a very positive impact," Lindsay said.

News of the reorganization comes after a tough stretch for the company in which it spurned a \$45 billion offer from Microsoft; saw its stock tank; replaced its chief executive, co-founder Jerry Yang, following a shareholder revolt; and has cut hundreds of jobs.

Beyond the reorganization, Bartz faces big questions about the future of the sprawling company and its dozens of products, initiatives and features. Should she keep the Web search unit or cut a deal to sell it to Microsoft? Should she continue with initiatives like an 800-newspaper consortium that puts Yahoo technologies on newspaper Web sites and helps newspapers sell advertising? How best can the company compete against Google, which dominates search but is weak in display advertising, where Yahoo is No. 1? And is there a better way to wring revenue from the company's social networking products?

"Yahoo is on a two-year journey," observed Trip Chowdhry, analyst with Global Equities Research. "Reorganization is the first step."

Analysts say the company needs to figure out how to make money on some of its popular offerings, like social networking, video and photo-sharing Web offerings, and Yahoo mail.

"They have lot of truly good stuff they have not capitalized on," said Mukul Krishna, an analyst with Frost & Sullivan. "Flickr (its photo-sharing site) is a gold mine they are sitting on," he said.

Krishna said Yahoo could benefit from a downsizing of its "matrix" style of managing the sprawling holdings of the 14,000-employee company. In a matrix management structure, a company is organized horizontally as well as vertically, so people belong to two groups. The system is intended to foster creativity, speed projects along and encourage interdepartmental collaboration. But it's a hard thing to manage, according to experts, and if not constantly fine-tuned can lead to corporate politicking and infighting.

"It has to be done with a degree of discipline," said Ron Gunn, a management expert at Strategic Futures in Alexandria, Va., and author of "Matrix Management: Method, not Magic."

"Frankly, in a lot of American organizations, that oftentimes are led in a rather sloppy manner, it's a bit of a challenge."

Sutton, the Stanford management expert, wrote that he has heard complaints from Yahoo executives for years "about how difficult it was to create cooperation across different Yahoo 'properties' such as mail, search, jobs, auto and so on. As a result, there was often poor integration between the properties and lack of information that could have helped everyone."

Yahoo's structure and culture took power from the central management and gave it to those who oversaw various properties, but also encouraged

competition among various managers and "pitted properties against each other," Sutton wrote.

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