

CASE 7-1 Cerner Corporation: A Stinging Office Memo Boomerangs

We are getting less than 40 hours of work from a large number of our KC-based EMPLOYEES. The parking lot is sparsely used at 8 A.M.; likewise at 5 P.M. As managers—you either do not know what your EMPLOYEES are doing; or YOU do not CARE.

I will hold you accountable. You have allowed this to get to this state. You have two weeks. Tick, tock.

NEAL L. PATTERSON,
CEO Cerner Corporation

The only things missing from the office memo were expletives. It had everything else.

There were lines berating employees for not caring about the company. There were words in all capital letters like "SICK" and "NO LONGER." There were threats of layoffs and hiring freezes and a shutdown of the employee gym.

The memo was sent by e-mail on March 13 by the chief executive of the Cerner Corporation, a health care software development company based in Kansas City, Mo., with 3,100 employees worldwide. Originally intended only for 400 or so company managers, it quickly took on a life of its own.

The e-mail message was leaked and posted on Yahoo! Its belligerent tone surprised thousands of readers, including analysts and investors. In the stock market, the valuation of the company, which was \$1.5 billion on March 20, plummeted 22 percent in three days. Now, Neal L. Patterson, the 51-year-old chief executive, a man variously described by people who know him as "arrogant," "candid," "passionate," says he wishes he had never hit the send button.

"I was trying to start a fire," he said. "I lit a match, and I started a firestorm."

That is not hard to do in the Internet age, when all kinds of messages in cyberspace are capable of stirring reactions and moving markets. In the autumn of 2000, for example, a young California investor pleaded guilty to criminal charges that he made \$240,000 by sending out a fake news release that resulted in a sharp drop in the stock of Emulex, a communications equipment manufacturer.

In Mr. Patterson's case, this is what the world saw: "We are getting less than 40 hours of work from a large number of our KC-based EMPLOYEES. The parking lot is sparsely used at 8 A.M.; likewise at 5 P.M. As managers—either you do not know what your EMPLOYEES are doing; or YOU do not CARE. You have created expectations on the work effort which allowed this to happen inside Cerner, creating a very un-healthy environment. In either case, you have a problem and you will fix it or I will re-place you. NEVER in my career have I allowed a team which worked for me to think they had a 40-hour job. I have allowed YOU to create a culture which is permitting this. NO LONGER."

Mr. Patterson went on to list six potential punishments, including laying off 5 percent of the staff in Kansas City. "Hell will freeze over," he vowed, before he would dole out more employee benefits. The parking lot would be his yardstick of success, he said; it should be "substantially full" at 7:30 A.M. and

6:30 P.M. on weekdays and half-full on Saturdays.

"You have two weeks," he said. "Tick, tock."

For Cerner Corporation, the message apparently promoted a market upheaval. On March 22, the day after the memo was posted on the Cerner message board on Yahoo!, trading in Cerner's shares, which typically runs at about 650,000 a day, shot up to 1.2 million shares. The following day, volume surged to four million. In three days, the stock price fell to \$34 from nearly \$44. It closed at \$30.94 on April 4, 2001.

"While the memo provided some much-needed laughter on Wall Street after a tough week, it probably got overblown as an issue," said Stephen D. Savas, an analyst with Goldman, Sachs who rates the stock a market performer, which is relatively low. "But it did raise two real questions for investors. One: Has anything potentially changed at Cerner to cause such a seemingly violent reaction? And two: Is this a CEO that investors are comfortable with?"

Mr. Patterson said that the memo was taken out of context and that most employees at Cerner understood that he was exaggerating to make a point. He said he was not carrying out any of the punishments he listed. Instead, he said, he wanted to promote discussion. He apparently succeeded, receiving more than 300 e-mail responses from employees.

Glenn Tobin, the chief operating officer at Cerner, said he had read several. "Some people said, 'The tone's too harsh, you've really fouled this one up,'" he said. "Some people said, 'I agree with your point.'" Mr. Patterson, who holds an MBA from Oklahoma State University and worked as a consultant at Arthur Andersen before starting Cerner with two partners in 1979, attributes his management style to his upbringing on a 4,000-acre family wheat farm in northern Oklahoma. He spent day after day riding a tractor in the limitless expanse of

the fields with only his thoughts for company, he said, and came to the conclusion that life was about building things in your head, then going out and acting on them. "You can take the boy off the farm," he said, "but you can't take the farm out of the boy."

And his directness with subordinates is not necessarily a management liability. Cerner is a fast-growing company that had \$404.5 million in revenue in 2000 and met earnings projections for the first three quarters of 2001. The company made *Fortune* magazine's lists in 1998 and 2000 of the "100 Best Companies to Work for in America."

The Day of the Memo

March 13 began like any other day. Mr. Patterson said he woke up at 5:00 A.M. and did some work at home. He then drove the 30 miles to Cerner's corporate campus, seven brick-and-glass buildings, surrounded by 1,900 parking spaces atop a hill in northern Kansas City. In the elevator, he spoke

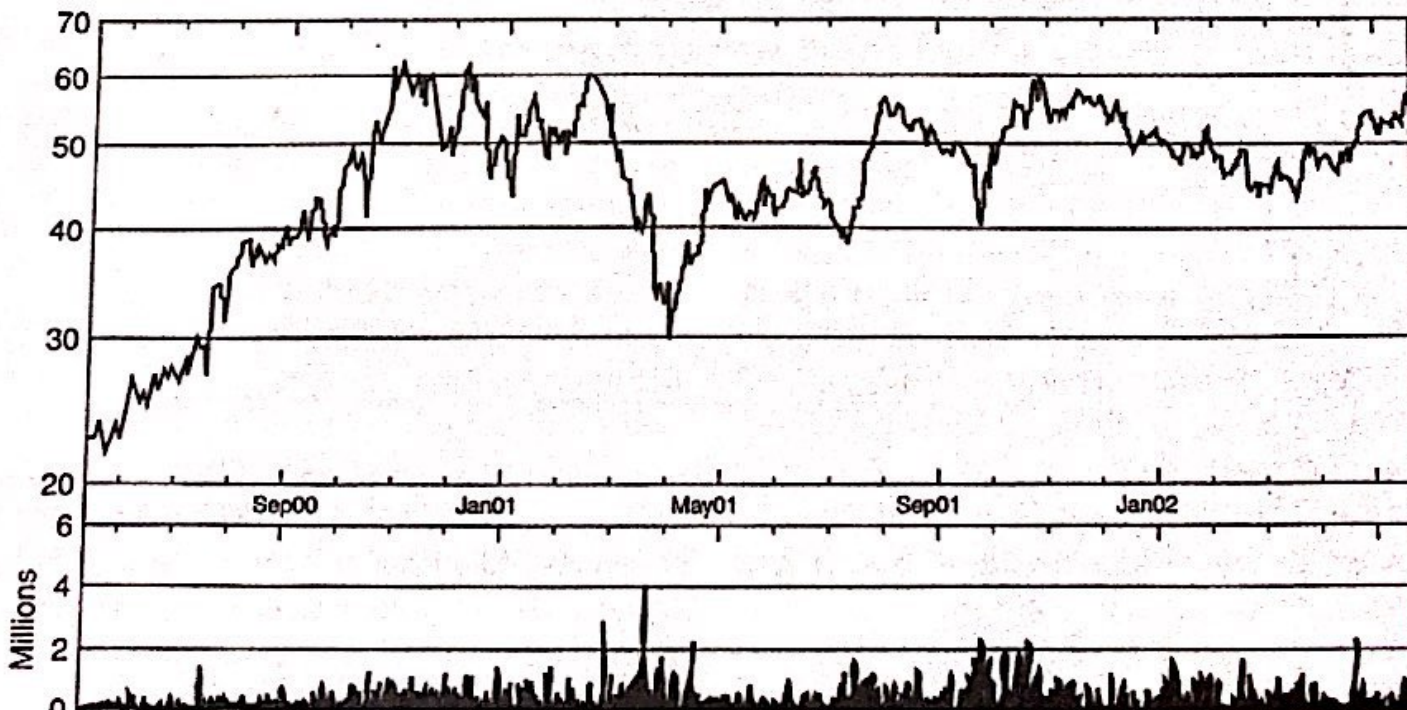
with the receptionist, a woman who had been with the company for 18 years. She remarked that the work ethic had been declining at the company, he said, reinforcing his own fears.

At 7:45 A.M., he walked into his sixth-floor office and typed up a draft of the memo. He met with a client downstairs, then had two managers and his assistant read over the memo. At 11:48 A.M., he sent it. The memo went up on the Yahoo! message board a week later. Analysts began getting calls from investors. They, in turn, called Cerner to verify the authenticity of the memo, then exchanged a flurry of phone calls and e-mail messages, trying to divine the tea leaves of Mr. Patterson's writings.

"The perception was that they have to work overtime to meet their quarter," said Stacey Gibson, an analyst with Fahnestock & Company, who rated the company's stock a "buy" and was among the first to post a warning on Thomson Financial/First Call about the memo. "Whether that's true or not, I don't know," she said. "This is how it was taken on the Street."

Cerner Corp
as of 16-May-2002

Splits: ▼



Some analysts say that other factors could have contributed to the drop in stock price. The overall market was shaky. There were investors who wanted to sell the stock short, betting that it was ready for a fall. One analyst was especially bearish about the company. But even Mr. Patterson acknowledged that his memo "added noise" to what was already out there.

At the end of the week, as the stock fell, Mr. Patterson sent out another e-mail message to his troops. Unlike the first memo, it was not called a "Management Directive," but rather a "Neal Note." It began this way: "Please treat this memo with the utmost confidentiality. It is for internal dissemination only. Do not copy or e-mail to anyone else."

DISCUSSION QUESTIONS

1. What's the principal business problem here?
2. From the company's perspective, what would an optimal outcome look like?
3. Who are the key stakeholders in this case?
4. If Mr. Patterson were to ask for your counsel on this matter, what would you advise?
5. Which actions would you encourage him to take first? What measure would you use to determine success in resolving the business problem identified in question number one?
6. What sort of problems did Mr. Patterson create for himself when he chose e-mail as his communication medium?
7. How should discussions of this sort be conducted?

WRITING ASSIGNMENT

Please respond in writing to the issues presented in this case by preparing two documents: a communication strategy memo and a professional business letter.

In preparing these documents, you may assume one of two roles: you may identify yourself as a Cerner Corporation senior manager who has been asked to provide advice to Mr. Neal Patterson regarding the issues he and his company are facing. Or, you may identify yourself as an external management consultant who has been asked by the company to provide advice to Mr. Patterson.

Either way, you must prepare a strategy memo, addressed to Neal Patterson, Chairman and

Chief Executive Officer of the company, that summarizes the details of the case, rank orders the critical issues, discusses their implications (what they mean and why they matter), offers specific recommendations for action (assigning ownership and suspense dates for each), and shows how to communicate the solution to all who are affected by the recommendations.

You must also prepare a professional business letter for Mr. Patterson's signature. That document should be addressed to all Cerner Corporation employees. If you have questions about either of these documents, please consult your instructor.