**Yahoo's Bartz Shows Who's Boss**

Yahoo CEO Carol Bartz unveils a streamlined management structure for the Web portal, including the departure of CFO Blake Jorgensen

By Robert D. Hof

Just six weeks after taking over as chief executive of Yahoo! (YHOO) from co-founder Jerry Yang, Carol Bartz has now made it quite clear who's in charge and what demands she'll place on her executive team. On Feb. 26, Bartz announced an overhaul of the embattled company's management. The new, streamlined structure is intended to make the company "a lot faster on its feet," Bartz wrote in a post on Yahoo's official blog.

In one of the biggest changes, Chief Financial Officer Blake Jorgensen, who joined Yahoo in June 2007, will leave in the next few months after a new CFO is chosen. Jorgensen was a close ally of former Yahoo President Sue Decker, who left in January after being passed over for the top job. Jorgensen's departure follows those of mobile chief Marco Boerries earlier this week and news head Neeraj Khemlani, who's leaving for Hearst as vice-president and special assistant to the CEO for digital media.

The changes, though largely expected after recent reports in the blog BoomTown, are no less momentous for a company that for years has been hobbled by slow decision-making and ineffective execution on those decisions. As far back as 2006, one executive who has since left, Brad Garlinghouse, penned a now-famous "Peanut Butter Manifesto" that outlined those management problems. The new management organization has all major executives reporting directly to Bartz, who lamented in her blog post that there's "plenty that has bogged this company down." "It looks like she isn't afraid to go in with a chain saw," says Kevin Lee, CEO of search marketing firm Didit.

**DIVESTITURES OF BUSINESSES EXPECTED**

In the most important leadership picks, current Chief Technology Officer Aristotle "Ari" Balogh will be head of all products and Hilary Schneider, current chief of ad, publishing, and audience groups in the U.S., will head North American operations. A new chief of international operations, to be chosen soon, will oversee what had been three separate global regions.

Although Bartz has kept her specific plans for Yahoo close to the vest, her revamped organization may pave the way for underperforming operations to be jettisoned more quickly. "We expect more significant restructurings and divestitures of various businesses will occur in the future as the simpler org chart leads to more of a focus on the company's core businesses," UBS Securities (UBS) analyst Ben Schachter wrote in a report after the announcement.

The more centralized management structure doesn't guarantee Yahoo will find its footing. Indeed, some observers fret that centralizing too much can hobble innovation. "We tend not to like that much concentration in product development," says Sanford Bernstein analyst Jeffrey Lindsay, who would prefer a structure that focuses on key strategic products such as search ads.

**TRYING TO SPEED DECISION-MAKING**

Still, he and others note that the new organization is a vast improvement over the previous "matrix management" system that handed multiple executives oversight over many products and new projects. That led to slow decision-making and little accountability, Yahoo insiders say. "Carol's patience for the whole matrix management is limited," one insider says with evident understatement. Indeed, the plainspoken Bartz said in her blog post that "you'd be amazed at how complicated some things are here."

By most accounts, the swing to centralization is the right move for Yahoo after so many years of decentralized product groups around the world, each with their own engineering and other functions. Yahoo has an "inability to stop doing good things that don't fit with their strategy," says Robert Sutton, a professor of management science and engineering at Stanford University, where Yahoo was founded in the dorm room of Yang and co-founder David Filo.

Besides the internal changes, Bartz made it clear that she aims to get much more direct feedback from customers as the flatter organizational structure makes it clearer who's in charge of what. In addition, she has created a Customer Advocacy Group whose chief will be chosen soon. "After getting a lot of angry calls at my office from frustrated customers, I realized we could do a better job of listening to and supporting you," she told customers in her blog post.

**WALL STREET LIKES THE NEWS**

Bartz also aims to restore some luster and visibility to Yahoo's brand, which remains well-regarded by many consumers. "Look for this company to kick ass again," she wrote. Bartz created a new chief marketing post, which will be occupied by Elisa Steele, currently senior vice-president for corporate marketing at NetApp (NTAP), a data storage company on whose board Bartz serves.

Investors apparently liked what they heard, as Yahoo's stock rose 4% to 12.98, even as the broader market slipped, though it was nothing Yahoo executives hadn't said before. Many analysts view a Microsoft (MSFT)-Yahoo pairing as one of the few ways the companies could mount a credible defense against Google (GOOG), the leader in online advertising.

Bartz has been coy about whether she's interested in revisiting a pair-up with Microsoft. One former Yahoo executive noted that Microsoft is probably willing to do a deal that involves paying Yahoo nearly all the revenue it now gets from search while letting Yahoo cut nearly all its considerable spending on search. In exchange, Microsoft would gain much needed scale in the lucrative market for advertising related to Web-search queries. "Jerry's and Sue's egos got in the way of a deal," this person said.

**MORE LEVERAGE IN MICROSOFT DEALINGS**

Others, however, note that Yahoo's profitable search operation has improved recently. It gained about a percentage point of market share in the past six months, after years of declines, and produced higher revenues per search query in the fourth quarter. Bernstein analyst Lindsay goes so far as to suggest that if Bartz manages to steady Yahoo, the company could turn the tables and propose a deal by which Microsoft would sell or outsource all of its own online operations to Yahoo.

Either way, Bartz's moves may give her some increased leverage in whatever deal might be struck. Any improvement in Yahoo's fortunes or stock price makes it look that much stronger than Microsoft, whose online operations have been struggling even more than Yahoo's. And as investors wait to see how the management overhaul works, they may give Bartz some time before getting vocal about a deal again. But to avoid a replay of Yahoo's lost year in 2008, when the failed Microsoft deal distracted many Yahoo managers from tasks at hand and led scores to leave the company, she will have to show progress sooner rather than later.

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Discussion Questions:

1. How would you describe Carol Bartz’s leadership style?

2. Can you assess her EQ rom this case study?