Todd Zenger, STRAT 6070, 9.2 - Dynamic Organization Design and Leadership

Our topic in this lecture is organizational design and leadership and its role in sustaining value creation. In particular, we're going to focus on the importance of thinking about organizational design and leadership in a very dynamic way. We have throughout lectures talked about the fact that the object of a corporation is to sustain value creation relentlessly. That's not just for shareholders, but it's really for all stakeholders that that really is the ultimate object and that a corporate theory plays this instrumental role in revealing those profit streams and we've talked at some length about how that corporate theory should guide a number of different types of choices related to corporate strategy that ought to guide decisions about what the scope of the firm should be, what activities it should be engaged in. Mergers and acquisitions. It should influence who was controlling and owning the corporation. We talked about that at some length. We've talked about resource allocation and how through the allocation resources one can sustain growth and value creation of the enterprise and our focus in this lecture is about design, organizational design and the critical role that that may play in sustaining value creation. One of the things that a theory may reveal is, and most likely will reveal is that there are a variety of different performance levers that the corporation wants to focus on in order to increase value over time. It needs to be highly innovative. It needs to deliver high-quality products. It may need to pursue an initiative around globalization. It's a domestic firm and it needs to branch out and move into other areas of the world as it geographically expands, it may need to optimize and improve its efficiency. It may need to attract a new talent and continue to develop talent, and all of these may be critically important drivers of increased value of the enterprise. Moreover, not only may these be important additive elements to the value of the enterprise, but the nature of these is that they're likely to be highly interdependent, that they're likely to be complements. That is that improvements in efficiency are benefited when the firm is more innovative, when it's generating more products, then clearly the efficiency with which those are produced becomes more important and thus that this bundle of levers that the corporation wants to focus on to generate value are themselves compliments and so what are the implications of that? Are that what you want to do is to elevate all of them over time as opposed to being able to say, look, let's sit back and focus on innovation because that's our most important driver of value creation. If these things are complements, then over time as one is increasing, it may be that the optimal one to focus on is shifting over time given the pattern and nature of these complementarity. Then the critical question becomes, how does a leader who's trying to drive relentless value organized to pursue all of these at once. That becomes the important strategic challenge course. This is a puzzle that other disciplines in a business school have thought about and one of the tools that you have or will hear about is something like the balanced scorecard and this is basically saying, look, a corporation needs to focus on a bunch of different metrics if it's going to drive performance improvement and maybe if we just put together a clever scorecard that weights and measures each of those different key elements that need to be pursued in order to increase value that this measurement alone will drive attention to all of these different performance attributes and while that balanced scorecard can be helpful, the experience that everyone has in implementing these is it doesn't, in and of itself solve the problem that people are going to give different attention to different of these measures over time and so there's still a critical role for the leader to focus attention and drive attention to these different levers of value creation. There is this sense that there's a design delusion and this isn't just an artifact of the balanced scorecard. It's really something that many managers have in their head and that if we are really clever about the way we design this organization, if we put together just a great balance scorecard, for instance, and we create the right incentives connected to it, that perhaps we can simultaneously generate all the behaviors, all the outcomes that are required to optimize performance. That is, we can get this organization to move in eight different directions all at once driving improvement on all of these critical dimensions that we've identified as vital to elevating and sustaining value creation of the enterprise. I would argue that that is complete delusion. That that is actually possible for an organization to do with any steady way. There are a number of impediments that make it difficult for organizations to move in 5, 7, 8, 3 different directions all at once. One is that the individuals within organizations, as well as units within organizations, simply suffer from a cognitive inability to attend to multiple measures all at once. Any of you that are parents of a child that is old enough to have this conversation with, just imagine the conversation of sitting your child down and saying listen, I'd like you to focus on improving on these five things, these five dimensions in your life and let's set goals for each of them, and let's try to track your progress and movement along each of those. It's possible as a parent that you couldn't talk about one goal that a child could work on and you might get some attraction there. But thinking that you could set five goals and get them to simultaneously move on all five is in most cases, rather delusional. Another challenge is that even if you can measure performance on all these dimensions and incentivize people based on all of those dimensions that you've now measured, it doesn't solve the problem. That is, people will, as talked about in the integrative literature, they will attend to those dimensions and those measures that they can influence more easily or where the rewards and pay offs are greater, partly as a consequence and therefore just measuring all these things or having clever messaging about attend all these things just doesn't solve the problem. You've still got an actor who has to decide which of these is most important to focus on in any given moment. Then finally, from a design standpoint, there are different organizational approaches and designs that will drive improvement in one-dimension relative to another. The type of organization that you would try to compose to drive efficiency and cost cutting in terms of the messaging, in terms of the measures, in terms of the organizational structure, may be very different than the type of organization you might want to compose to drive innovation, which might involve much more autonomy and qualitative measures of performance and so there are design conflicts associated with how would we configure this organization if we're trying to drive on this particular performance measure relative to how we would design the organization if we're trying to push on a different organizational dimension. So there are these challenges that I think it make it very difficult and in my words, delusional to think that you're going to compose an organization that's going to enable balanced attention on the organization to all these dimensions at once. There is, I don't know if it's apocryphal, but it's a fun story about an event that occurred some many years ago. This young individual on the left is Frederick Taylor, one of the chief architects of the scientific management an approach that has really defined business schools. It's a research, scientific approach to how we improve organizations and production, and management. The individual on my right is Andrew Carnegie, one of the robber barons and one of the industry titans. His focus was of course, steel and he was having a dinner party in Pittsburgh some many decades ago, and he invited Frederick Taylor to this event. The story goes that Frederick Taylor walked in and Andrew Carnegie gestures for him to come over and he says to him, at this point, Frederick Taylor's a very young man, he says, "Young man, if you can tell me something about management that's worth hearing, I will send you a check for $10,000." Ten thousand dollars was was a large amount of money. It still is and was a huge amount of money at that time. Frederick Taylor is said to have paused for some extensive period of time and then slowly said to him, "I would advise you to make a list of the 10 most important things you can do and then start doing number one." Of course, the story goes that some week or so later, Andrew Carnegie mails the check to Frederick Taylor. What's the wisdom in this simple story and the simple response on the part of

Frederick Taylor? It's number 1, that there is value in making this list of what are the problems, what is it that we need to attend to? One could think of an analog here to a corporate theory. What do we think are the drivers of improved performance? But then importantly saying, "Look, don't do all 10 of those things. Start with number 1, and imply it, then move to number 2, and then move to number 3. " Effective strategic leaders are those that are really going to drive sustained value in creation, are these dynamic designers, they're going to sequentially focus an organization on today's most needful problem, and then move to the next, and then to the next. Let me talk about this in the context of organizational design and talk about the Hewlett-Packard Corporation over about a 25 year period of time. I'm going to simplify this discussion and really only talk about innovation and efficiency. These are the largest drivers one could argue of value creation. Organizations want to, on the one level, be highly innovative and they want to be highly efficient. To understand the story of Hewlett-Packard, let's step back to 1984. At the time, Hewlett-Packard is one of the most innovative companies in the world, it had been for decades and decades. It's historic business was sort of test and measurement equipment and tools. In the late '70s and early '80s, they begin to move into computing and to software dramatically and they were experiencing very rapid growth in that space. Historically though, they had been structured in a very decentralized way with very small divisions that were focused on individual pieces of equipment or a software product, or a hardware product, or components of those products, very decentralized. In fact, a division if it got larger than 500 people would be broken in two. They were very focused on small units, very focused and highly decentralized. They also had a remarkable culture as an organization with very low turnover. The turnover at Hewlett-Packard around this time, was around three or four percent, maybe in a bad year up toward five percent. But at the time in Silicon Valley, the turnover rates were 20 percent particularly among engineers with the critical talent that they needed to have access to. So they were really this company town in the middle and heart of Silicon Valley that was able to very effectively keep their people in a very cohesive culture that was a perfect complement to this highly decentralized approach. However, by 1984, they were running into a number of problems. One is that these independent divisions were developing redundant products. That is, they had multiple units with their significant autonomy working on overlapping product development initiatives. In addition to that, that which they were generating, if it wasn't overlapping, frequently was incompatible. So they weren't perfecting these interfaces that needed to happen, and increasingly these products were not a standalone piece of measurement equipment, but rather was a software product or hardware products that needed to work in collaboration with one another or was complements that needed to be integrated into a hardware product. The need for coordination and collaboration across these divisions was elevating very dramatically. They also had really a disjointed approach to key markets. So each of these divisions would have their own approach to marketing and go into market, and this led to clients seeing four and five different division selling products that were somewhat overlapping and not compatible. There was also this general shift towards selling, as I indicated, computers as opposed to instruments. The nature of selling instruments was, you were selling instruments to a bunch of geeky nerds inside these corporations, wearing pocket protectors. All they wanted you to do is to put your measurement equipment in a plastic bag and drop it on their desk. Whereas when you're selling computers, you're selling these to the business folks, they're wearing suits. They want solutions. They don't really want to know how it works. They just want it to work, and it's a very, very different sale process. Here they're competing against very different type of competitor in IBM where everybody's wearing blue suits and making slick presentations, and they're an old engineering company that's grown up in a very different culture and trying to make this transition. They try some intermediate things to solve these problems. They develop some focused task forces like a manufacturer's productivity network. So anybody that was selling into the manufacturing space would get together and try to develop common solutions to marketing their products and manufacturing their products. They also developed some other kinds of program management within the corporation to push that integration. They formed task forces and committees, essentially informal mechanisms that were trying to push these divisions to communicate effectively so that they can compose solutions, they could go to market in a coherent way. That doesn't work. They decide to reorganize, and the reorganization that they take up is a dramatic move towards centralization. They centralize marketing, sales, and product development. This generates a number of really valuable things. They coordinate on some common standards that demand and enable integration. They as well literally integrate some of their computing efforts into larger units. As a consequence of this, their financial performance improves, their stock price nearly doubles in a couple of years. However, by 1990, they are experiencing gridlock in terms of innovation. There's a precipitous drop in innovation, their products are late and inferior. They're bureaucratically mired in this administrative process and their financial performance is plummeting. John Young as the current CEO, as well as the founders and board members, Bill Hewlett and David Packard, all three are convinced that the cause of this is the centralized structure and that this is really constraining innovation. In 1990, they go back to being decentralized. They decentralized computing and other activities, they pushed sales out into the product groups. They also move the divisions away from corporate headquarters in Palo Alto. In response to this, performance dramatically improves, success and innovations restored. Now, they feel like they've got it right. This is the quote, "Independence implies there may not be a cohesive overall fit among the pieces. The reorganization will get them operating within an overall strategic framework." We're going to make them independent, but now we've got an overall strategic framework. However, by 1996, performance is again declining. New CEO comes along, Lewis Platt, he centralizes all computing activities and sales into a single organization. Performance again improves and now they feel like they've got it right through this centralization. In their annual report, they talk about, "By unifying our computer activities, we can leverage strengths and deliver the integrated solutions customers are looking for while maintaining the benefits of focused businesses". They feel they've struck this balance. However, just two years later, in 1998, the same CEO, Lewis Platt announces a decentralization plan creating four units, each with their own CEO, symbolically creating even more separation and independence, easing back on corporate controls of the business units, giving managers more freedom to define their own goals and policies. For the first time, financial incentives are now tied to divisional performance. They also spin off their historic test and measurement equipment around this timeframe as well. However, a new CEO, for the first time, an outside CEO is hired in 2001, Carly Fiorina is hired. This is Carly Fiorina who was also a presidential candidate after this as well, so that's where you may have heard that name. She steps in and dramatically centralizes HP, consolidating what were still 83 different product divisions into four now centralized functional unit, had a corporate sales group, a consumer sales group that is of business sales, consumer sales, two separate organizations, and then there was the printing business and the computer business. As she steps in, Fiorina views the organization as overrun with internal competition, lots of duplicated effort. We'd seen these problems back in 1984. Analysts see inefficiencies across the organization and they now again applaud this shift. They've applauded every shift before this as well, but Fiorina targets balance and now she's convinced they've got it. "Our highly decentralized structure has enabled us to move quickly. At the same time, our value to customers lies not in individual products, but in delivering total solutions." We've heard that rhetoric before as well. "To achieve this, we're focusing on strategic opportunities that fall between our traditional businesses, or cross lines of one or the other." By integrating, we're going to be able to target these opportunities that fall between these previously highly decentralized units. In 2005, Fiorina is fired for not being willing to decentralize Hewlett-Packard. She faced enormous pressure by the Hewlett and Packard families who were then demanding decentralization as this company started to become bureaucratically mired. I feel badly about what happens here in that as soon as Carly took over the reins of this company, I had seen this pattern of vacillating back and forth between centralization and decentralization. I actually begun to do some academic research around why that might be happening and why it might make some sense, to the point where I actually started a letter to Carly Fiorina as she took over in 2001 that was of the nature, "Look, it's fine what you're doing now, centralizing HP, but you better be ready to decentralize. Here's the logic and here's why." I never sent that letter. Then she gets fired and then she runs for president. Then while she's running for president, she gets attacked for a not very stellar record at Hewlett-Packard. I feel like I could have made a difference and so this is my personal confession that I could have made a difference, she might be president today. I didn't send the letter. There you go. There was a widely held belief at the time that HP had become slow and bureaucratic. The board developed this plan to decentralize HP, despite her objections, she literally refuses to take that action, to take that step, and so she's fired. Mark Hurd is hired, he steps in, pretty predictable what he does. He decentralizes the organization. When he steps in, he observes that the businesses had less than 30 percent of their budgets under their control, so he swings the pendulum back the other direction. He says, "When this kind of organization design is applied to a company of HP's scale, it represents the underpinnings of slow decision making and confusion in terms of accountability." He radically decentralized, the analysts applaud that effort as well. Now, HP views that it's balanced its ability to balance growth and profitability. In 2010, Hurd actually abruptly steps down, there's a little scandal associated with that. What's interesting to look at is how Hewlett-Packard's stock price responds to these shifts in its structure. What I'm going to show you here is not HP's stock price, but rather HP's stock price normalized by the overall S&P 500. You can think of this as unusual movements of the HP stock. When it's increasing, it's outperforming the S&P 500. What you see is initially between 1980 and 1984, it's outperforming the market. This is then when it starts to plateau and then decline. This is when HP takes its first centralization movement. It actually continues to lag for a bit and then starts to pick up and improve, and then it precipitously drops. Then they decentralize and it improves and then plateaus and then they centralize, and it improves and plateaus. Then they decentralize, it improves and then plateaus. Then Carly Fiorina steps in and it improves as she centralizes and then declines. Then of course, Mark Hurd steps in and this is the picture of what happens to their share price. The yellow line here is the S&P 500 and the black line is the market performance under Hurd those initial years after he decentralized. What you see is John Young centralizes, John Young decentralizes, Lou Platt centralizes, Lou Platt decentralizes, Carly Fiorina centralizes, refuses to decentralize, loses her job, new CEO decentralizes. Then we talk about Apotheker, but he proceeds to do some centralization. You see this back-and-forth move over this 25-year period. What's important to keep in mind is that over this time period, HP emerges as the world's largest IT firm. This is a period of success for this enterprise. While in more recent years HP had struggled, this is a story of a quarter century of remarkable growth and success. Albeit through periods of doing better and doing worse coincident with these changes in structure. It's useful to review the advantages and disadvantages of decentralization and centralization. If you're decentralized, here's a picture of a decentralized organization. Different individual units in different lines of business, all reporting into a common CEO really flat organization. The advantages of this are creates very high powered performance incentives. I run my empire, I run everything about it. I control all functions and therefore I have a fair bit of autonomy. Therefore, you can give me high powered incentives. Because I have full control over performance, it gives you a fair bit of flexibility, creates internal competition. I can compare these different divisions against one another. It tends to breed innovation. It tends to diffuse general management skills. You're generating leadership skills, people that can step in as CEO and run entire businesses throughout the organization and creates lots of local kinds of responsiveness. But it also generates the problems we've talked about whenever they were decentralized. Duplication, incompatibility, poor coordination. On the other hand, a centralized structure where you have functional units that have input or full control over functional activities in the divisions, this centralized structure has some clear advantages. It enables coordination, it enables tight or centralized control, it gives you much easier access to creating economies of scope or manufacturing economies of scale or purchasing the economies of scale or any kinds of economies of scale, much easier to effectuate in a centralized structure. It obviously enables you to administratively and authoritatively eliminate duplication. However, it also, and we heard this narrative repeatedly throughout the HP story. It breeds bureaucracy, it undermines incentives, and creates inflexibility. It damages autonomy and therefore innovation. If we go back to this narrative that we began this lecture with, here we've got a situation where we're really only focused on two of these attributes. We're trying to push on innovation and efficiency, and we've got an organization that for awhile focuses on innovation. Then it switches and focuses on efficiency. They're wanting to do both of these things because they are clearly complements in generating performance. What you want is an organization that can pursue both of these dimensions. I relabeled these a little bit. Some people talk about innovation as exploration and efficiency as exploitation. That an effective organization is positioned high on both of these dimensions. The question is, how do you continue as an organization to drive on this knife edge, to increase both exploitation and exploration. How do you drive on both efficiency and on innovation? How do you in some sense become organizationally ambidextrous in driving on both of these dimensions at once? The obvious question you have or should ask, why can't organizations just design something that causes you to equally attend to both of these critical complimentary dimensions of efficiency and innovation? I mentioned this a little bit earlier, but organizational designs that are going to effectively drive toward innovation and organizational designs are going to drive on efficiency are very different organizational designs. They involve different types of incentives, different types of culture, different structures, different types of training, recruiting approaches, and trying to build an organization that pushes simultaneously on both of these dimensions is likely to lead to confusion among employees. It's also likely to be the case that these choices that you make are going to counteract one another and not work in a complimentary fashion. Moreover, it's likely to cause the organization to lose momentum on either. That is, it's not going to effectively drive either of these dimensions particularly powerfully as you try to focus on both of them, so that the essential logic here is look, efficiency and innovation are complements, if you get both of them going, it improves organizational performance. The challenge you face is that in trying to do this, you're trying to design and make design choices that are themselves complementary in nature, and you can't play this in an all a cart wave if you choose one design element that pushes on innovation and another that drives on efficiency, it's going to undermine its effectiveness to drive and elevate the performance on either of these dimensions. In that sense, they have negative externalities associated with them. A choice that I make to elevate innovation is going to undermine my ability to compose an organization that's going to drive on efficiency. Organizations best therefore achieve an abundance of both of these arguably by vacillating their focus, and it's important to keep in mind that what you're really trying to shape as you change the design of an organization is how decisions get made. It's really not necessarily the formal organization that you care about. It's really this informal process through which decisions are made, knowledge is transferred, discussions happen, and ultimately these decisions are reached. You're trying to therefore change work routines and decision making processes and that which employees attend to. You're trying to shape communication patterns and the flow of information and knowledge. This is all very, very informal at some level in all organizations, and what's true about the informal organization is that it moves with some inertia. Those of you that have been through an organizational redesign or a reorg you've experienced this, which is that when who you report to changes, it doesn't immediately alter all of your communication patterns. It certainly changes on the margin, but these things are going to drift and change over time. You're not going to completely sever communication and decision-making patterns that you've had under the prior structure. As it turns out, that ends up being a really good thing that the informal organization moves with a bit of inertia. Let me try to illustrate that visually for you. If you think about an organization that's trying to reach that red dot there, it's trying to reach this spot. Doing so, it's trying to elevate its exploitation as well as elevate its exploration. The problem is, it can't get there in any direct way because it has to choose between these two discrete organizational form represented by this bundle of interlocking design choices. What you see organizations do is therefore, be decentralized and in doing so, they get lots of innovation. This is why this is at this green dot at this point, and then they decide to centralize. What we see is that green dot representing the informal organization and performance changes, and then they decided to decentralize and it shifts back the other direction. As organizations vacillate in their focus through shifts in organizational design, this organization stays closer to that desired position than it would if it's simply adopted one organizational design approach and simply stuck with it. The hope is that by going back and forth, you're actually improving and moving the organization in this direction, rather than anchoring it down here or anchoring up here where you're not taking advantage of what you really want is this attention to both because in attending to both and elevating both, these are complements and by driving both of them, you're dramatically elevating the overall performance of the corporation. In this sense, organizational design is this dynamic exercise of making decisions about how to move the levers that you have at your disposal to elevate different dimensions that you've deemed to be critical in elevating performance. Those of you that are engineers out there might recognize that this is a little bit analogous to a thermostat and the way that a thermostat operates. That if you think about a thermostat either triggering the air-conditioning or the heat, we're in summer now here for me, so let's think about air conditioning. Either the air conditioning is on or off, and what happens is when it gets to a particular level of heat, think of this is heat going up, the air conditioning turns on and the temperature in the room drifts down, and at some point it gets cold enough such that it shuts off and then the air turns back. It shuts off and the heat again rises and you see this back and forth that happens. Why doesn't the air conditioning just flicker on and off and keep it exactly at the right temperature? Well, that's a very costly thing to do. There's an analog here in thinking about organizations. Arguably, given this logic here, what you would expect the organization to do if the world was this simple, would be to simply go back and forth very quickly such that the organization could hover at exactly that spot. That's not going to happen because it's extraordinarily costly and we saw this in the conversations of the HP case to move this lever between centralization and decentralization. So organizations have to develop some appropriate cadence in its approach to reorganization and design changes, recognizing the cost of those changes and balancing that against the advantages that you're going to get from getting this organization back realigned closer to where you were. This is not just a story about Hewlett-Packard, there are lots and lots of other illustrations of companies that have gone through this dynamic, and let me just give you a couple of other illustrations. Ford Motor on a global basis before 1994 was extraordinarily decentralized. This led to global footprint in which designs of their automobiles across the globe were very different. Every area of the world had latitude to design its product, to meet the tastes and local driving conditions. As a consequence of this, they were very successful in marketing their products and developing market positions across the globe. But as you would also expect, if every area of the world is building their own platforms and parts, and engines and components and auto-bodies that it became very high cost on a global basis. In 1994, they put together a Ford 2000 plan, which was to centralize design, manufacturing and purchasing, or at least key portions of purchasing. This leads in the subsequent years to dramatically lower costs in production, purchasing and design, but it also over a period of years leads to poor international product designs, and the result is declining market share in international markets. In 2000 ironically, they abandon the Ford 2000 plan or at least modify the Ford 2000 plan toward greater decentralization. But one of the questions you might ask is, okay, were they better off in 2000 having gone through this episode of having been centralized for six years? The answer is absolutely yes. They have developed and reshaped the communication pattern of this organization. You now have designers in Brazil talking to those in Detroit or talking to those in Europe. You also have baked in some common product platforms and you have got them using common parts, and so now as you shift back to more autonomy, there's a legacy of this coordination that somewhat baked into the hardware of the organization as well, it was baked into the software in terms of decision making and communication patterns. So you're using design to sculpt the organization to focus appropriate attention on these different levers that you deem to be compliments in generating performance. Consulting firms, you will see doing the same thing. Whenever I tell the story to consulting firms it immediately becomes obvious to them that they've seen this pattern in their own history of working for consulting firms or accounting firms. Here you might actually think about three different types of structures and three different dimensions that they want to focus on. One is you want to exploit geography that is, in any given local area, partners develop relationships and you'd like to have them exploit those relationships to chase other lines of business because these clients trust you as partners. That would suggest a regional geographic structure would be optimal to tapping into those relationships. At the same time, you're also developing different types of practices. Your e-commerce practice, manufacturing practice, or your balance scorecard practice or whatever it might be and you want sharing of information around best practices, well that calls for a structure that's much more focused on areas of practice because that facilitates that knowledge exchange. The other one you might be interested in though, is that there is also deep industry knowledge that accumulates in these consulting firms and that would suggest that maybe you want a structure that is built around industry practices so that you can figure out how to effectively sell into these spaces and develop and accumulate knowledge about how to improve their performance. Well, all of these dimensions suggest a very different kind of structure, and what you see is that many of these organizations cycle around these different emphasis and structures over time as they try to sculpt Consultants who are tapping into local relationships, are developing deep practice knowledge, and at the same time are developing industry knowledge and you're sharing this effectively throughout the organization. I'm not sure most CEOs are necessarily thinking about this dynamic approach to organization, but I think some are. Here's a CEO of Appex Corporation, who clearly sees this from the outset. I say that I'm not sure that any of the HBC has, in fact, had some conversations with those CEOs, I'm not sure that they really recognize that this is what they were doing in part because, they might only be there for one organizational change. They're just trying to solve a problem, or maybe they go back and forth once. They don't really see this longer pattern. But this CEO does, he says "An organization structure becomes a tool you're using to create a balance between conflicting modes of organizational behavior," exactly what we've talked about, "such as flexibility and consistency, or think innovation and efficiency. Each structure emphasizes one type of behavior, de-emphasizes another. By continuing to change, you can balance the needs of the organization." Or a consultant who says, "If function is centralized, you can save money by decentralizing. If it's decentralized, you can save money by centralizing." That sounds like the ultimate, in consultants speak it says, whatever your problem is, I can solve it. But I would argue that there's really some truth to this that is, if you take up a consulting initiative with a company that has been centralized for very long period of time, I can tell you what the solution is, and that is to decentralize it, if it's been de-centralized, I can tell you what its problems are, and the solution to those problems are to centralize it. I think there's actually some clear truth to this. 3M is another story of a company that's gone through this back and forth bit. Not very, just one back and forth, but it's a very similar kind of story. One of the implications of this logic is that, an effective CEO really needs to be nimble. That is, that CEO needs to be skillful in their capacity to both compose an organization that can elevate efficiency, as well as one that can drive innovation. However, one of the things that you actually see in terms of CEOs is that very few CEOs are actually capable of doing this. In a project that I've been working on over the last several years, we categorized CEOs based on their functional background. You can think about CEOs that come out of finance, or operations, they're much more likely to be efficiency focused, bean counters, call them other CEOs coming out of marketing and R&D it's all about the upside. One's focused on revenue, and innovation, and growth, other CEOs are focused on, "let's squeeze money out of that," which we're currently doing. These start to correspond to the innovation efficiency dynamic that we've talked about. After classifying these CEOs into these two buckets, what you see empirically is that, if your organization has had CEO thumbs up marketing focus for a period of time, in fact, the longer you've had a CEO of type A, call it, the more likely that the next CEO you have will be of type B, that is, their functional background will be of type B. Similarly, if you've had a CEO for a long period of time that's of type B, it elevates and increases the probability that your next CEO will be of type A. Moreover, what we find in the performance data is that, firms that vacillate in this way in terms of their selection of CEOs outperform those that have one type and stick with it. I should make one caveat and that is that, some organizations really just the way they're strategically focused, or the way their corporate theory is composed, may really not care about one of these dimensions. If that's the case, then maybe it's stick with the bean counter and ride it off into the sunset, or maybe it's the innovation focused type. But most organizations have this tension, and you see this vacillating pattern. Now of course, what you'd love to have is a CEO that can do both of these and you don't need to switch CEOs to get this dynamic value enhancing leadership. Years later I found this quote from Carly Fiorina, talking about exactly this dynamic. She says, "When you sail, you don't get there a straight line. You adjust your course to fit the times and current conditions." Of course, finding this quote made me fill all the worse about not writing that letter. She even saw the logic, even though she wasn't able to see that the logic applied to why she should have decentralized HP when the board was pushing her to do it. Note that there's a connection here, and I think a useful analog to thinking about this as sailing, that when you are sailing into the wind, the best way to make the fastest velocity towards the point that you're trying to get to, which is directly into the wind, is by tacking back and forth. Any effort to sail directly into the wind puts your sales, as they say, in irons, and you're going nowhere. A very effective leader can stay relatively close to the wind and get real acceleration by tacking back and forth. The better you are as a leader, the less off the ideal path you have go. Thinking about this metaphor of sailing into the wind, your choices are either to pull together a bundle of consistent choices that send the organization rapidly in a desired direction and then you vacillate over time, or you can pull together a bundle of inconsistent choices and try to get this beast of an organization to move in exactly the right direction, but slowly. I'd argue that that's really, really difficult to do. The object is not balance, but it's to use the sailing term, its velocity made good, how fast you get to the ideal point? How do you effectively get this abundance in this metaphor of both innovation and efficiency? Effective organizations can sail close to the wind that is, you're not very office off from this ideal path that you want to follow. Effective organizations have strong sails that move this organization at a very, very steady pace, but at the same time they have steady culture that keeps you not too far off the wind. When HP was very decentralized, at the same time it had this very thick rich culture of cooperation, a company town feel that I think enabled them to still coordinate with some effectiveness. At some point, that wasn't sufficient and they needed to do something else and centralized. But effective organizations have this culture that keeps them from going too far off in one direction or another. Organizing to optimize balance places the organization in iron's confused as to which way it should go. Leaders that try to do that, I think really struggle. You have a number of vehicles of this dynamic design. We've focused on structural change. I think you also see this in terms of initiatives and goals that you impose on the organization. We talked about it in the context of leadership change as well. Sometimes you select a leader because that type of leader is going to take up the problem that's most needful to solve at this moment. Just a few lessons. The object is not balanced, but it's an abundance of both innovation and efficiency. A constant focus on balance is going to likely diminish performance. You're trying to build this organization that's focused on today's most needful problem. I think you also have to communicate to an organization that they should expect change. One of the reactions to reorganizations that almost all organizations is like, "What, this again?" I think part of your job as a leader is to say, "Yeah, this again," because that's the most efficient thing to do. Organization designs are never perfect, there's always compromises and we're going to pick the organization design that solves today's most needful problem, recognizing full well that that choice is going to treat tomorrow's problem, but that doesn't mean it's the wrong thing to do today. Therefore, preaching this language of organization design is not about perfectly fixing the place, it's about picking a design that's going to drive you in today's most needful direction. It's therefore a dynamic process and you need to communicate those dynamics. You need to understand the levers that you have at your disposal to influence and shape this informal organization. The question is not if you're going to change, it's really about choosing the dynamics and the timing of those changes. You also at the same time need to identify and think about the costs of change. Again, it's not the right thing to be changing every day or with great frequency, because there are real costs associated with the change. So you're having to balance these costs have change relative to the benefits of recalibrating your direction. Thank you.