The Individualized Corporation

Sumantra Ghosal & Christopher A Bartlett

HarperCollins Publishers, 1999, USA

Contents

Part 1

INTRODUCTION:
BIRTH OF A NEW CORPORATE MODEL

The Rediscovery of Management:
From Organization Man to Individualized Corporation

In 1682, the English astronomer Sir Edmund Halley had the good fortune to be at the right place at the right time. His observations on the spectacular comet that now bears his name helped earn him the prestigious title of Astronomer Royal. More important to this professional scientist was the fact that this fortuitous opportunity inspired a flurry of other research activity that led to new and important discoveries about the nature of our universe.

While hardly on the same grand scale as Sir Edmund, we, too, have been fortunate to have had a front-row seat at a once-in-a-lifetime event-the collapse of an outmoded corporate form and the emergence of a new management model that we believe will propel today's companies well into the twenty-first century. At the heart of the emerging model lie not only some very different organizational practices and processes but also a fundamentally different management philosophy. In this book, we will describe this new management model and illustrate how some of the pioneers of this new approach have implemented it in their own companies.

But in order to fully understand where we are going it is important to recognize and acknowledge where we have been. So before we launch into our voyage of discovery, let us take you on a brief trip through the incredibly short history of the modern corporation-a history whose distinct stages are, rather remarkably, punctuated by the last few visits of Halley's comet.

OF COMETS AND CORPORATIONS

When it blazed past our planet in 1835, the comet heralded the birth of a new corporate form emerging simultaneously in Britain, the United States, France, and Germany. The concept of limited liability led to a proliferation of new corporations eager to meet the demands triggered by the production and transportation booms that had followed in the wake of the Industrial Revolution. In contrast to an earlier generation of specialist traders, producers, wholesalers, and merchants, many of these new companies began to develop as vertically integrated organizations that required a higher order of management skills to coordinate their multifunctional operations.

When Halley's comet returned from its next tour of the solar system seventy-six years later, the well-established functional organization was showing early signs of reaching its limits, and a new corporate model was emerging. Responding to the simultaneous demands of increasing scale (triggered by the new massproduction technologies), and increasing scope (encouraged by diversification opportunities for leveraging existing capabilities into new markets), a few pioneering leaders like Alfred Sloan at General Motors and Pierre Du Pont at Du Pont Corporation began experimenting with the revolutionary multidivisional corporate form. This innovation, in turn, gave birth to an entirely new model of 'professional management'-one that has become deeply embedded in practice, spread by consultants, and legitimized in textbooks and business school cases over the past threequarters of a century.

With the era of mass production came the new and powerful philosophy of scientific management espoused by Frederick Winslow Taylor, an engineer and inventor who penned the highly influential *Principles of Scientific Management* (1911), based on his experience at Midvale Steel and Bethlehem Steel. Built on a belief that any task could be rigorously studied through time-andmotion analysis, broken into discrete activities, and executed by trained specialists, Taylorism not only resulted in a redefinition in the jobs of employees on the factory floor but also caused a revolution in the responsibilities of those who supervised them. Management's critical role became one of motivating and controlling workers in their tightly defined job descriptions, then ensuring effective coordination across these highly specialized activities.

At the same time, the diversification opportunities facilitated by the new multidivisional structure also had a powerful impact on management roles. In an environment in which capital had become the critical strategic resource, planning became a central part of modern management practice. With multiple divisional managers bidding for limited financial resources, companies began to develop sophisticated capital budgeting systems and strategic planning processes to guide the investments. To manage these processes and the related control systems that accompanied them, headquarters groups were expanded to ensure the quality of the information and to analyze it. As staffs' influence grew, so, too, did the policies and procedures that became their primary means of influencing operations.

But the new corporate model reflected more than just a new, complex structural framework and a more disciplined management approach. In this environment of control and coordination and of proliferating plans and policies, a new and different relationship started to develop between companies and their employees. Management's increasing preoccupation with the task of allocating capital and measuring its effective utilization led many to think of the company's employees less as valuable human resources and more as replaceable parts in an efficient production process. The difficulty was that unlike other inputs, people came with widely divergent capabilities and dispositions that made their behavior less predictable. As Henry Ford is reported to have said in exasperation: 'When all I want is a good pair of hands, unfortunately I must take them with a person attached!' Most of the complex new structures and systems overlaid with increasingly sophisticated policies and procedures were designed to minimize individual idiosyncrasies and make people 'as predictable and controllable as the capital resources they must manage,' as Harold Geneen put it when he was ITT's legendary control-oriented CEO in the 1970s.

This divisionalized structure with its associated professional management approach spread rapidly, fueled by the postwar boom that created market opportunities that exceeded companies' abilities to fund them and fanned by consulting firms such as McKinsey and Company that exported the model and made it as common in Europe as it had become in the United States. In an era of economic growth and corporate expansion, most studies focused on the powerful new strategy-structure linkage, particularly the way in which the innovative multidivisional organization model facilitated rapid product and geographic diversification. But among the few observers who became interested in the impact the new corporate model was having internally on human behavior, nobody was more insightful or more influential than sociologist William Whyte, whose book *The Organization Man* became a major best-seller. What Whyte powerfully articulated was the way in which modern corporations had subjugated individual initiative and creativity to the perceived greater need for consistency and control.

The Passing of "Organization Man"

In 1986, Halley's comet once again passed by the third planet from the sun, leaving nothing but a vanishing trail of ice in its wake. By this time, once great companies-including such pioneers of the previous corporate revolution as General Motors and Du Pont-were leaving their own trail of abandoned structures, discarded controls, and downsized activities as they attempted to break out of the strategic inertia and organizational lethargy that had begun to envelop them.

Yet through all the adjustments, redesigns, and change programs, the deeply embedded assumptions that had created and supported the notion of the 'Organization Man' remained largely unchallenged. Like most well-established and strongly held beliefs, this management paradigm became highly resistant to change, not least because to do so would question the established role and authority of the managers themselves. Just as the clergy ridiculed and then punished Copernicus and later Galileo for proposing a blasphemous heliocentric theory that challenged the supremacy of the earth's position, so, too, did managers resist and reject new management ideas that questioned their authority and control by building a new corporate model on a more liberating set of assumptions about human capability and individual motivation.

By the mid- 1980s, however, a few pioneering managers began to question many of the fundamental management practices and corporate beliefs on which they had been raised and through which they had made their careers. One such visionary was Jack Welch, who became a role model for hundreds and perhaps thousands of CE0s worldwide as he gradually dismantled much of the classic corporate model that his predecessors had built at General Electric.

Reflecting on his own learning, Welch evolved from a traditional hard-edged authoritarian who had earned his nickname of 'Neutron Jack' to a more people-sensitive manager who understood the importance of treating his employees as sources of initiative, energy, and creativity rather than just as controllable costs. Said Welch:

The talents of our people are greatly underestimated and their skills are underutilized. Our biggest task is to fundamentally redefine our relationship with our employees. The objective is to build a place where people have the freedom to be creative, where they feel a real sense of accomplishment-a place that brings out the best in everybody.

On the other side of the Atlantic, another visionary leader was equally concerned about the poor job that his company was doing in capturing the energy, imagination, and commitment of its employees. Percy Barnevik, CEO of Asea Brown Boveri (ABB), felt that managers spent too much time trying to squeeze the last percentage point of productivity out of their capital assets while ignoring the huge untapped potential of their human resources:

There is tremendous unused potential in our people. Our organizations ensure they only use 5 to 10 percent of their abilities at work. Outside of work they engage the other 90 to 95 percent to run their households, lead a Boy Scout troop, or build a summer home. We have to learn how to recognize and employ that untapped ability that each individual brings to work every day.

Outstanding leaders like Welch and Barnevik are today's Alfred Sloan and Pierre Du Pont. In a dynamic global environment in which competition was increasingly service-based and knowledge-intensive, they recognized that human creativity and individual initiative were far more important as sources of competitive advantage than homogeneity and conformity. Rather than forcing employees into a corporate mold defined by policies, systems, and constraints, they appeared to see the core task in almost the exact opposite terms. Their challenge was not to force employees to fit the corporate model of the 'Organization Man' but to build an organization flexible enough to exploit the idiosyncratic knowledge and unique skills of each individual employee. it is a model we termed the 'Individualized Corporation.'

THIRD-GENERATION STRATEGIES, SECOND-GENERATION ORGANIZATIONS, FIRST-GENERATION MANAGERS

Like Welch and Barnevik, many of today's top corporate executives have come to recognize that they are leading their companies through a unique period of history. The last visit of Halley's comet coincided with the convergence of several important environmental forces that were forcing most companies not merely to adjust or adapt as they had in the past but to confront the need for major transformational change. Among the most powerful of these external forces were the exploding opportunities opened up by the globalizing economy, the technological demands of shortening product life cycles and shifting technology platforms, the competitive imperatives created by converging industry boundaries and expanding alliance partnerships, the structural realignment dictated by large-scale deregulation and shifts in the location of strategic assets, and the internal learning capabilities required to succeed in a knowledge-intensive environment in the fast-emerging information age.

The more managers understood about these new demands, the more they realized that their historic focus on adjusting the strategy-structure linkage was only part of a much more profound metamorphic change their companies had to make. Indeed, as companies adopted the new, multitiered, divisionalized structures and sophisticated capital-allocating processes we described, most were stumbling on a similar constraint: Their managers were simply unable to adapt to the demands being placed on them by the new organization. Not only were the new roles and relationships more complex and less clear, but the existing employees' skills and experiences were often unequal to the needs of the new jobs. One manager captured the situation accurately when he suggested that his company 'was trying to implement third-generation strategies through second-generation organizations run by first-generation managers.´

Beyond Corporate Tune-Ups

The fast-changing demands of an ever more complex operating environment-the forces driving the need for third-generation strategies-created an urgent requirement for new organizational paradigms and innovative management models. It was a fertile breeding ground for the new ideas of academics and consultants alike, and managers soon found themselves trying to identify a laser-focused strategic intent while simultaneously developing a broad corporate vision; they labored to structure tight network linkages within structures they had framed as loosely coupled virtual organizations; and they attempted to reengineer complex work processes while also empowering their frontline managers.

By the mid-1990s, the managers of most large companies felt that their tool kits were overflowing and their apprenticeships had been served. Yet most remained confused about what it was they were creating. Worse still, the outcomes were disappointing: Many of the change initiatives had proven unsuccessful, and even where they had seemed to pay off, they had not bridged the widening gap between their companies' strategic imperatives and their organizational and managerial capabilities. The generational gaps persisted.

The extent of the problem was documented in a 1994 study conducted jointly by The Planning Forum and the consulting firm Bain and Company. They found that over the previous five-year period, the average company had committed itself to 11.8 of the 25 popular tools and concepts listed on the questionnaire-from corporate visioning and empowerment to reengineering and activity-based costing. And this search for solutions seemed to be accelerating. Having employed more than two new tools or techniques annually for the previous five years, the typical company was planning to adopt another 3.7 in the coming twelve months. Yet despite this frenzy of activity, the overall satisfaction level with most of the tools was quite low, and the authors could find no correlation between the number of tools a company employed and its satisfaction with its performance.

The problem with most of these tools and techniques is not that they are ineffective, for indeed most are quite valuable. The reason for their limited success is that they are inadequate for the huge transformational task at hand. As the Bain survey indicated, most companies are adopting them as a series of random programmatic initiatives when what is needed is a more fundamental systemic change. As Welch, Barnevik, and other pioneers have recognized, a company cannot maintain its momentum and effectiveness just by implementing a series of tune-ups on a corporate engine that needs replacing.

Between 1990 and 1996 we spent thousands of hours interviewing hundreds of managers in twenty companies that we felt could help us gain a deeper insight into the nature of the new corporate engine and how it could be built and installed. While recognizing the power of studying the missteps and stumbles of former corporate icons, we chose to focus most of our attention on companies that were defining the emerging corporate form. Not that we were trying to find some idealized model that we could set up as an objective for others to follow. Rather, we sought to gain insight into a variety of successful new forms and transformational processes so we could stand back and provide useful generalizations.

Some of the companies, like GE and ABB, were in the midst of an often painful transformational process; others such as Intel and IKEA were born in the new era and had developed many of the new characteristics from scratch; and a third group including 3M and Kao Corporation seemed to have avoided the most debilitating features of the traditional management approach by evolving to a different corporate model over many decades. In each case, however, they focused us on interesting questions that helped us piece together a better understanding of what was emerging: a radically different corporate form, supported by a revolutionary management philosophy. For example,

- How was ABB able to integrate a disparate collection of second- and third-tier companies into a highly competitive organization that is now the clear industry leader in the global power equipment business?
- How has intel not only survived the competitive bloodbath that wiped out most of its competitors but gone on to dominate the semiconductor industry through its ability to constantly obsolete its own leading products?
- How did the Kao Corporation leverage the knowledge of its mature soap and detergent business into a diversified portfolio of successful businesses, from paper products to floppy disks, and, in the process, build a reputation as one of Japan's most innovative companies?

Pursuing the answers to these and dozens of similar questions was an exhilarating yet humbling experience. Much of what we learned in the field challenged the basic assumptions and core beliefs that we and our colleagues had been teaching for decades. More important, what we observed ran counter to the mainstream organizational philosophies and management practices that guided the operations of the vast majority of companies worldwide. As a small but growing band of pioneering companies and innovative managers were joined by a swelling contingent of others, there was a clear need for charts, no matter how crude, to help the voyagers navigate their crossing from a corporate model dependent on its ability to shape and control the 'Organization Man' to one committed to the notion of becoming an 'Individualized Corporation.'

A Blueprint for Change

At all levels of the organization, managers are overwhelmed and confused. They certainly don't need another rallying cry to transform their organizations; they need to know 'Into what?' Neither do they need more slogans about reinvesting management; they want to know how. It was this frustration we sensed in companies throughout the world that provided the focus and impetus for our ambitious six-year project.

If our motivation for undertaking the research was to obtain a firsthand understanding of the transformation process currently sweeping through companies worldwide, then our goal in writing this book is to provide practicing managers with an overview of the new corporate model that is emerging. We believe that only after answering questions relating to the why and what of the ongoing corporate revolution can a manager really understand the how. Therefore, rather than focus on the artifacts of the problems, we want to help managers understand their root causes. And instead of adding to the proliferation of prescriptive tools and normative techniques, we have developed a set of integrated ideas and a conceptual framework that we believe provides them with a mental map of the new corporate terrain.

Within this broader objective, we will also describe how the managers of some of the companies we studied have applied these concepts and implemented the change from a traditional corporate paradigm to the emerging model we characterize as the Individualized Corporation. While not offering either a universal solution or a quick-fix prescription, we believe we can provide managers with a perspective that will allow them to make sense of the revolution in which they find themselves, as well as suggest some ideas to help them manage successfully through it.

In this introductory section, we present the concept of the Individualized Corporation. Having framed the historical context and described the research motivation in this chapter, we will use the next to provide a particular example of how the transformational changes at one company affected the activities, motivation, and eventually the performance of one manager who had spent his whole career as a classic Organization Man.

In part 2 of the book, we describe the organizational characteristics required to develop three core capabilities that distinguish the individualized Corporation. The first is its ability to inspire individual creativity and initiative in all its people, built on a fundamental faith in individuals. In chapter 3, we will illustrate how companies like 3M, one of the most admired corporations in the United States, and ISS, the Copenhagen-based global leader in the office-cleaning business, have developed this ability, and will draw some general lessons from their organizational and management practices to suggest how others may learn from them. The second core characteristic of the Individualized Corporation is its ability to link and leverage pockets of entrepreneurial activity and individual expertise by building an integrated process of organizational learning. In chapter 4, we will describe this process, drawing on our observations at McKinsey and Company, the world's premier strategy consulting firm, and Skandia, the Scandinavian insurance company, to illustrate how managers can build an organizational learning capability in their own companies. Chapter 5 will focus on the third core feature of the new corporate model, its ability to continuously renew itself, and the Kao Corporation, one of the most creative companies in Japan, and Intel, the global leader in the semiconductor business, will serve as examples of companies that have been able to develop such a capability.

Part 3 of the book explores the managerial implications of these new organizational characteristics and focuses on how companies can go about building and managing the Individualized Corporation. Using the transformation of the semiconductor business by Philips, the European electronics giant, as an illustration, we will argue in chapter 6 that at the heart of the new corporate model is a carefully constructed organizational context that frames and supports a very different set of human motivations and behaviors. Then, in chapter 7, we will propose a concept of the new organization not as a hierarchy of tasks but as a portfolio of processes, and use Asea Brown Boveri (ABB), perhaps the most admired company in Europe in the mid- 1990s, as a classic example of a company built this way. This different conceptualization of the organization has radical implications for the roles of frontline, senior, and top-level managers of a company, and for the relationships that are needed among them to tie these new roles together into a high-performing management system. In chapter 8 we will examine the ways in which these redefined roles influence the personal competencies required of those who will manage such organizations, and how companies like ISS, 3M, and McKinsey have helped their managers develop them. Part 3 concludes with a chapter describing a transformation process in terms rather different from the restructuring and reengineering approaches that have dominated recent thinking. Tracking the changes at General Electric in chapter 9, we will outline a three-phased process of corporate renewal, showing how changes in the strategic and structural 'hardware' need to be matched with changes in the contextual and behavioral 'software' within each of the phases in order to build the management capabilities of the individualized Corporation.

Finally, in part 4 of the book, we step back from the details of defining the characteristics of the Individualized Corporation and describing how to build and manage it, to examine the more profound issue of a new managerial philosophy that underlies this new corporate model. Rather than accepting the economists' assumption of the company merely as an economic entity and of its goal as appropriating the greatest possible value from all its constituencies, we take a broader and more positive view. The philosophy we propose is grounded in the belief that the company, as one of the most important institutions of modern society, must serve as its key engine of progress by creating new value for all its constituencies. This new philosophy creates a very different moral contract among employees, companies, and society and, in chapter 10, we will describe how the Unipart Group of Companies in the U.K. have fundamentally changed their relationships with customers, suppliers, employees, and their local communities by implementing such a contractual change. Then, in chapter I 1, we will describe and illustrate, using the case of IKEA, the Swedish furniture company, how this new contract is fundamentally redefining the role of corporate top management, away from its classic focus on strategy, structure, and systems that led to the creation of the Organization Man, to one built around purpose, process, and people that embodies the managerial philosophy of the Individualized Corporation.

Halley's comet will return to our corner of the solar system in the year 2062. When it does, we believe our successors will look back at the Individualized Corporation as the revolutionary new model that brought business organizations into the postindustrial, information-intensive age of knowledge. Like Halley himself, we hope our findings will prove interesting and useful and will stimulate further research and thinking about the revolutionary corporate form now emerging. As for the future, we can only speculate what the new management model may give rise to as the great comet and the course of business management both continue on their ineluctable and seemingly intertwined paths.

Rebirth of an Organization Man: One Manager's Rediscovery of Management

Among the hundreds of site visits we made in the course of our research, one had more influence on our thinking than all others. it was this visit that first planted in our minds the seed that later grew into the concept of the Individualized Corporation. It was a visit to Coral Springs in the United States to study ABB's U.S. relays business located there and to meet with Don Jans, the general manager of the unit.

We went to Coral Springs to study firsthand a rather remarkable turnaround story. Historically a part of Westinghouse's Transmission and Distribution business, the unit had a record of modest profitability and almost no growth. But after it had been acquired by ABB in 1989, its revenues had grown by more than 45 percent in four years, while its profitability had improved by 120 percent. On-time shipments had improved from 70 to 99 percent, cycle time had been cut by 70 percent, and inventories had been slashed by 40 percent. Overall, a mature operation in a mature business had developed, almost overnight, the performance profile of a young growth company.

This might have been just another impressive but otherwise unremarkable turnaround-except for one thing. The transformation was accomplished by the same management team that had previously delivered the flat sales and break-even profitability. We had often heard from managers that talk about corporate renewal was fine, but what was needed was an overhaul of personnel: "You can't teach old dogs new tricks,' they said. Don Jans was about as old a "dog' as you could get: He had spent thirtytwo years in Westinghouse, the last three as the general manager of the relays business. Yet it was he who had driven the radical performance improvement of that same unit. Not only he but Joe Baker, his geographic boss in ABB's matrix organization, was also a Westinghouse veteran of thirty-nine years. How could the same people, managing the same business, achieve such radically different results with a change of corporate ownership?

Baker provided the answer:

In Westinghouse, we recruited first-class people, did an outstanding job of management development, and then wasted afl that investment by constraining them with a highly authoritarian structure. In ABB, we spent much of our first year thrashing out how we would work together. ABB's senior management spent a huge amount of their time in day-to-day intensive communication, taking the message to the frontline managers that they were responsible, that they needed to initiate, to question, and to challenge. In the end, it was this culture of delegated responsibility and intensive communication that made this organization work. It was an amazing changes felt like I'd rediscovered management after thirtynine years.

What Baker and Jans had discovered was the magic of the Individualized Corporation, built on the bedrock of individual initiative at all levels of the company. And, while ABB may be exceptional, it is by no means unique. In our study, we found Theo Buitendijk in ISS also 'rediscovering management" as he moved from Exxon to ISS, the Copenhagen-based global cleaning services company. In 3M, we found the same spirit of individual initiative driving Andy Wong as he and his team developed a new computer privacy screen, creating yet another new business in this $14 billion industrial behemoth that continued to act like a high-tech start-up.

But Jans's story is the most compelling of all because it is the story of the rebirth of an Organization Man running the same business in the same organization. The message is, it is not always those on the front lines who lack initiative, creativity, and drive: It is more often management that holds them hostage in their corporate hierarchies. For all those managers who disown responsibility under the comfortable belief that 'you can't teach old dogs new tricks,' the metamorphosis of Jans and his team will raise unsettling doubts. That is why we begin our description of the Individualized Corporation by recounting the tale of one man's rediscovery of management.

PROFILE OF A CAREER MANAGER

Don Jans signed on with Westinghouse as a junior engineer in 1956, taking on an entry-level position in the Buffalo Motor division. Working his way up through a series of engineering, sales, and manufacturing positions, Jans was prepared for the first of three general management positions he would assume during the 1980s. But this was a difficult period in Westinghouse's history, and for more than a decade Jans had watched the company undergo a tumultuous series of changes, during which the executive suite seemed to have a revolving door.

In 1975, when Robert Kirby took the helm as CEO, Westinghouse had just suffered a $1 billion loss. To support its nuclear power business, the company had bet on the uranium futures market and lost. While it had signed long-term contracts with its utility customers to supply uranium at $9 per pound, the market price had soared to $40 per pound.

Kirby traced Westinghouse's problems to two root causes: overdiversification that had spread the company's strategic and managerial resources too thinly, and overdecentralization that had insulated top management from the true direction and performance of the businesses. To overcome the first problem, Kirby divested fifteen major businesses and withdrew from many of the company's activities outside the United States. To deal with the second concern, he implemented a comprehensive strategic-planning system at the corporate level to manage the company's portfolio of businesses in a more coordinated manner. On top of this, he institutionalized a system known as Vabastram (Value Based Strategic Management) developed by the corporate planning department to guide the company into growth businesses while restoring managerial and financial discipline in the operating divisions. The complicated planning model required business unit managers to measure their performance on an equity value, which corporate staff calculated for each of their businesses based on the cash flows projected from a range of alternative strategies. The system was designed to decide which businesses were to be retained in the Westinghouse portfolio, and to select among alternative strategies by implementing those that generated the highest value.

For several years, Kirby's strategy of restructuring operations and recentralizing control yielded good results as inefficient plants were closed, marginal businesses sold, and management attention was focused on cost control. Furthermore, Vabastram was a highly disciplined resource allocation tool that made no concessions to the company's traditional businesses, and like many employees, Jans was saddened as he saw the sale of old core businesses like the lighting, appliance, and motors business, where his own Westinghouse career had begun.

In this tumultuous organizational context Jans was offered his first general management job heading the company's underground distribution transformer business. Driven by the relentless demands of the new systems, he pushed hard on costs but found that after years of cutting, most of the juice had been squeezed from the division. If he was to meet his numbers, the only alternative was to boost prices. So in 1981, in the midst of the recession, he increased prices five times in a single year.

Seen as a manager who could respond to the need to cut and trim, Jans was then asked to head up a transformer components division newly created from the rationalized operations of five plants and personnel in eight locations. Once again he attacked the cost and revenue targets the company's new systems-driven management process demanded. After two years of battling to bring costs down by 15 percent, Jans found that the division's activities were pulled apart again in a fresh round of rationalization. Like many others, he found that his position had been eliminated.

By 1983, as Kirby handed over the reins to Douglas Danforth, the cost of starving the core businesses was beginning to take its toll. In the midst of a global recession, the financial performance of the business had slumped back almost to where it was when he had begun. Danforth attacked the challenge with energy and a new, more expansionist approach that initially provided some hope for frontline managers like Jans in Westinghouse's traditional businesses. Describing the company's situation as a 'business gridlock' and ascribing many of its problems to overcontrol, Danforth began a new phase of decentralization. He eliminated a number of layers of corporate staff and greatly simplified the headquarters' review requirements for business units' strategic and financial plans.

Yet in an environment in which adversarial and competitive relationships had developed between line managers and the powerful corporate staff, the decentralization only increased the feeling of paralysis. In the Kirby era, at least the centralized bureaucracy had both the information and the power to take action. Now, with the decentralized organization trying to keep the headquarters in the dark about any bad news-and yet operating without the resources or the management norms to initiate strong initiatives-no one had the ability to do anything. As described by one Westinghouse veteran, Danforth's decentralization only succeeded in diluting the hard edge of performance accountability and increasing the rewards for political gamesmanship.

Having had his line job eliminated, Jans worked at corporate headquarters as assistant to the president of the Industries and International Group through most of this period. He reflected on the culture that had developed in the company and particularly among headquarters executives:

Vabastram was basically a Wall Street play, but its main internal effect was to force managers to take a very short-term view in order to maximize their impact on stock value on a quarterly basis. For example, our international strategy focused more on export and licensing than foreign investment. As an operating manager, I became particularly troubled when we stopped being concerned about capitalizing on our strong competitive positions or defending our leading market shares. If the operating performance was down, Vabastram committees would meet and we would sell off assets to keep performance pumped up.

During the Danforth era, Westinghouse divested a whole slew of businesses and acquired fifty-five others in a five-year period. More than ever, managers recognized that the management philosophy was, as *Forbes* characterized it, 'If a business performs, keep it. If not, dump it.' And, as they all understood, 'performance" meant earning more than your attributed cost of capital quarter by quarter.

In 1986, at the end of Danforth's tenure as CEO, Don Jans was offered an opportunity to return to a general management job heading the company's relays business based in Coral Springs, Florida. Anxious to return to line operations, he grabbed the chance. He certainly felt he was well prepared-his earlier experience running frontline businesses had proven him to be a strong operating manager, and his three-month stint at Harvard's Advanced Management Program had stimulated him to come up with lots of new ideas. It was a great opportunity for him to use his experience, exercise his initiative, and implement the many new ideas he had developed.

To Jans's frustration, however, he quickly discovered that he couldn't. Vabastram was still king, and the relays operation was part of the 'mature' utilities business that was still in a downturn and therefore not driving Westinghouse's stock price up. In this environment, Jans soon found he had to radically revise his ideas for building the business. He described the environment in Westinghouse at the time:

The company's leadership was increasingly drawn from managers with no experience in the core utilities businesses. They didn't understand those businesses and mostly they didn't like them because they had dominated investments for decades. As a result, they kept setting targets for us that we couldn't meet, so it became hard to earn a bonus and next to impossible to get capital.

It soon became clear to Jans that he was there to manage an endgame. Despite the appearance of new competitors offering solid-state microprocessor-based relays similar to those already in widespread use in other markets worldwide, Westinghouse held off investing in the development of new products, choosing instead to continue manufacturing its traditional electromechanical line. Even if the business wasn't sold off for performance reasons, it became increasingly clear that it would eventually die a natural death from technological obsolescence. In effect, Jans and his team were serving as the crew of the *Titanic.* The difference, of course, was that everyone at Westinghouse had a clear sense of the impending doom.

NEW LIFE FOR AN OLD BUSINESS

In 1989, the hour of reckoning appeared to have arrived. At that time, Asea Brown Boveri (ABB), the Swedish power equipment company, made an offer to acquire 45 percent of Westinghouse's transmission and distribution division, of which the relays business was a part. When the news of the deal made its way through the company grapevine, Jans and his team members began to update their r6sum6s. Knowing that ABB already had its own more modern relays operation in the United States, they assumed that the old-time Westinghouse managers would be swept aside in the takeover. But, to their surprise, ABB invited most of the key people to stay on, even after purchasing the remaining 55 percent of the business the following year. Recalled Jans:

The prevailing view when ABB acquired us was that we'd lost the war. We were resigned to the fact that the "occupying troops" would move in and we'd move out. But, they not only asked us to stay on, they gave us the opportunity to run the whole relays business-even the Allentown operation that was ABB's own facility in the United States.

Staying on, however, required Jans and his colleagues to manage in an environment like none they had ever seen at Westinghouse. More than simply making a transition from one employer to another, they felt they'd begun completely new careers, demanding fundamental changes in their business assumptions, organizational practices, and management styles. The context was completely different: At Westinghouse, Jans had five layers of management between himself and the CEO; at ABB, there were only two. At Westinghouse, he had been constantly frustrated by the bureaucracy imposed by a 3,000-person headquarters; at ABB, he had to adjust to the need for self-sufficiency in an organization with just 150,people in the corporate office. At Westinghouse, decisions had been top-down and shaped by political negotiations, whereas at ABB Jans found that those on the front line were expected to initiate much more, and that issues were decided on the basis of data and analysis.

The result, as Jans put it, was that management became an .exquisite challenge-a privilege.' The whole focus of management's activities changed too, concentrating on ways to create opportunities and introduce innovations rather than finding ways to circumvent internal barriers or manipulate data to survive another review. To Jans and his team, the ABB acquisition of Westinghouse's relays business represented more than just a bridge to security; it became a pathway to fulfilling careers in an entirely new style of organization. And in that new corporate model the 'organization man' in each of them was forced to become a persona of the past.

REDISCOVERING MANAGEMENT

At the simplest and most obvious level, one of the major shifts for Don Jans and his colleagues was the opportunity to work in a company that did not view power transmission and distribution as a mature or aging business. Looking beyond the difficulties the business faced at that time, Percy Barnevik, the CEO of ABB, was convinced that the decade-long sag in demand for power equipment would reverse itself as existing power plants in the industrial world became obsolete and as a large group of industrializing countries focused on building the infrastructure for their own entry into the twenty-first century. And he was ready to back up his convictions with substantial resources as well as his personal time and energy.

Barnevik knew, however, that he would have to do more than invest cash and enthusiasm for the new enterprise to succeed. To achieve his ambition of 'conquering the globe' in the power industry, he would have to build a unique organization that could resolve some fundamental paradoxes. On the one hand, the new technologies and economies of scale necessary to meet the expected demand could be developed only by companies operating on a global scale, able to fully exploit the advantages of bigness. On the other hand, because of the high level of government ownership and control over utilities, companies with a strong national presence and with the flexibility and agility of a small business would garner most of the new orders. The real requirement of success, then, was not just resources or strategic brilliance at the top of the company but a broad-based organizational capability embedded deep into the corporate ranks. As he described in his vision for ABB:

We have to be global and local, big and small, radically decentralized with central reporting and control. Once we resolve these dilemmas, we will achieve real organizational advantage.

Resolving these dilemmas required not only a new structureABB's highly publicized global matrix-but also a new organizational philosophy that would minimize internal competition, break down geographical, functional, and cultural barriers, and enable people to think and act entrepreneurially within the boundaries of the company. For that, the small, local, and radically decentralized elements had to become the new organization's foundation, its core; and the big, global, and central reporting and control characteristics had to be the overlays. As Barnevik constantly reminded his management team, it was an organization designed to encourage individual initiative and ensure personal responsibility:

The only way to manage a large, complex company like ABB is to make it as simple and local as possible. The press may describe us as a $30 billion diversified global company, but we see ourselves as a portfolio of 1,200 companies, each with an average of two hundred employees. This is where the real work gets done, and these people need well-defined responsibilities, clear accountability, and maximum degrees of freedom to execute.

What this philosophy meant for Jans was nothing short of a total revolution of his own role within the company. From being an effective operational implementer working hard to be an effective part of a massive corporate machine, he was now cast in the role of an entrepreneurial initiator with full responsibility and accountability for the development of his own frontline company. As president of ABB Relays Inc., a separate legal entity created by ABB, he assumed full responsibility not only for his profit-and-loss statement but also for his balance sheet. This meant he had to focus on managing cash flow, paying dividends to the parent company, and making wise investments with his retained earnings, typically about 30 percent to 40 percent of total earnings. It also meant that he could borrow locally and that he inherited results from year to year through changes in equity. In short, he began seeing his job not simply as implementing the latest corporate program but as building a viable, enduring business.

Supporting and guiding him in these decisions, he had access to a seven-person steering committee that met three or four times a year and acted as a small local board for his frontline company. With membership drawn from ABB's global relays division (or worldwide business area in company terminology), the U.S. power transmission and distribution headquarters, and colleagues running related frontline companies within ABB, this steering committee became Jans's sounding board for new ideas (how to reorganize his unit, for example) and decision forum on key issues (such as approval for strategic plans and operating budgets).

In this new and challenging management framework, Jans was stretched beyond a preoccupation with his own operating unit. He was also invited to serve on the steering committees of the Canadian and Puerto Rican relays companies and ABB's closely related network controls company. As the head of one of the largest and most strategically important frontline relays companies, he had a seat on the worldwide relays business area board where global strategies and core policies were hashed out for the global businesses operations.

The radical decentralization of resources and responsibilities also penetrated deep into the formal structure. Like most company presidents, Jans quickly restructured his company into five profit centers, pushing responsibility and accountability down deeper into the organization. All of a sudden, managers who historically had thought of themselves primarily as engineers began to focus on market needs and became concerned about financial performance.

The philosophy of moving people and ideas beyond their traditional boundaries also touched staff groups, with many local specialists finding themselves on global functional councils through which they were expected to contribute their expertise to improving the company's worldwide performance. Councils on total quality, purchasing, human resource management, and other key staff responsibilities provided the linkage point that allowed functional experts in various companies worldwide to compare performance and transfer best practices on a routine basis.

Eventually, this culture of engaging people and stretching them to encourage individual initiative and a sharing of ideas penetrated to the front lines of the smallest operating unit. For example, as the relays business area board began working on a global strategy, it immediately reached down the management ranks of the local relays companies to identify nine high-potential technical administrative and marketing managers from Brazil, Germany, the United States, Finland, and Switzerland to develop a first-draft proposal. It was the ideas and proposals of this group that became the basis on which the $400 million relays business was built over the next five years.

While this structure of decentralized responsibility was a key element of what Don Jans and his fellow Westinghouse expatriates described as their “rediscovery of management”, there was something else that was far less tangible-yet far more powerful-in the new context, something that helped them shed their roles as Organization Men and use their abilities in ways they could only have dreamt about at Westinghouse. it was a management model personified by the new leaders that redefined the very way they thought about their jobs.

WALKING THE TALK

From the very first meeting with ABB managers, Jans and his colleagues were swept away by the difference in management style. Nothing in their experience had prepared them for the kind of environment they found themselves in. Within weeks after the acquisition of the Westinghouse relays operation, Percy Barnevik and the then executive vice-president responsible for ABB's power transmission sector, Goran Lindahl, flew to the United States to express their confidence in the U.S.-based managers. The two senior ABB executives also sent a strong message that the acquisition would not follow the traditional takeover model in which the parent immediately establishes restrictive strategic and operating boundaries around the acquisition.

Moreover, Jans was amazed by the fact that Barnevik and Lindahl approached them as colleagues rather than as superiors. 'These people weren't marketers, lawyers, or accountants,' he recalled. 'They were engineers who really understood the key business issues of the relays technology and marketplace. Unlike our old Westinghouse bosses, Barnevik and Lindahl also believed that the power transmission industry was about to enter an era of growth and were willing to invest in that future. What they wanted to know was: 'How can we help you be a real contributor to this effort?'

As the relationship progressed, Barnevik and other top executives did not fade from the scene. Rather, to the delight of Jans and others on the front line, they seemed to become even more engaged, in ways that were both challenging and supportive. 'We were constantly seeing the top guys in meetings and seminars,' said Jans. 'They showed hundreds of transparencies and could talk for hours about how the industry was developing, where ABB wanted to be, how it was going to get there, and so on. It was spellbinding-a real education.'

Along with their clearly articulated vision about the future of the power industry, Barnevik and Lindahl also conveyed a strong sense of the company's core values. They talked, too, about the corftribution that ABB could bring to the quality of life in the markets it served. As Barnevik explained it, ABB was not just in the business of selling power transmission equipment, it was in the business of improving living standards worldwide, bringing free enterprise and economic development to China and the countries of eastern Europe, and improving the environment by making smoke-belching, coal-burning power plants relics of the past. In doing so, he wanted to inspire people to connect with the company's broad mission in a very personal way; to see the company as the means by which they could have a personal impact on issues of major importance in the world.

More than just articulating an engaging vision and a set of values, Barnevik and his top team spent an enormous amount of time representing a management approach and operating style that reinforced the organization's belief that individual initiative and personal responsibility were at the heart of the company's philosophy. It was reflected in the respectful and thoughtful way they communicated within the organization and in their constant urging of individuals to question assumptions, propose solutions, and take action.

Nowhere was the new openness of communication more clearly evident than in the contrast between the strategic management processes at Westinghouse and at ABB. Where Vabastram was a top-down, staff-managed, financially driven model that focused managers on short-term operating performance under threat of divestment, ABB relied on an interactive, bottomup/top-down process that was designed to engage managers at all levels in an ongoing dialogue about how to build and defend long-term sustainable competitive advantage. This approach was clearly demonstrated by the actions of Ulf Gundemark, head of the worldwide relays business area, who built his strategy on the study conclusions of his seven-person team of frontline operating managers. He said:

I wanted to sweep aside a lot of the old assumptions about strategy that we inherited from the 1970s and 198Os-that it was defined primarily by top management, that it was communicated through numbered confidential copies, and that it was updated and reviewed annually, usually without challenging the underlying assumptions and objectives. I wanted strategy to become a process that involved all levels of management, was widely and freely communicated, and was constantly open to challenge.

The ability-indeed the requirement-for everyone to question and challenge was built into the matrix organizational framework, and reinforced by the management norms Barnevik and his top team continually emphasized. The company encouraged feedback and open debate, with the only qualification being that the differences be resolved and action taken. In such an environment, frontline managers like Jans were given greater freedom and more encouragement to take initiative than ever before.

When Jans decided he wanted to develop his company's ability to build electronic relays, he budgeted $1.5 million in new hires and product development expenses for the first year. Gundemark, his business area head, supported the idea, but Joe Baker, Jans's boss on the geographic axis of the ABB matrix and also an exWestinghouse man, resisted, citing budget shortfalls in the overall U.S. power transmission and distribution business.

Baker recalled Jans's response:

Don really got mad and wrote me a strong letter. In Westinghouse, he probably would have been removed, but here we encourage people to kick back. I didn't like it, but I'm glad he did it. It led to some interesting discussions in his steering committee where I suggested to Ulf Gundemark that if he really wanted the R&D done, maybe he could support it out of Sweden for a year. In the end, Don got his program, and I kept my budget in line.

Events and outcomes such as these created an organizational atmosphere in which employees felt involved and engaged on an individual basis and at a very personal level. For the first time in his career, Don Jans felt as if he understood that the broader goals to which he was contributing were connected to a set of values that he found personally meaningful. At long last, he was fully involved in the decisions that shaped the world in which he operated.

ANOMALY OR MODEL?

At this point, it would be reasonable to ask how other companies can replicate what ABB achieved in transforming once stagnating businesses. is this an anomaly that others could never replicate? Does it hinge on charismatic leaders like Percy Barnevik? Were Jans and his team unusual in their ability to accept the profound changes necessary to manage in an individualized corporation?

After spending five years studying the major changes taking place in twenty very different companies in widely diverse businesses and from various countries worldwide, our answer to all three questions is a resounding 'No!' While it is clear that the actual methods, tools, and processes for carrying on the transformation task will be different for different companies and adapted to the unique situations of each company, it is also equally clear to us that the kind of outcomes ABB achieved-both in changing people's behaviors and in neutralizing business performance-are attainable by others. While ABB may not be a *model* that every other company can adopt, it is an *example* of what most companies can achieve.

It is also worth emphasizing that ABB is not a perfect company, as anyone working within it would quickly acknowledge. Indeed, during one of our interviews with Don Jans he asked us to review an 'organizational balance sheet' he had prepared to present at the next meeting of the worldwide relays business area board. On the assets side he listed a dozen attributes, such as clear vision and expectations from the top, integrating devices that facilitated collaborative management and mutual respect, and a strong ethic of 'what, how, deadline.' But in an equally long liabilities column, he highlighted concerns such as the tensions between business and country management, the barriers to technology sharing, and the distraction of time-consuming integration processes. Yet what made the challenge of managing in this manifestly imperfect company 'an exhilarating experience' was in part reflected in Jans's preparation of the balance sheet that he presented for discussion by his bosses and colleagues. This was an environment in which individual initiative was celebrated, feedback and challenge expected, and the power of collaborative action an article of faith.

After observing many other companies developing the unwavering faith in the individual that was so clear in its absence at Westinghouse, we believe that any company fueled by such a commitment can tap into the same reservoir of entrepreneurship and collaboration that appeared spontaneously at Coral Springsand, in doing so, achieve the same performance results for their business.