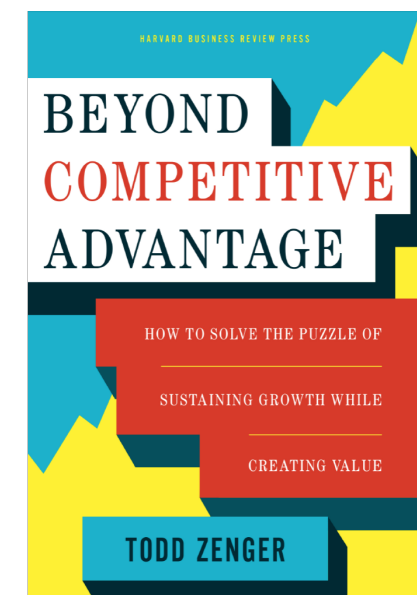


Dynamic Organization Design & Leadership

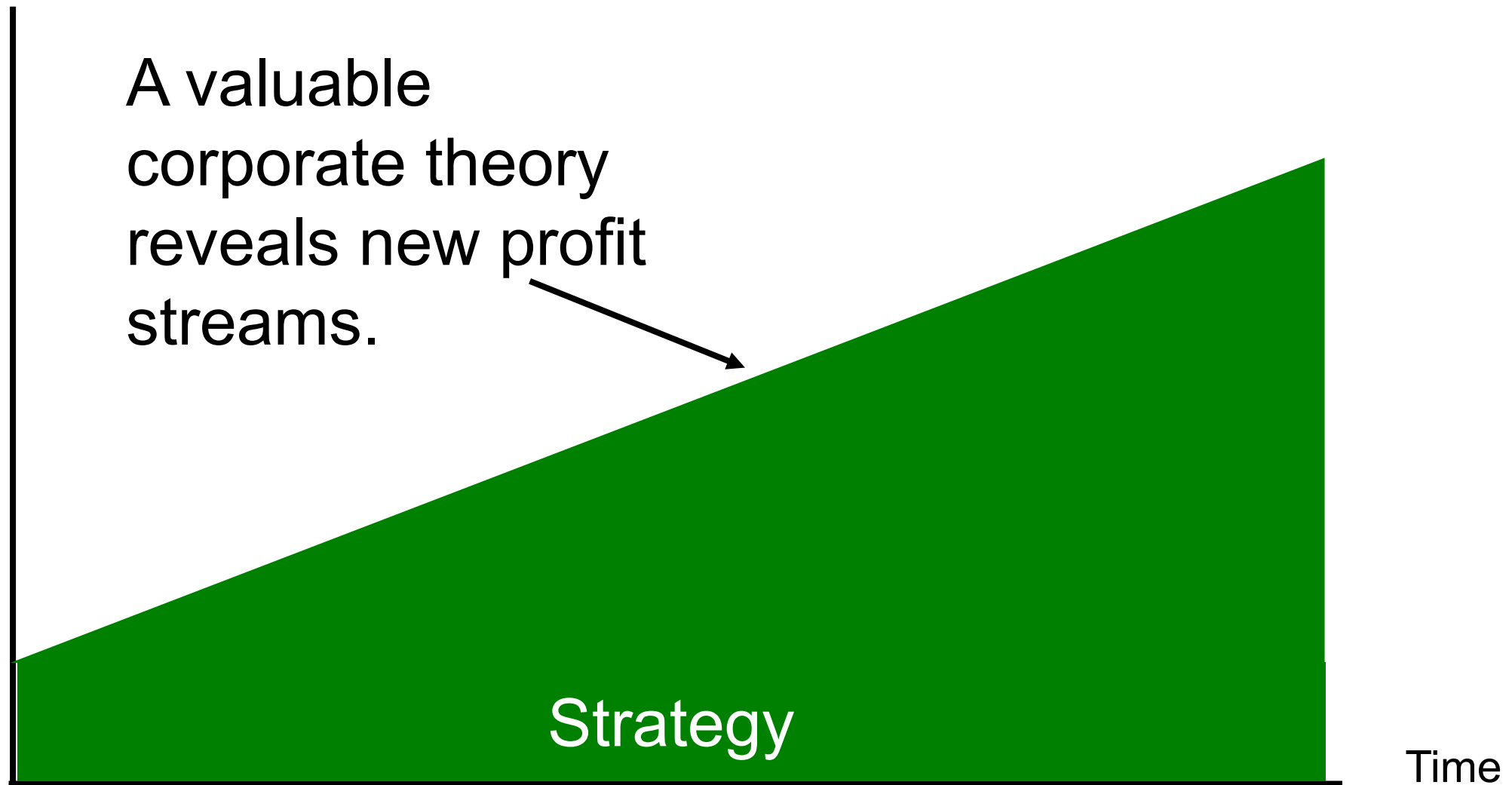
(Chapter 6 & 7)



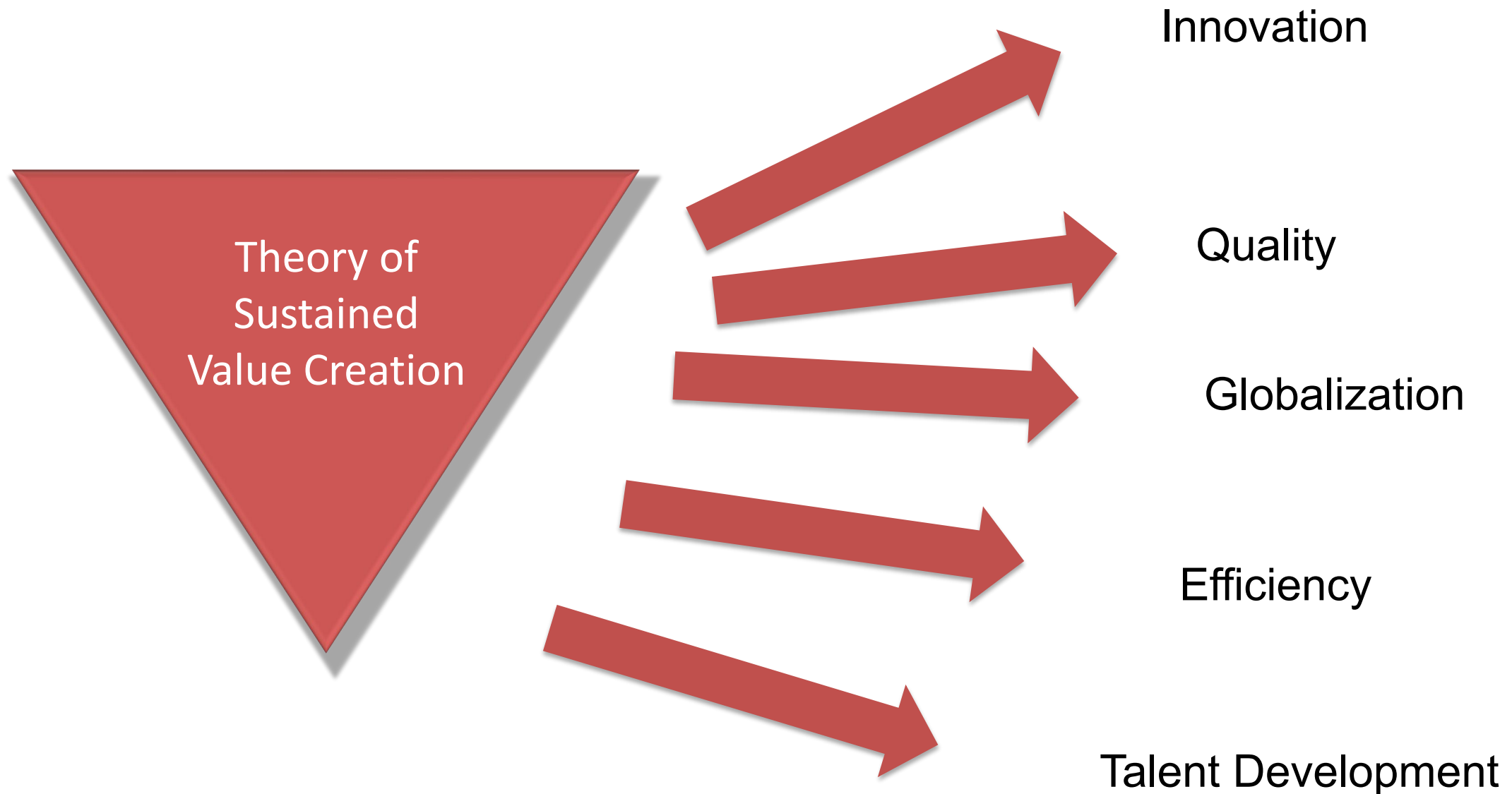
SUSTAINED VALUE CREATION

Successful companies relentlessly discover new profit streams.

Profit

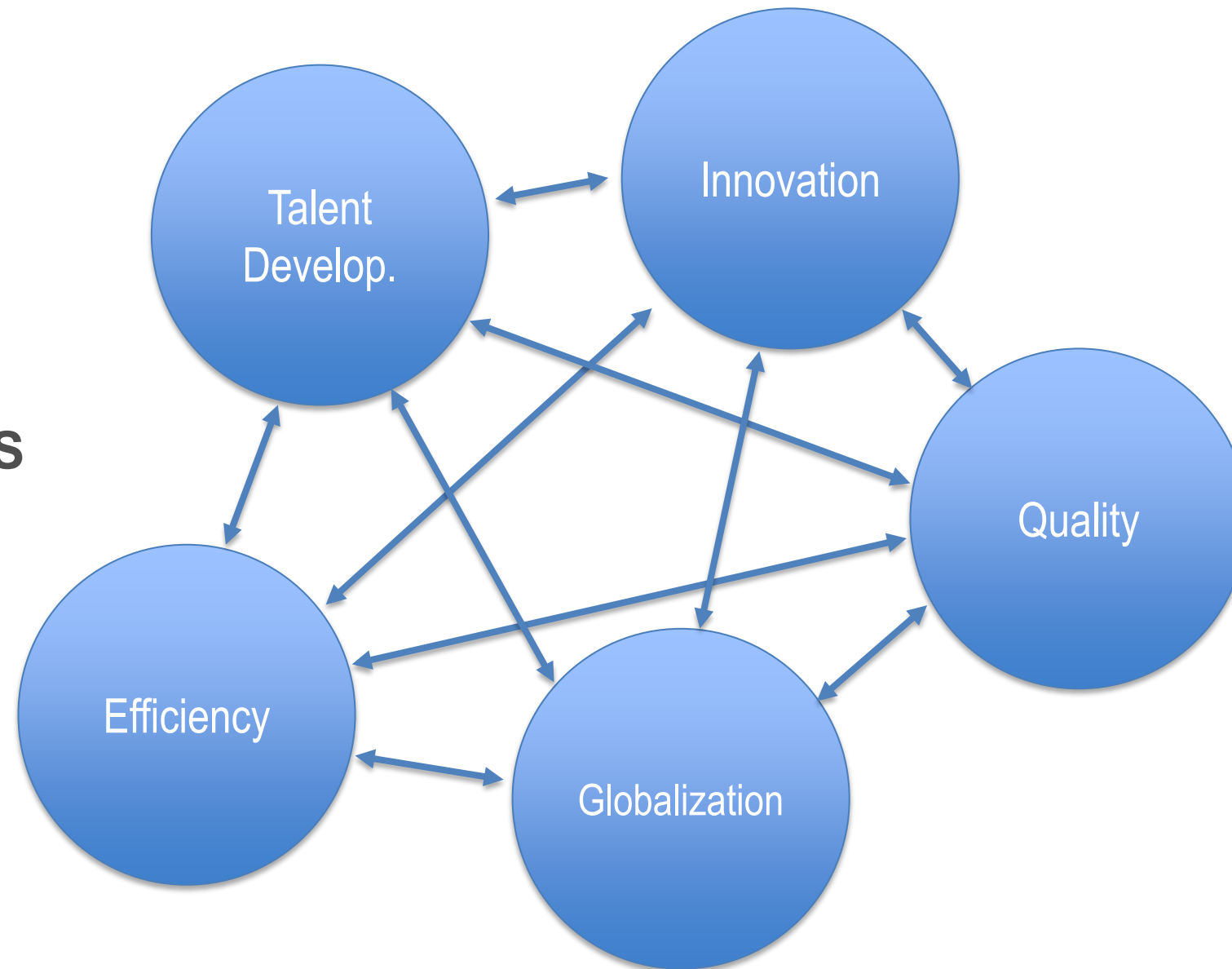


THEORY REVEALS MULTIPLE PERFORMANCE DIMENSIONS

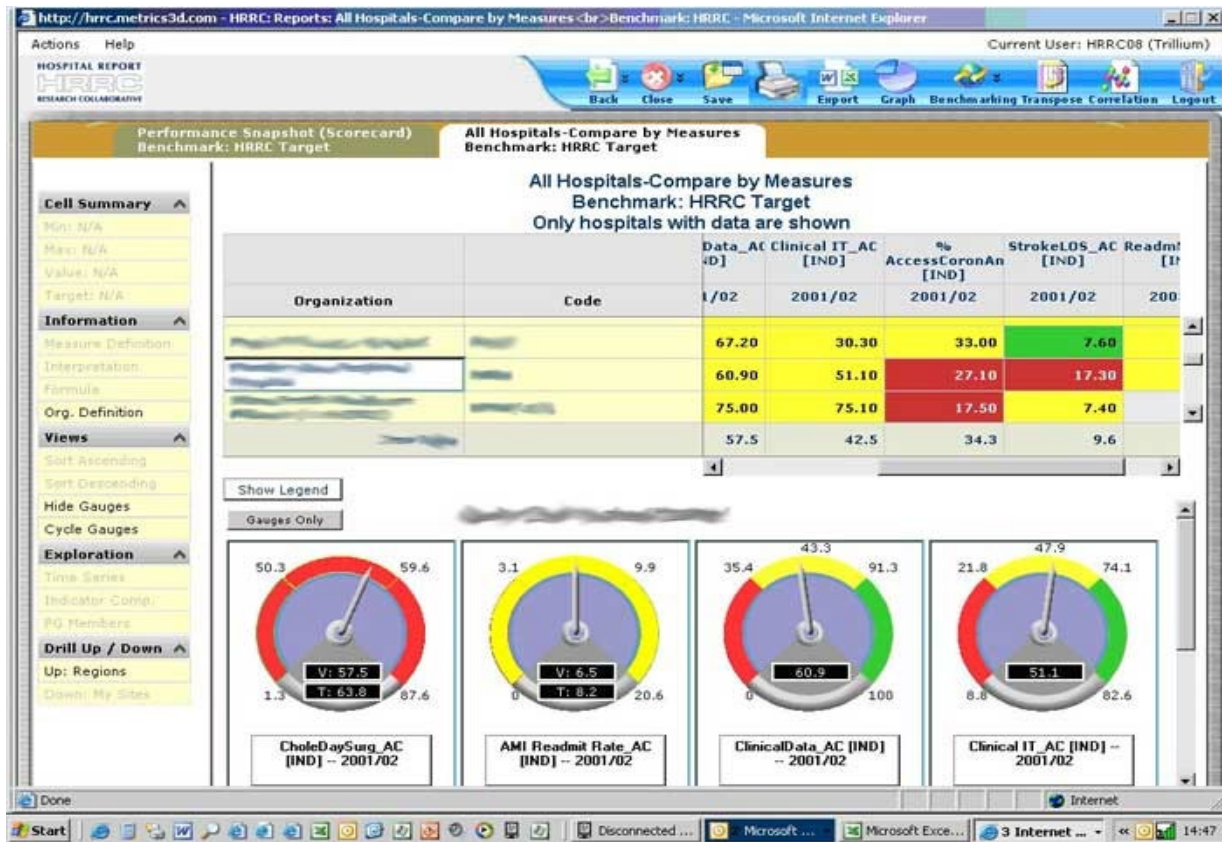


MOREOVER...

COMPLEMENTS



How does a leader organize to pursue them all?



THE DESIGN DELUSION

A well crafted organizational design or a balanced scorecard can simultaneously generate all the behaviors and outcomes required to optimize performance.



Brain Overload



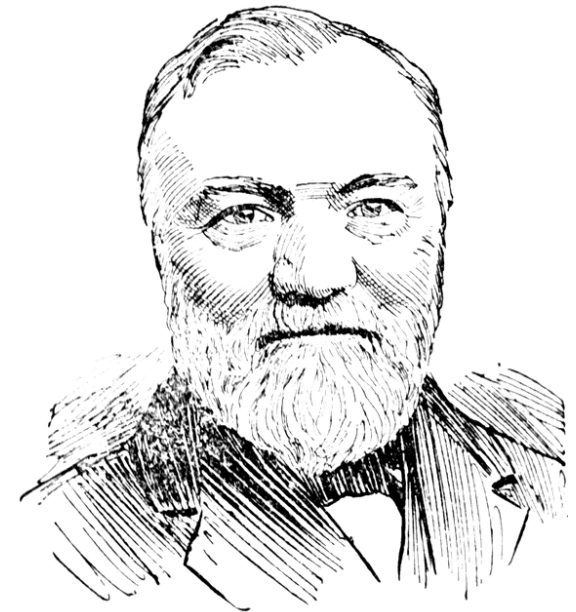
Design Conflicts



Divided Motivations



I would advise you to make a list of the ten most important things you can do. And then, start doing number one.



Young man, if you can tell me something about management that is worth hearing, I will send you a check for \$10,000

Effective strategic leaders dynamic designers—they sequentially focus an organization on today's most valuable problem, and then move to the next, and then the next.

CASE ILLUSTRATION: HEWLETT-PACKARD

HEWLETT PACKARD SUCCESS IN 1984

- ▶ Consistently one of world's most innovative firms
- ▶ Historic business: test and measurement tools
- ▶ New business: computers and software; experiencing very rapid growth
- ▶ Very decentralized structure with divisions < 500 employees
- ▶ Remarkable culture; very low turnover
- ▶ Company town feel in heart of Silicon Valley

HP' S PROBLEMS

- ▶ Redundancy in development
- ▶ Incompatibility
- ▶ Disjointed approach to key markets
- ▶ Nerds marketing computers
- ▶ Clients sees 4-5 different divisions
- ▶ Instruments vs. computers

INTERMEDIATE SOLUTIONS

- ▶ Manufacturer's Productivity Network
 - ▶ applications oriented marketing strategy
 - ▶ integrated solutions to manufacturing problems
- ▶ Program Management
- ▶ Applications Marketing Division
- ▶ Task Forces and Committees

DO YOU SUPPORT THE REORGANIZATION?

▶ YES

▶ NO

HP CENTRALIZES

- ▶ 1984: HP centralizes marketing, sales, product development.
 - ▶ Management coordinates standards selection.
 - ▶ Computer efforts are integrated and compatible.
 - ▶ Financial performance improves (stock price nearly doubles in two years).
- ▶ By 1990...
 - ▶ Gridlock; precipitous drop in innovation.
 - ▶ Products are late and inferior.
 - ▶ “[M]ired in our own administrative process”.
 - ▶ Plummeting financial performance.
 - ▶ Packard, Hewlett, and Young all convinced that centralized structure constraining innovation

HP CONTINUES TO MODULATE

- ▶ 1990: HP decentralizes computers and other activities pushing sales into product groups.
 - ▶ Moves division heads away from corporate headquarters
 - ▶ Performance dramatically improves.
 - ▶ Success in innovation is restored.
 - ▶ “Independence implies there may not be a cohesive overall fit among the pieces...The reorganization will get them operating within an overall strategic framework.”
 - ▶ But, by 1996, performance is declining.
- ▶ 1996: CEO Platt centralizes all computer activities and sales into a single organization.
 - ▶ Performance improves.
 - ▶ Annual report: “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.”

HP CONTINUES TO MODULATE

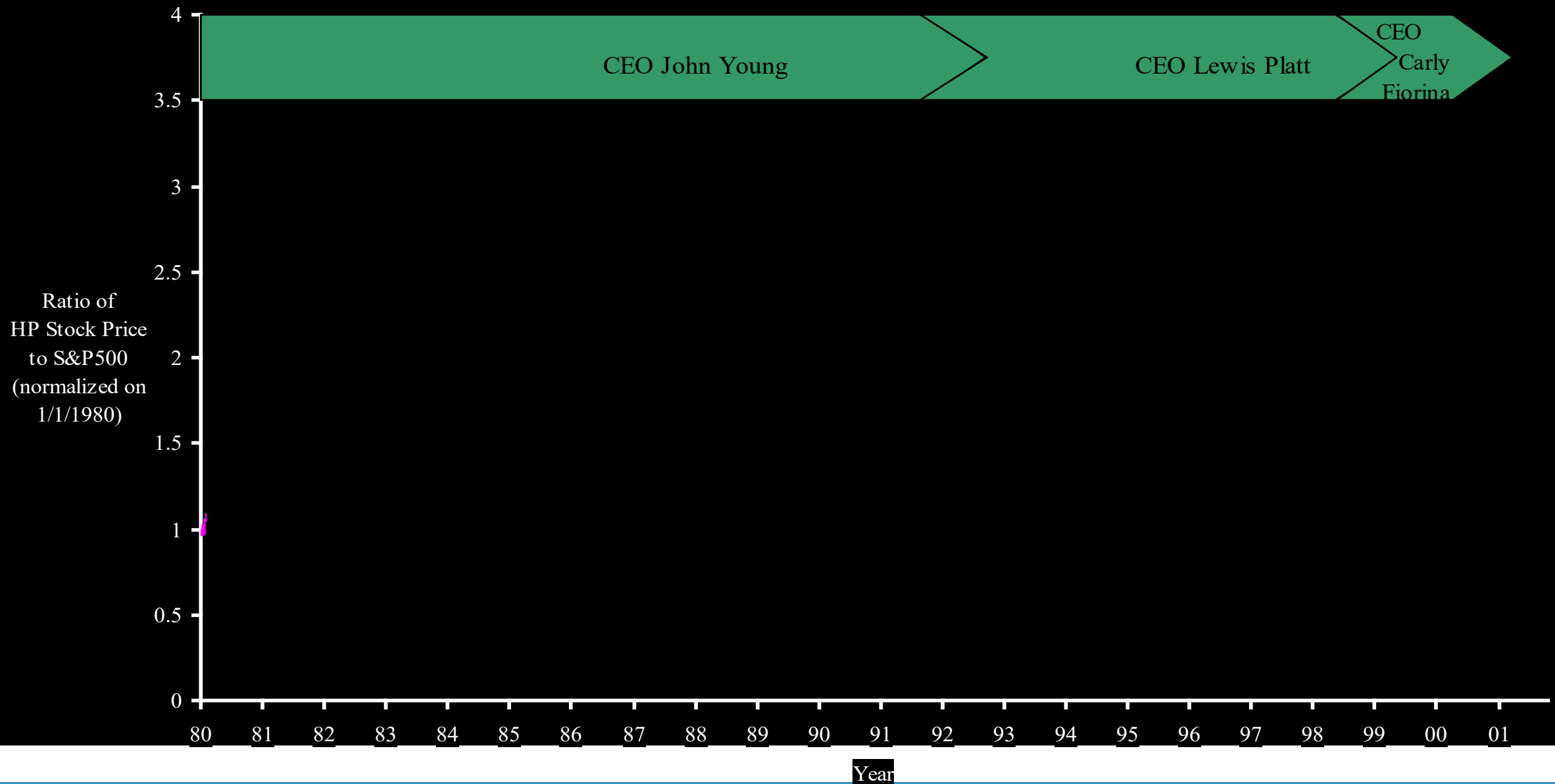
- ▶ 1998: CEO Platt announces decentralization plan: four units, each with a CEO.
 - ▶ “[E]asing back on corporate control of HP’ s business units.”
 - ▶ “[G]iving managers more freedom to define their own goals and policies”.
 - ▶ Financial incentives tied to divisional performance.
 - ▶ Software startups program.
 - ▶ Spin-off of Agilent announced.
- ▶ 2001: Fiorina consolidates HP’ s 83 product divisions into four centralized functional units –
 - ▶ corporate sales, consumer sales, printing, and computers
 - ▶ Fiorina views organization as overrun with internal competition, duplicated effort
 - ▶ Analysts see “inefficiencies across the organization”, applaud the shift to centralization
 - ▶ Fiorina targets balance: “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. To achieve this, we are focusing on strategic opportunities that fall between our traditional businesses, or cross lines of one or more...”

HP MODULATION CONTINUES

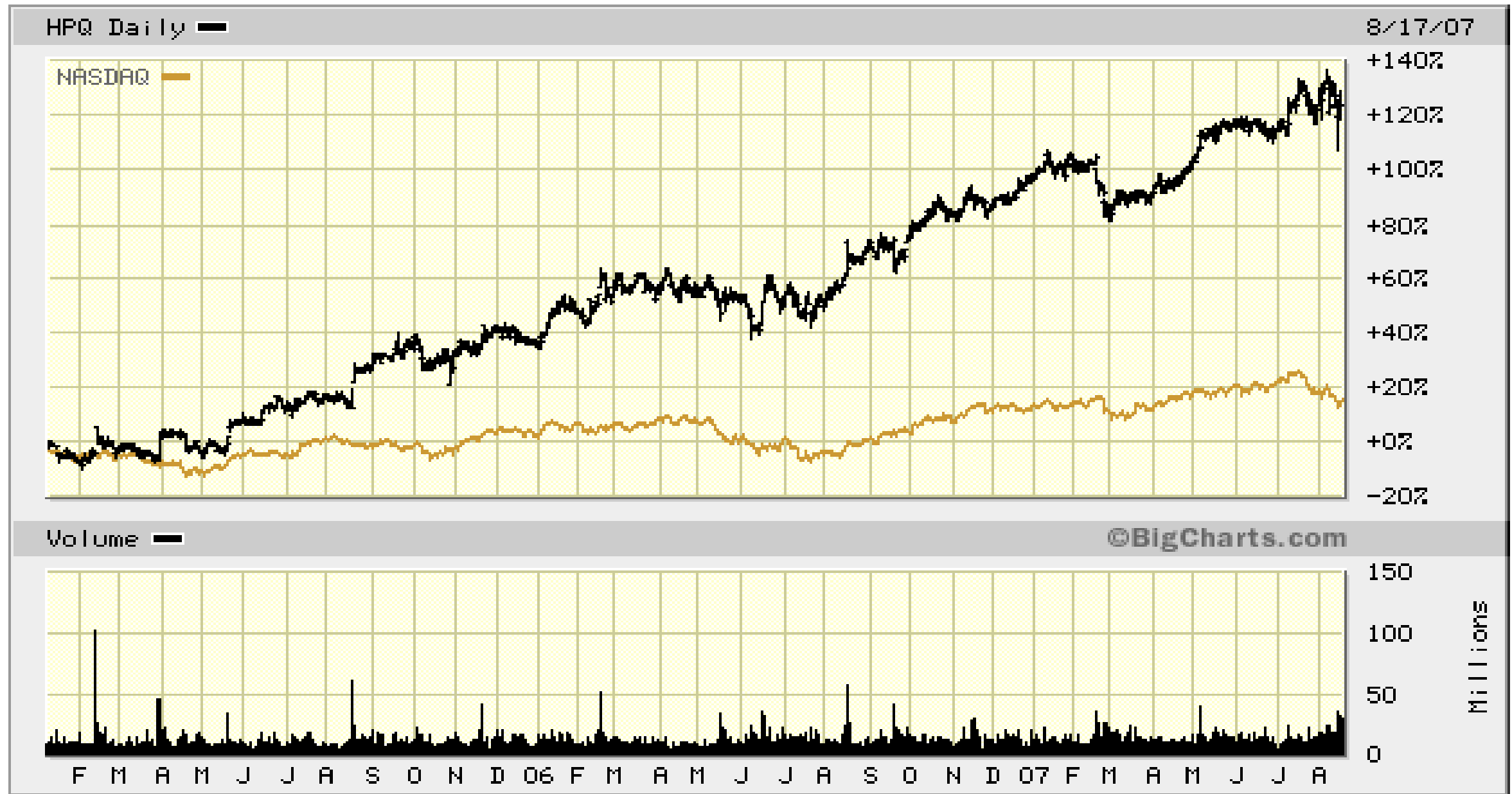
- ▶ 2005: Fiorina fired for not decentralizing.
 - ▶ Analysts call for decentralization
 - ▶ Hewletts and Packards demand decentralization
 - ▶ Widely held belief that HP had become slow and bureaucratic
 - ▶ Board develop s plan to decentralize, despite her objections.
 - ▶ Fiorina is fired for refusing to switch.
- ▶ 2005: Hurd hired
 - ▶ Hurd: “some businesses had less than 30 percent of their budgets directly under their control...”
 - ▶ “when this kind of organizational design is applied to a company of HP’s scale, it represents the underpinnings of slow decision making and confusion in terms of accountability.”
- ▶ 2005: Hurd radically decentralizes
 - ▶ Analysts applaud the move to decentralize
 - ▶ View HP as now balanced: “its ability to balance growth and profitability”
- ▶ 2010: Hurd abruptly steps down
- ▶ Last month: Leo Apotheker appointed HP CEO, former CEO SAP

HEWLETT-PACKARD

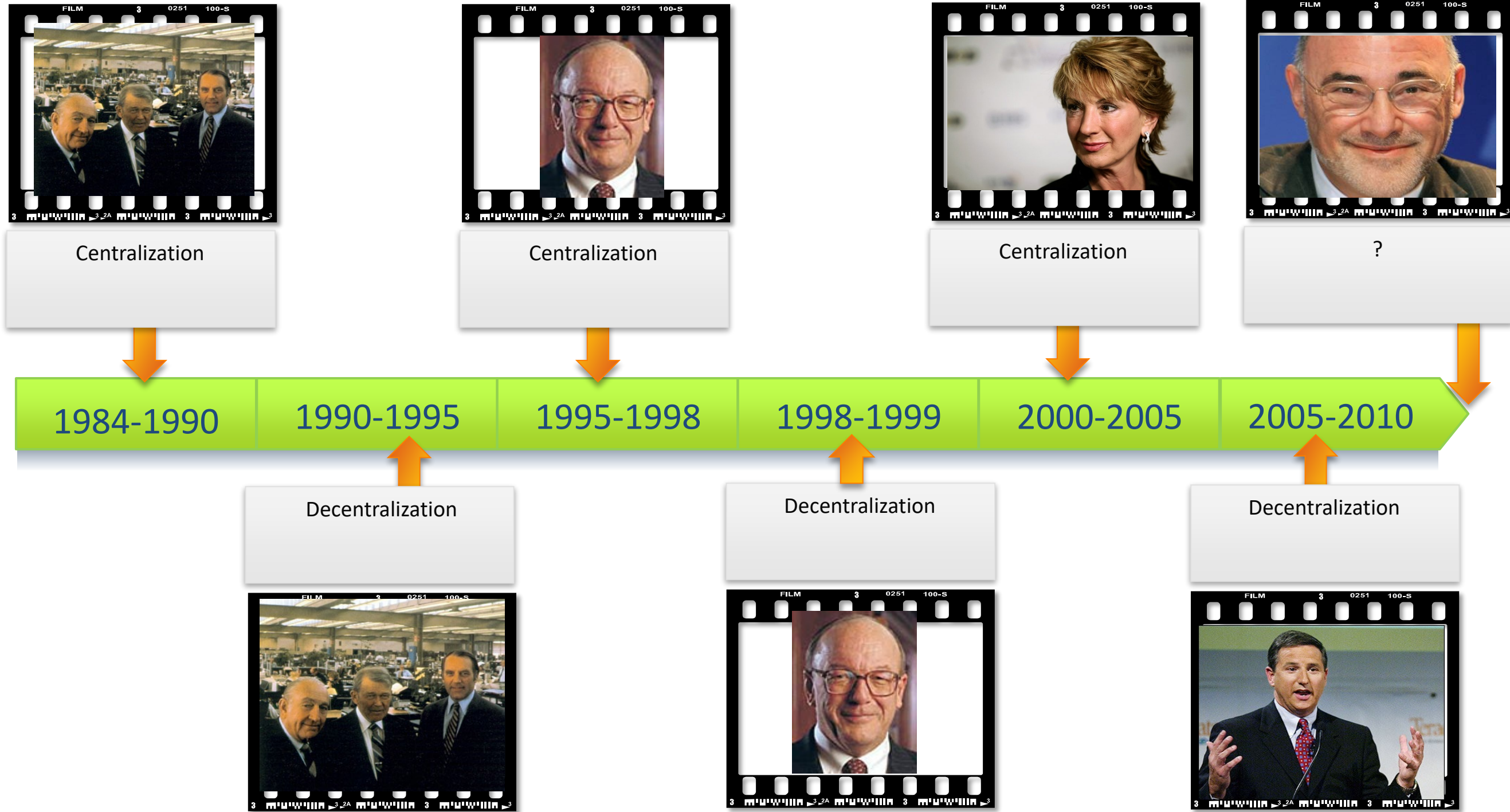
Ratio of HP Stock Price to S&P 500 Index



HP UNDER MARK HURD

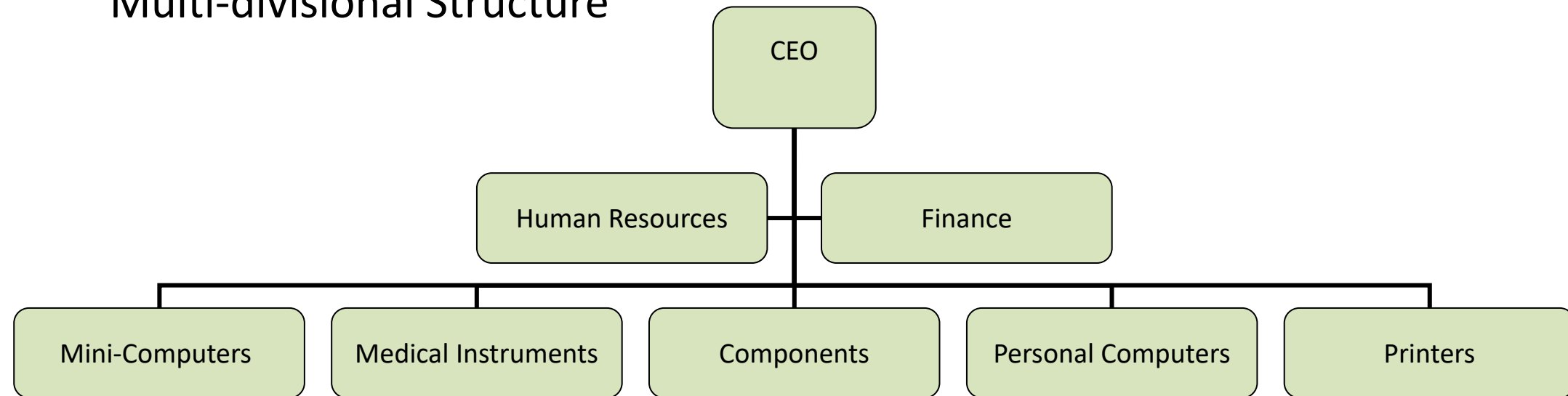


HEWLETT-PACKARD TIMELINE



DECENTRALIZATION

Multi-divisional Structure



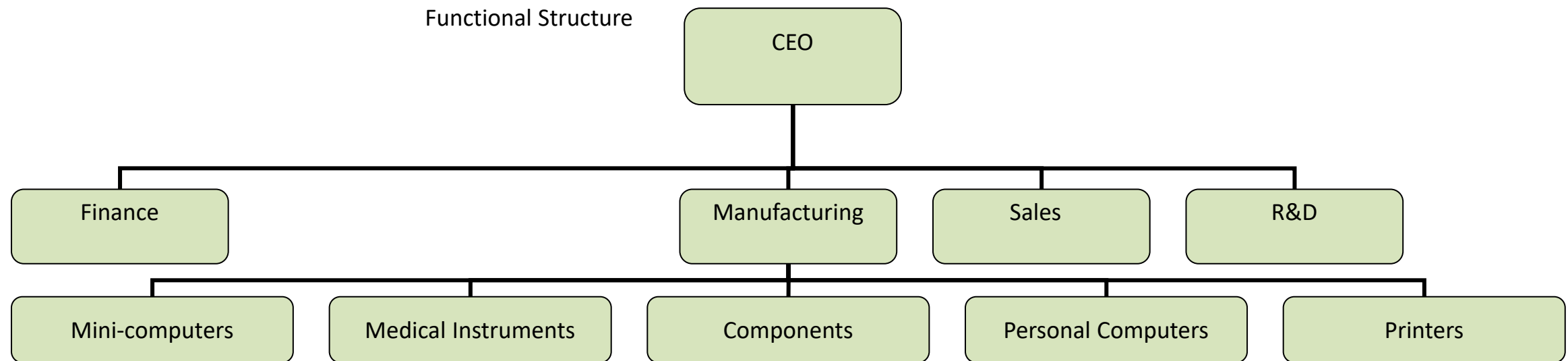
DECENTRALIZATION DELIVERS...

- ▶ High-powered performance incentives
- ▶ Flexibility
- ▶ Internal competition
- ▶ Innovation
- ▶ Diffuse general management skills
- ▶ Local responsiveness

But also delivers ...

- ▶ Duplication
- ▶ Incompatibility
- ▶ Poor coordination

CENTRALIZATION



CENTRALIZATION DELIVERS...

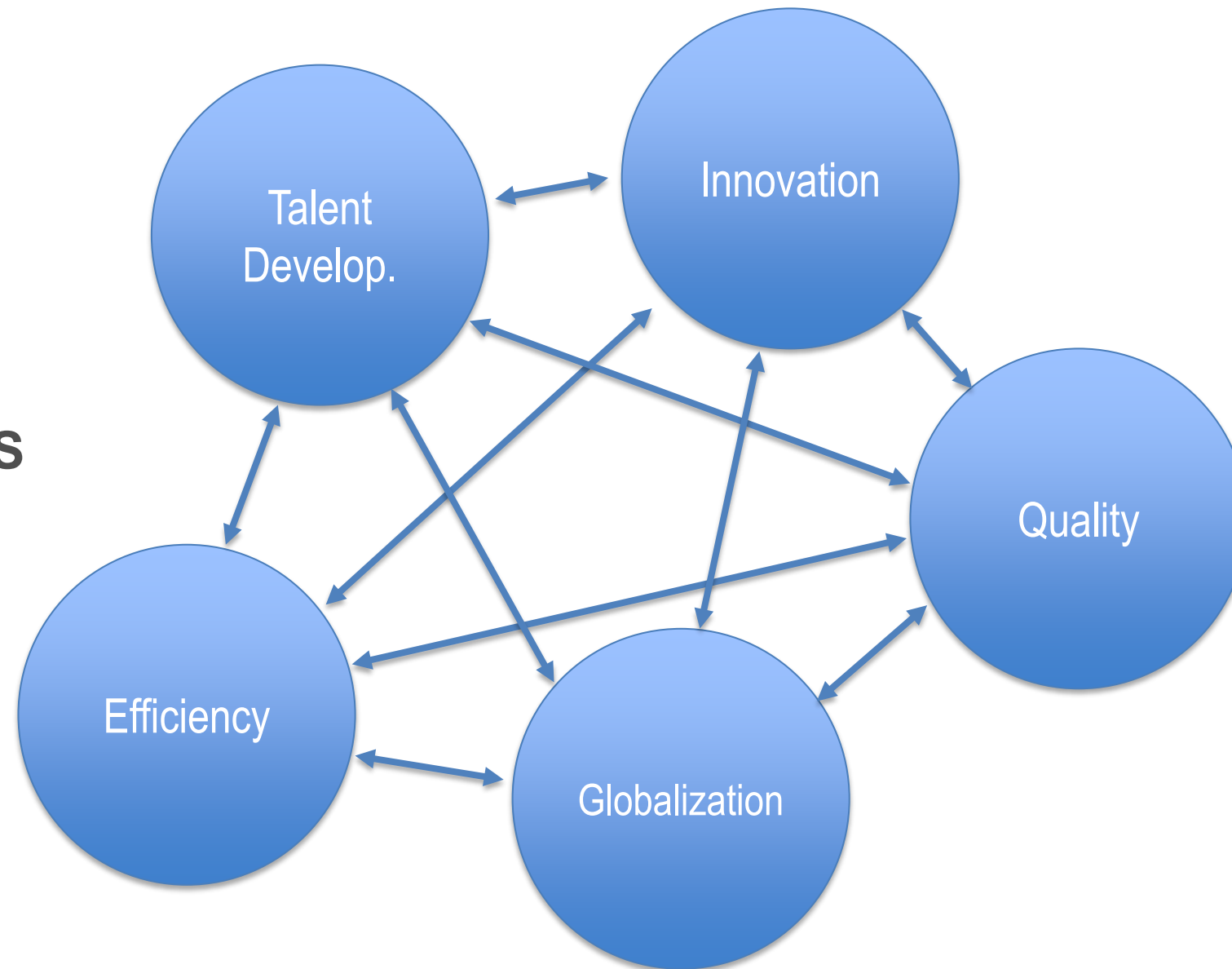
- ▶ Coordination
- ▶ Control
- ▶ Easy access to economies of scope and scale
- ▶ Elimination of duplication

But also delivers ...

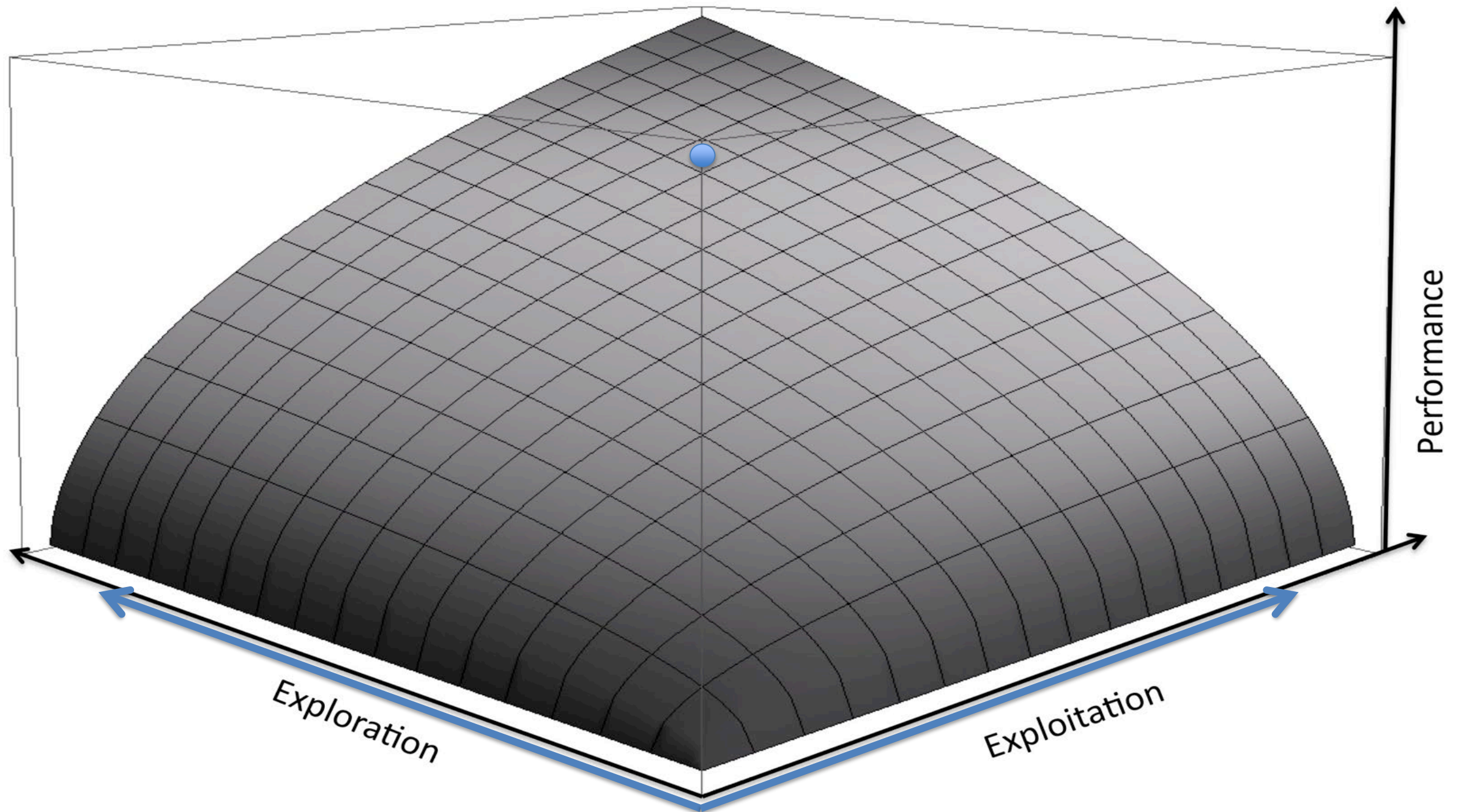
- ▶ Bureaucracy
- ▶ Weak incentives
- ▶ Inflexibility

COMPLEMENTS

COMPLEMENTS



AN ABUNDANCE OF BOTH



HOW DO YOU DESIGN TO ACHIEVE BOTH?

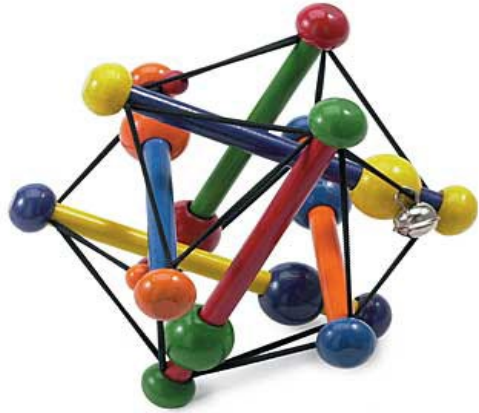
▶ Innovation/Exploration

AND

▶ Efficiency/Exploitation

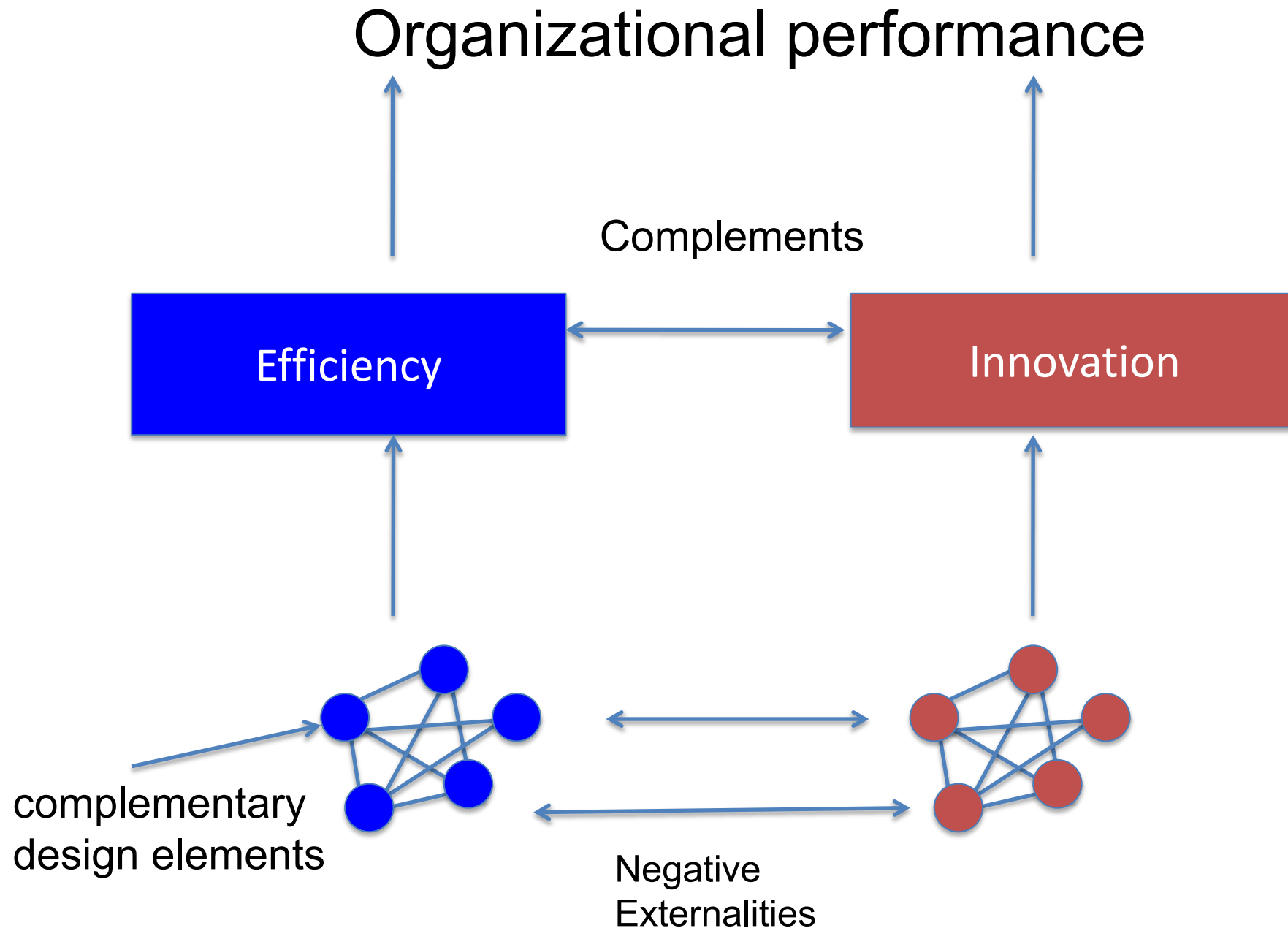
▶ ...*organizational ambidexterity*

WHY ORGANIZATIONAL DESIGN DECISIONS ARE DISCRETE?



- ▶ Organizational designs composed of complementary choices
 - ▶ Incentives, culture, structure, training, recruiting
- ▶ Selecting contradictory choices undermines performance.
 - ▶ Confuses employees
 - ▶ Choices work against one another
 - ▶ Organization lacks momentum

ORGANIZATIONAL DESIGN DILEMMA

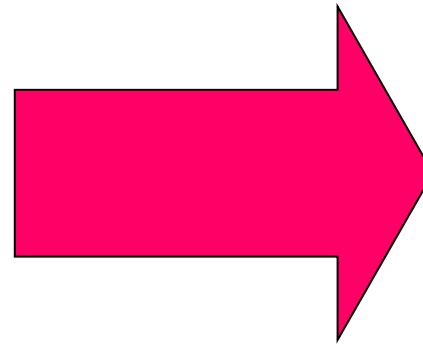


THE EFFICIENCY OF DYNAMIC SWITCHING

- ▶ Organizations best achieve an abundance of both by vacillating in their focus.
- ▶ Why?
 - ▶ Trying to shape the informal organization not the formal
 - ▶ Formal structure involves discrete choices

WHAT ARE YOU REALLY TRYING TO SHAPE?

- ▶ Work routines
- ▶ Decision making processes
- ▶ Employees' focus and attention
- ▶ Communication patterns
- ▶ Flows of information and knowledge

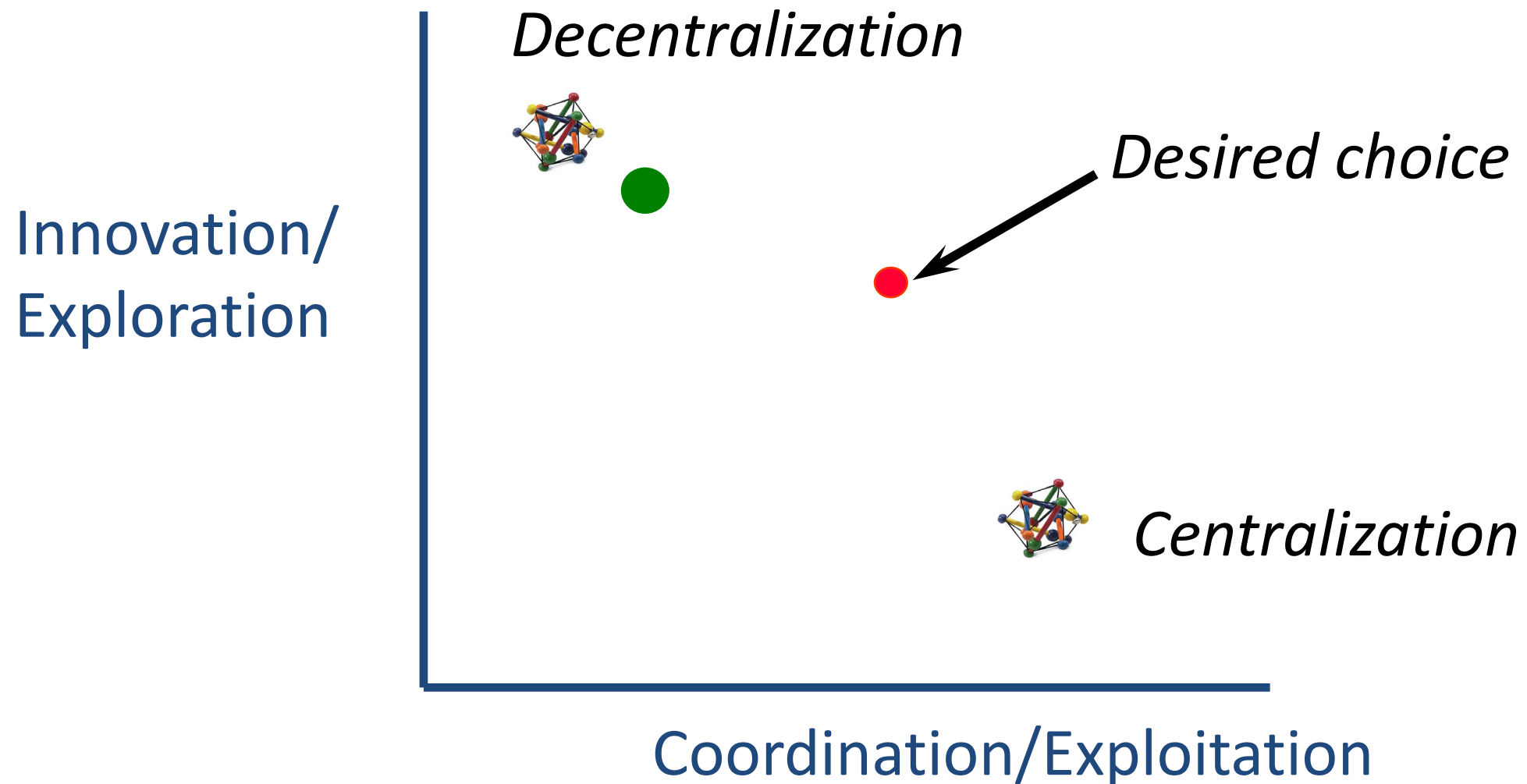


***Informal
Organization***

INFORMAL ORGANIZATION HAS INERTIA



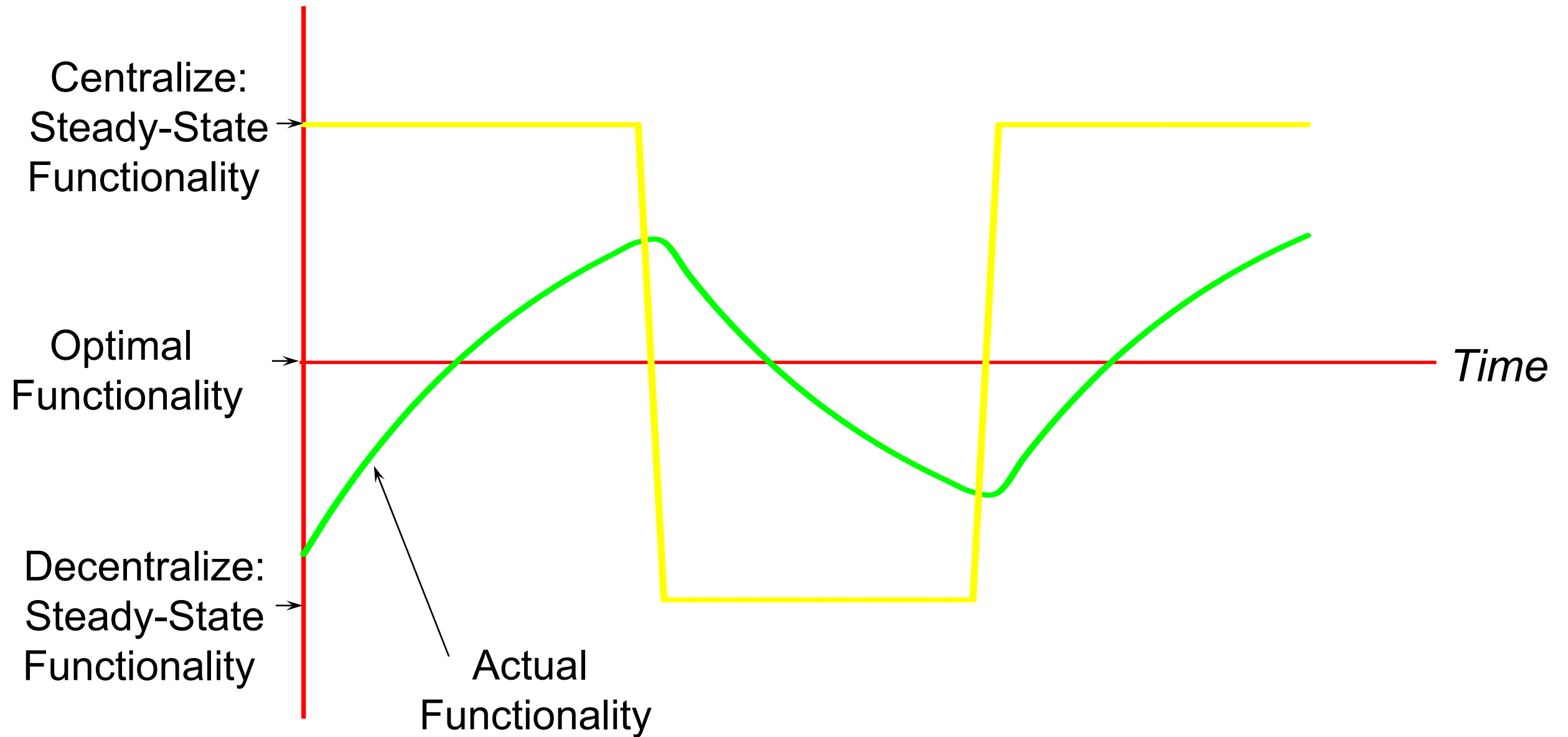
BENEFIT OF ORGANIZATIONAL VACILLATION



ORGANIZATION AS MOVING A LEVER



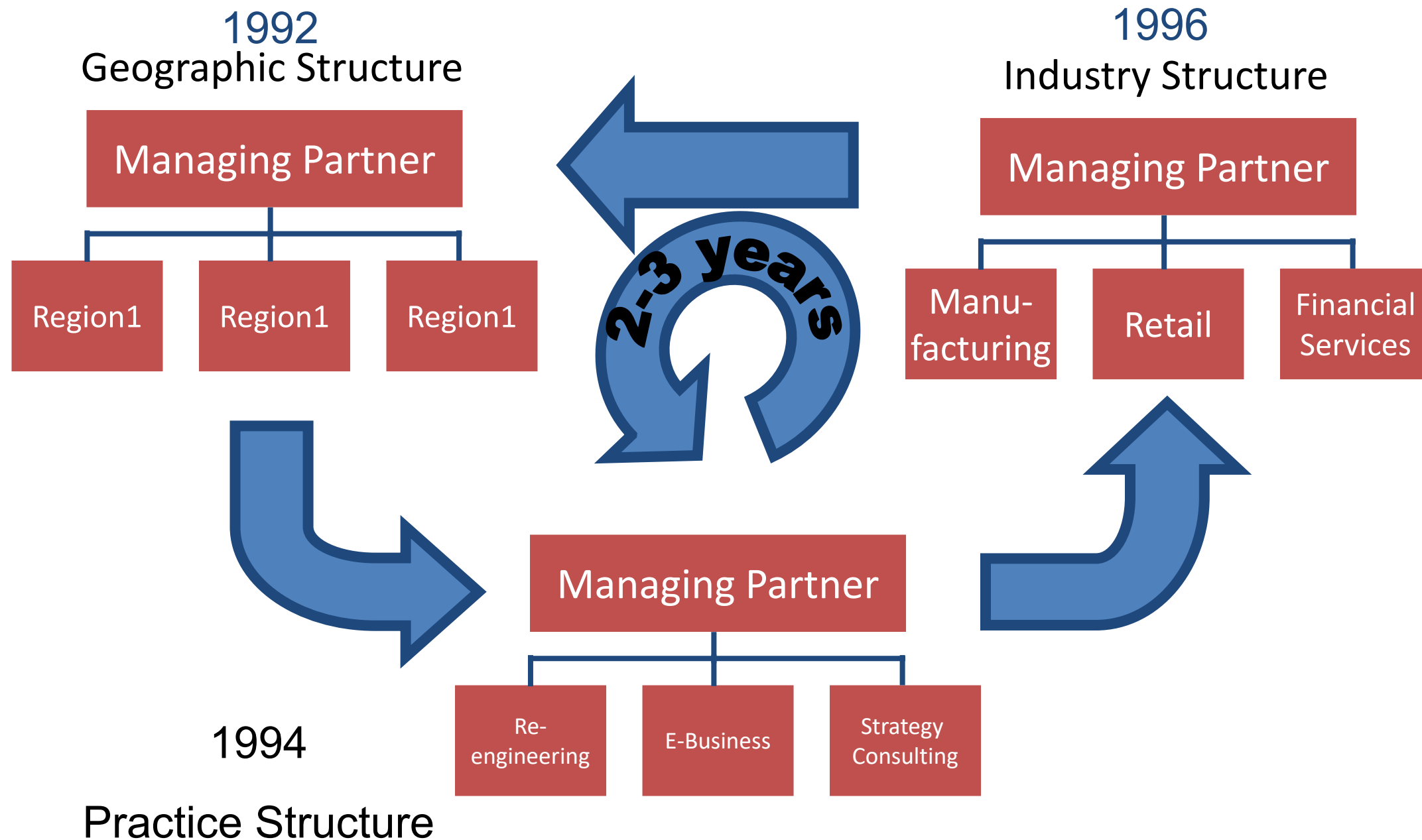
SCHEMATIC ILLUSTRATION



FORD MOTOR

- ▶ Pre-1994: highly autonomous international operations
 - ▶ Latitude to design, market, and manufacture automobiles
 - ▶ Successful local products; high cost position internationally
- ▶ 1994 (Ford 2000): centralize design, manufacturing, and purchasing (key portions)
 - ▶ Dramatically lower costs in production, purchasing, and design
 - ▶ Poor international product designs; declining market share in international markets
- ▶ 2000: Decentralize
- ▶ 2005: Centralize; “Marketing, Sales and Service will be integrated into unified sales and unified marketing functions, combining the present Ford and Lincoln Mercury divisions.”

CYCLING AT KPMG



APPEX' S CEO

“... an organizational structure becomes a tool you’re using to create a balance between conflicting modes of organizational behavior, such as flexibility and consistency. Each structure emphasizes one type of behavior and de-emphasizes another. By continuing to change, you can balance the needs of the organization.”

THE EFFICIENCY OF VACILLATION

- ▶ "An APM partner (CSC Index) said it best, 'If the function is centralized, you can save money by decentralizing; if it's decentralized, you can save money by centralizing.'"

THE STORY OF 3M

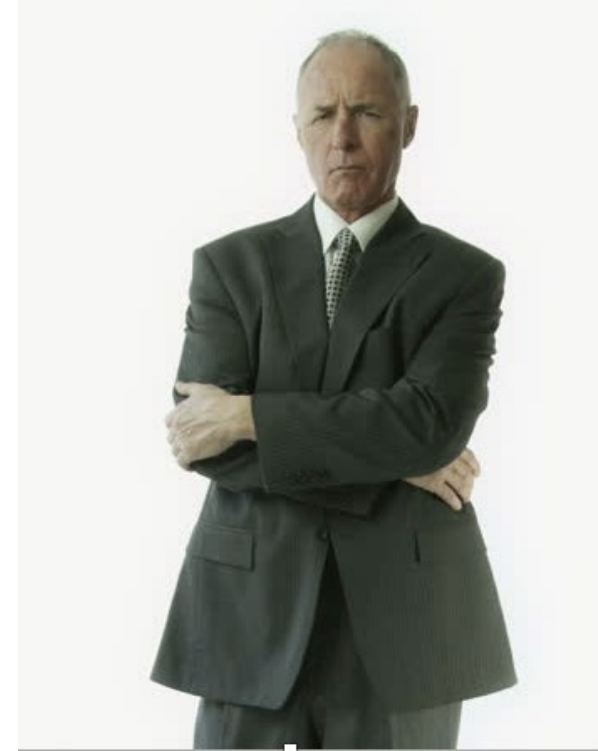
At 3M, A Struggle Between Efficiency And Creativity

How CEO George Buckley is managing the yin and yang of discipline and imagination

Not too many years ago, the temple of management was General Electric (GE). Former CEO Jack Welch was the high priest, and his disciples spread the word to executive suites throughout the land. One of his most highly regarded followers, James McNerney, was quickly snatched up by 3M after falling short in the closely watched race to succeed Welch. 3M's board considered McNerney a huge prize, and the company's stock jumped nearly 20% in the days after Dec. 5, 2000, when his selection as CEO was announced. The mere mention of his name made everyone richer.

McNerney was the first outsider to lead the insular St. Paul (Minn.) company in its 100-year history. He had barely stepped off the plane before he announced he would change the DNA of the place. His playbook was vintage GE. McNerney axed 8,000 workers (about 11% of the workforce), intensified the performance-review process, and tightened the purse strings at a company that had become a profligate spender. He also imported GE's vaunted Six Sigma program—a series of management techniques designed to decrease production defects and increase efficiency. Thousands of staffers became trained as Six Sigma "black belts." The plan appeared to work: McNerney jolted 3M's moribund stock back to life and won accolades for bringing discipline to an organization that had become unwieldy, erratic, and sluggish.

Then, four and a half years after arriving, McNerney abruptly left for a bigger opportunity, the top job at Boeing (BA). Now his successors face a challenging question: whether the relentless emphasis on efficiency had made 3M a less creative company. That's a vitally important issue for a company whose very identity is built on innovation. After all, 3M is the birthplace of masking tape, Thinsulate, and the Post-it note. It is the invention machine whose methods were consecrated in the influential 1994 best-seller *Built to Last* by Jim Collins and Jerry I. Porras. But those old hits have become distant memories. It has been a long time since the debut of 3M's last game-changing technology: the multilayered optical films that coat liquid-crystal display screens. At the company that has always prided itself on drawing at least one-third of sales from products released in the past five years, today that fraction has slipped to only one-quarter.



Yen, Nickerson & Zenger (working paper)

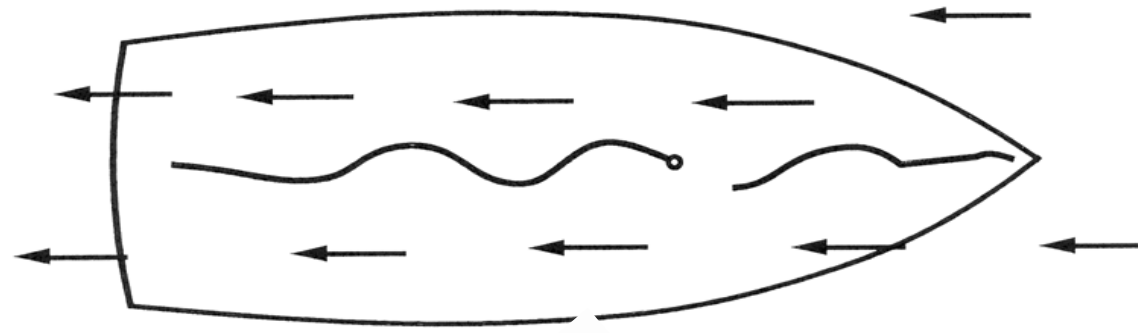
SAILING INTO THE WIND

Carly Fiorina: “When you sail, you don’t get there in a straight line. You adjust your course to fit the times and the current conditions.”

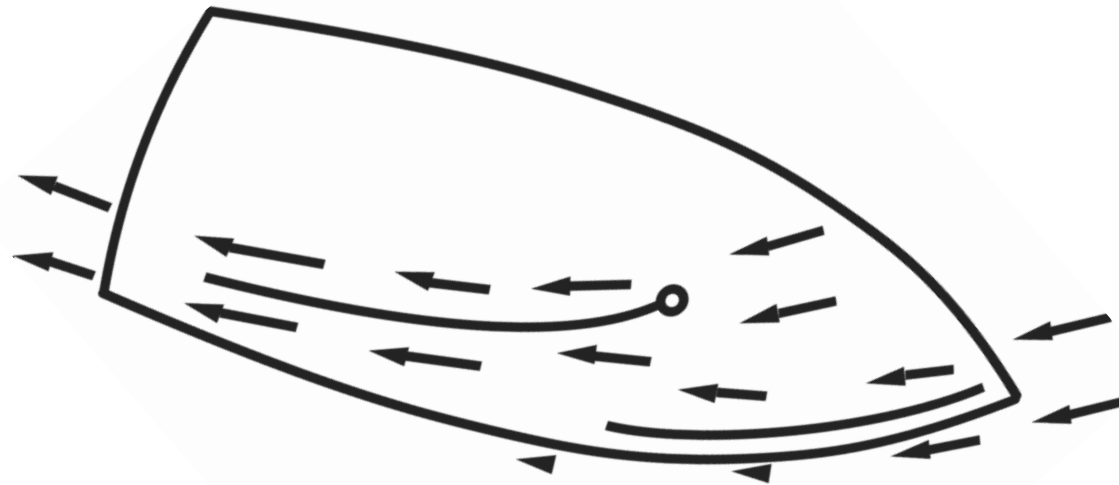


- ▶ Boat speed vs. velocity made good
- ▶ <http://www.nationalgeographic.com/volvooceanrace/interactives/sailing/index.html>

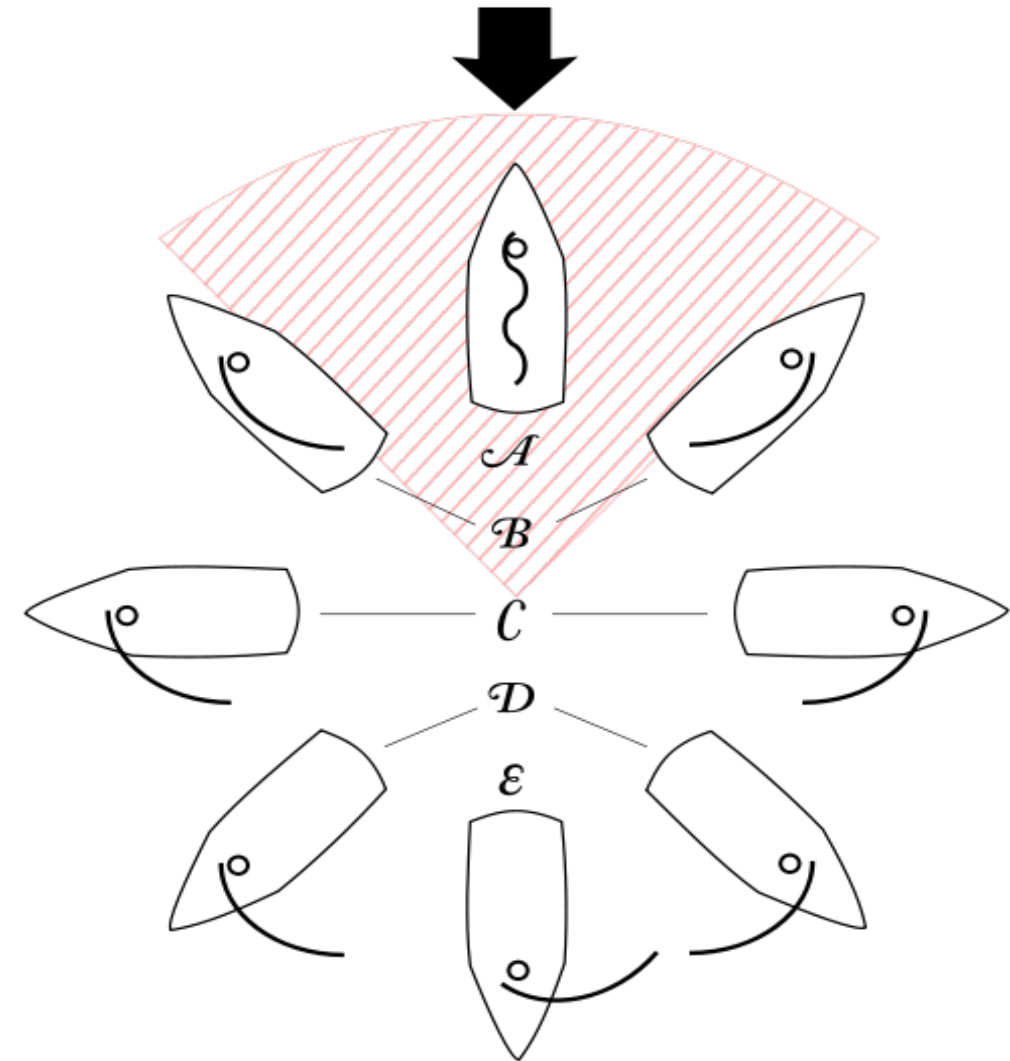
SAILING INTO THE WIND



In irons



Close-hauled



SAILING INTO THE WIND

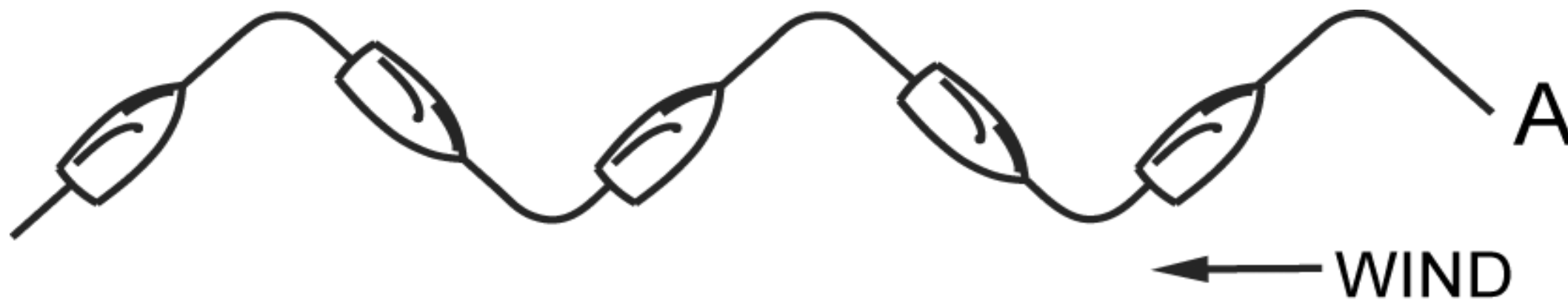
- ▶ Pulling together a bundle of consistent choices that send the organization rapidly in a desired direction

VS.

- ▶ Pulling together a bundle of inconsistent choices that confuse the organization, but could potentially lead the organization slowly in precisely the desired direction.

TRANSLATING THE METAPHOR

- ▶ Objective is not balance, but “velocity made good”—an abundance of both innovation and efficiency.
- ▶ Effective organizations sail close to the wind— 30° off wind rather than 45° .
- ▶ Effective organizations have strong sails and large, sturdy keel (culture).
- ▶ Organizing to optimize “balance” places the organization “in irons”—confused as to which way to go.



VEHICLES OF DYNAMIC DESIGN

- ▶ Structural Change
- ▶ Initiatives and Goal Sequencing
- ▶ Leadership change

LESSONS FOR MANAGERS

- ▶ Objective is NOT balance, but an abundance of both innovation and efficiency.
- ▶ A constant focus on balance will likely diminish performance.
- ▶ Build an organization that generates today's most needful focus
- ▶ Expect change; communicate the need for future change. Any design solution is imperfect and temporary.
- ▶ Today's change will likely create tomorrow's problem.

LESSONS FOR MANAGERS

- ▶ Organization design is a dynamic process.
 - ▶ It involves dynamically managing communication patterns, work routines, etc.
- ▶ Understand levers that can influence the informal organization (centralization/decentralization).
- ▶ The question is not whether to change but when
 - ▶ Pull the lever when the organization overshoots too far.
- ▶ Identify and manage the costs of change.
 - ▶ Educating employees about why the organization should change lowers costs and speeds frequency of change.

HARVARD BUSINESS REVIEW PRESS

BEYOND
COMPETITIVE
ADVANTAGE

HOW TO SOLVE THE PUZZLE OF
SUSTAINING GROWTH WHILE
CREATING VALUE

TODD ZENGER