"RELEASE THE ENTREPRENEURIAL HOSTAGES FROM YOUR CORPORATE HIERARCHY"

by

Sumantra GHOSHAL*
Christopher A. BARTLETT**

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* Professor of Business Policy, at INSEAD, Boulevard de Constance, Fontainebleau 77305 Cedex, France.

** Professor of Business Administration, at Harvard Business School, Soldier's Field, Boston, MA 02163, U.S.A.

 Comments on this draft can be addressed to Sumantra Ghoshal, at INSEAD, Boulevard de Constance, F- 77305 Fontainebleau Cedex, France. Fax: 33 1 60 72 42 42.

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RELEASE THE ENTREPRENEURIAL HOSTAGES FROM YOUR CORPORATE HIERARCHY

Inside every corporate hierarchy, a number of entrepreneurial hostages are striving to break free. Elaborate webs of systems and procedures are smothering their creative ideas; staff-driven corporate superstructures are stifling their considerable energy; and a remote, internally-focused top management are sapping their deep commitment. As one senior level ABB executive recalled about his long career in Westinghouse before his business was acquired by the Swiss-Swedish giant:

> In comparison with ABB's approach, it is so clear that Westinghouse was limiting its managers' potential. We recruited first class people, we did an outstanding job of management development, then we wasted all of that investment by constraining them with a highly authoritarian structure.

As competitive pressures increased in the 1980's, top-level managers in many companies became increasingly concerned about the growing lack of initiative, creativity and drive in their organizations. Knowing that the problem would be difficult to correct within their existing structures and systems, several began to experiment with new ways to ignite the creative spark in their people, and to protect and fan any resulting entrepreneurial flame.

Under the banner of "Corporate Venturing", Kodak, Caterpillar and numerous other companies created new units aimed at replicating the green-house effect of a venture capital operation within their organizations. Others followed the persuasive arguments of consultants and management gurus to build "skunkworks", throwing small amounts of resources at mavericks and hoping for magic.

While each of these approaches claimed its initial successes, in very few cases did they provide the broad-based long-term solutions the companies were seeking. The main reason was that the approaches were based on a common principle: rather than attempting to fix the underlying organizational problems, the objective was to sidestep them. Corporate venturing essentially acknowledged that the mainstream budgeting process was slow, cumbersome and inflexible - so, the venture funds allowed managers to end-run the arduous approval process. And skunkworks succeeded to the extent that they shielded the entrepreneurs from routine bureaucracy and allowed them to flourish without the intervention and controls they would have to endure under the corporate hierarchy. Yet, while IBM was able to create its personal computer in a spin-off independent unit, such a move did little for those still operating within the mainstream structure. Indeed, it did no even resolve the problem of maintaining the unit's entrepreneurial spark once it was reintegrated into the parent organization.

While many were experimenting with quick-fix formulas like these, the leaders of a few companies were implementing more radical change aimed at creating an entrepreneurial process at the core of their organizations rather than at the periphery.

In the United States, Jack Welch had become frustrated with the marginal impact of small compartmentalized entrepreneurial efforts he had encouraged in General Electric in the early 1980's. In the second half of the decade he has spearheaded one of the most visible efforts to invert the hierarchical corporate pyramid by rebuilding individual initiative and ownership throughout GE's great diversity of businesses. Described as one of the "most sweeping and significant exercises of business leadership", Welch's efforts have been amply rewarded: over the 1980's , GE' sales have increased from $25 billion to $60 billion while its market value has jumped from $12 billion - 11th among U.S. corporations - to $65 billion - second only to Exxon.

A continent away, Percy Barnevik has brought about a similar revolution, if only more extreme, in Asea Brown Boveri. First, taking over as the CEO of Asea in 1980, the then 39-year old Barnevik had turned the 100 year old Swedish power equipment company upside-down through radical decentralization. He had cut back the headquarter staff from 2500 to 300 people, broken up the company into 30 divisions, and delegated operational responsibility even lower to the hundreds of "as self-contained and manageable as possible" profit centers to increase sales fourfolds and profits ten-folds in his first five years. As Asea merged with the Swiss-German Brown Boveri to form ABB, Barnevik has made decentralization of responsibility and individual initiative the two cornerstones of the groups organizational philosophy. Believing that large companies need to organize "in clear profit centers with individual accountability as the only way to lift profitability and keep it there"; he has radically reshaped the ABB organization into 1200 separate companies with an average of 200 people. These companies, in turn, have been broken down into 4500 profit centers each with an average of 50 employees. In the four years since 1988, ABB's revenues have grown from $18 billion to $29 billion while its return on capital employed has improved from 13 percent to over 17 percent.

In Japan, Ryuzaburo Kaku, the President of Canon, has pursued his vision "to become a premier global company of the size of IBM combined with Matsushita" with a similar faith in the entrepreneurial process as the engine of the company's growth and diversification. He has radically reorganized the more centralized corporate infrastructure built by Takeshi Mitarai, his predecessor, created a large number of focused operating units for different product lines and functions, and empowered the heads of each unit as a surrogate of the corporate CEO, with full operating freedom to achieve their highly ambitions growth and profitability targets. Assuming leadership of the company in 1975, at one of the lowest points in its history, Kaku has since transformed Canon into an innovative powerhouse to capture leadership in a variety of new businesses including photocopiers, laser printers, video and broadcasting systems, fax and other office equipments, and medical electronics.

BUILDING THE ENTREPRENEURIAL PROCESS

Based on our study of several European, Japanese and American companies, we believe that GE, ABB and Canon, while being among the more visible, are by no means the only practitioners of what we will describe as the entrepreneurial model for managing large, established corporations. In the U.S., companies like the Minnesota Mining and Manufacturing Company (3M) have long relied on an entrepreneurial process to drive corporate growth and profitability. For most of its history, Matsushita Electric Company in Japan has done the same, as has International Service System (ISS), the $2 billion Danish cleaning services company. And while some aspects of their management approaches have been very different, reflecting the differences in their portfolio of businesses and their administrative heritages, all of them have shared three key characteristics to build and support an entrepreneurial process at the core of their organizations:

- They have structured their organizations around small and disaggregated performance units.
- They have institutionalized a set of simple, flexible but also highly disciplined planning, control and resource allocation systems to drive corporate performance.
- They have articulated a clear strategic mission for the company as a whole and for each unit, and have established unambigous performance standards for the whole organization.

Disaggregated Performance Units

In the process of building the classic modern corporation, a central objective has been to improve coordination across multiple functional, business and geographic boundaries. In so doing, however, as small operating units were "rolled-up" into larger aggregated units to facilitate the desired cross-unit integration, individual initiative and flexibility within the units often suffered.

The most basic requirement in creating an entrepreneurial process in a company is to break down these aggregations that obscure personal responsibility and to counteract the coordinative pressures that homogenize individual actions. If the company is to move beyond the stage of creating isolated refuges where endangered entrepreneurs can survive, management is eventually forced to challenge the overbearing influence of the company's underlying hierarchic superstructure.

A fundamental shift in approach occurs as soon as managers stop thinking about their organization in aggregate terms. Rather than viewing the company primarily in terms of groups or divisions, with operations being run by departments or subsidiaries, highly entrepreneurial companies consciously focus on small disaggregated units as the primary elements of the organization.

This is the logic behind creating 4500 profit centers in ABB and nearly as many in 3M - numbers that are orders of magnitude larger than the norm in most traditional companies. This is why Apple and ISS have broken up their international operations not as a single subsidiary in each country but often as many as five, each focusing on a distinct business built around a specific customer group. This is also why Matsushita developed the "one product, one division" structure, leading to a proliferation of product divisions as each successful new product was spun off as the foundation of a new division. Such disaggregation is not costless but, as the President of ISS's European operations observed, "anyone can point out the costs, the benefits you will have to experience". Also, it is not true that these companies do not have large aggregated units. But those units, like many of 3M's divisions, have grown out of individual initiative - as a technology or product concept first became a project; then, if the project survived, it became a department; and finally, a few highly successful departments grew to be divisions - and have served primarily to support such initiative, and not vice-versa.

In many companies, the creation of small organizational units date back to the late 1970's and early 1980's when strategic business units (SBU's) became a highly fashionable management trend. The "performance units" in the entrepreneurial companies differ from the classic SBU in that there is much less preoccupation with each unit's independence and self-sufficiency. Indeed, they are often deliberately created as partially interdependent operations which must use each others' resources to achieve their respective goals. And in contrast to the conflict-generating distinctions between profit, cost and revenue centers, companies building their organizations around the so called "performance centers" tend to minimize such differences and treat them similarly irrespective of whether they are developing new products, producing for internal customers, or selling to the external market. Thus, in Canon, different marketing and production companies are often structured as separate legal entities to reinforce their autonomy and some, like Canon sales, are partially floated in the local stock exchanges, even tough they are all highly interdependent and do not meet the criterion of functional completeness that was viewed as a pre-requisite for structuring SBUs.

The main objective in developing such units is to create a work environment in which individuals feel that they must take responsibility and, furthermore, that in doing so they can affect their unit's performance. By reducing the size, scale and scope of the primary organizational unit with which people identity, companies find that employees become motivated by the knowledge that their actions do count, and that their personal contributions to the unit can make a difference.

Performance-driving Systems

The second element that seems to be vital as companies develop an entrepreneurial process is a set of systems that reinforce the focus and accountability of the performance units. In contrast to the staff-led document-driven strategic planning exercises, the "trickle-down economics" of classic resource allocation processes and the complex and abstract financial control systems in traditional hierarchies, the systems in these organizations are more sensitive to operating realities and more focused on their motivational impact.

Nowhere has Jack Welch's transformation of GE been more striking than in the area of strategic planning. GE had invented corporate strategic planning including some of the key tools and concepts that have since been widely diffused throughout the world. Over the years, it had built up on elaborate planning system driven by a formidable corporate staff group. Highly detailed and analytical business unit plans were aggregated by sectors and were reviewed by the top management in even higher levels of aggregation by what were called "arenas". Welch has replaced this complex, multi-step planning reviews with a more personal, informal and intense process of direct "general manager to general manager" discussions that focus on the key strategic issues faced by each business. To cut through the bureaucracy, the heads of the various businesses are asked to reduce the complex, multi-volume planning documents into a slim "playbook" that provides concise answers to questions about their global market dynamics, key competitive activity, major competitive risks, and proposed GE business responses. These documents become the basis for a half-day shirtsleeves review in mid-summer when business heads and their key people meet with the top management and their key staff in an open dialogue on core plans and strategies.

Traditionally, capital budgeting processes have been geared to handling large investments typically after reviewing and evaluating detailed long-range plans and projected returns. In contrast however, the entrepreneurial process often requires a smaller scale and more incremental capital allocation process which is still rigorous yet much more flexible. The entrepreneur's approach is typified by 3M's philosophy of "make a little, sell a little" which legitimized multistage funding of promising projects. The initial idea might secure sufficient funding to develop the concept further; a new more sophisticated proposal could justify building a prototype; a subsequent report on results might request funding for market and technical testing; and so on. At each stage from the initial idea to eventual product launch, the product champion must review performance against earlier commitments and propose a budget and quantified mileposts to evaluate the next stage of funding.

Another main pillar of corporate systems is the budgeting process, and many companies find that this core system is also too inflexible and impersonal to support the kind of entrepreneurial values they want to cultivate. Performance objectives are often agreed at the top and cascaded down, with senior managers cajoling and pressuring unit managers to accept the numbers. Furthermore, the targets are typically set only in financial terms often not fully understood by line managers who pass the management and reporting task off to the financial controller. Lacking credibility, understanding, and commitment, the budget system deteriorates into a mechanical exercise managed by the accountants.

Confronting these problems is difficult, and many are hard to totally overcome. But companies that hope to create an entrepreneurial organizational process must develop budgeting systems that are seen as legitimate and mange them in a way that is motivating. For most, this approach implies a budget system in which front-line managers not only take more responsibility but are also held more accountable. Corporate management's primary role is to elicit honest and ambitious operating targets from the units, and to set broad objectives and clear standards, and to measure and evaluate performance against those objectives. In GE, for example, instead of seeing budgets as unchangeable commitments, business unit managers prepare more flexible "operating plans" that can be revised if business conditions or the competitive situation change significantly enough to warrant such revisions. The company views such flexibility as essential for developing a more responsible and entrepreneurial climate.

Making individual units primarily responsible for their budget goals does not imply, however, that the system is less rigorous. Quite to the contrary. ABB's Abacus system, for example, collects performance data on each of the company 4500 profit centers and compares performance with budgets and forecasts in both the local currency and the U.S. dollar. The system provides a highly uniform, transparent and comparable analysis of the performance of all the units on a variety of parameters including new orders, invoicing, margins and cash flow.

In ISS, the financial control system identifies contribution margins at the level of each of the company's thousands of cleaning contracts around the world. At 3M, similarly, 3900 monthly P&L statements are generated centrally, at the levels of product families, and these are made available on-line to all operating units who are forbidden by a central directive from creating their own systems. Indeed, a simple but rigorous management reporting system is an essential tool for maintaining operating discipline in entrepreneurial companies.

An essential corollary of such rigorous financial control is the sanctity of the budget of each unit. In traditional hierarchical companies, budgets are cascaded down and managers at each level are expected to achieve the aggregate budget at their level. Such an aggregation process essentially translates into sudden changes of approved budgets for some units in response to unanticipated changes in the situations faced by other units within the administrative control of a common manager. In 3M, in contrast, there is neither a cascading down of budget approvals nor an aggregation up of budget achievements: the budget for each individual project, department and division is developed by that unit and is monitored individually rather than in some collective rolled-up form.

Clear mission and standards

Historically, as companies built their increasingly complex hierarchical structures and supported them with ever-more sophisticated formal systems, the role of senior management and their staffs often focused on the control activities required to maintain these structures and systems. Most companies have since recognized the need to replace this control-driven staff mentality and the adversarial relationship between operating managers and corporate or divisional headquarters with more support-based roles and cooperative relations. But, senior managers' ability to step back from their traditional role of direction and control has been constrained by the extent to which their subordinates have been meeting the company's overall needs and priorities. Many companies have discovered that the reason corporate - and division - level managers have to be so involved in operating decisions is that those in the front-lines of management often initiate activities and make decisions that are not in line with the corporate direction and strategy. It has soon become clear that one of the most effective ways for senior management to provide support and guidance, while at the same time preventing the kind of stifling control and overbearing interference that kills front-line initiative, is to establish and communicate clear strategic objectives and unambiguous performance standards for the organization.

When James Houghton became CEO of Corning in 1983, the company was struggling to revive its performance in the midst of a major recession while also trying to define its long-term strategic direction. Conscious that Corning's technology-driven strategy could easily lead the company in many different directions, Houghton wanted to focus his management clearly on a set of priorities that they could support - "to create a new balance of corporate perspective and entrepreneurial initiative". For more than a year, he and his senior management worked to define a clear statement of strategy that reaffirmed the central role of technology as the company's distinctive competence, overlaid it with a new emphasis on the key role that quality would play as a vital future source of competitive advantage, and focused those priorities on four clearly defined business segments.

Such clarity of strategic objectives is essential for channeling distributed entrepreneurship into cohesive corporate development. The objectives need to be precise enough to clearly rule out activities that do not support the company's strategic mission, and yet broad enough to prevent undue constrainsts on the creativity and opportunism of front-line managers. Without such a clearly defined strategic mission, front-line managers have no basis for selecting among the diverse opportunities they might confront and bottom-up entrepreneurship soon degenerates into a frustrating guessing game.

But, articulation of the strategic mission to channel entrepreneurial behavior is not enough; companies must also define the standards of performance that such entrepreneurial initiatives must meet. While elaborating Corning's strategy statement, Houghton also let it be known that he would not tolerate the performance levels managers had slipped into as they missed their budgets for six successive years. Setting an objective for Corning's return on assets to be consistently ranked in the top 25 percent of the Fortune 500, he would simply walk out of presentations that did not measure up to this standard, telling managers to come back when they found ways to meet the target.

Entrepreneurship is often mistakenly thought of as the antithesis of operational discipline. In contrast, we found the entrepreneurial companies to have an unusually high level of discipline in their management processes, built through a combination of stretched performance standards and rigorous management reporting. They build a symbiotic relationship between corporate ambition and current results, with each fuelling and stretching the other.

For example, Ryuzaburo Kaku's first action as the President of Canon was to establish the "premier company plan" aimed at making Canon a top company in Japan. This required achieving consistent profitability exceeding 10 percent on sales. Having achieved this clearly defined objective by the early 1980's, he raised the objective to becoming "a premier global company", requiring consistent profits of 15 percent to fund the higher R&D and other expenses. This link between expanding ambition and rising standards is described vividly by Kaku:

> When we achieved our objective in Japan, we succeeded in attaining the allegorical top of Mount Fuji. Our next objective is the Everest. We could climb Fuji wearing sandals, but it is entirely inappropriate for scaling Everest, and may cause our death unless we improve.

In both Corning and Canon, the impact of the stretched performance standard on the energy and motivation of front-line managers have been dramatic. As described by one executive in Corning, "most people began to thrive on the new challenges... (and) we began notching up a track record of reaching ambitious goals.

DEFINING THE MANAGEMENT ROLES

In many traditional companies, as senior managers have become more distant from the operations because of intervening management levels and protective staff groups, their understanding of the business has been reduced to a detailed familiarity with the abstractions represented in the plans, budgets and capital requests. And the more they have focused on the form of these systems and processes, the more they have found themselves in conflict with front-line managers who have grown increasingly frustrated with this focus on form over content, and resentful of the staff groups' influence over decisions they have often appeared not to fully understand.

The changes in organization structure, management processes and performance standards we have described in the preceding section create the context for a less adversarial and more supportive relationship between operating managers and corporate, regional and divisional headquarters. But they are not enough, by themselves, to create the behavioral changes necessary for implementing the entrepreneurial process. Ultimately, strategy, structure and systems are abstractions - it is what managers actually do that drives action within companies. To build managerial entrepreneurship, therefore, it is necessary to reinforce the changes in the organizational context with explicit changes in the roles and tasks of front-line, middle and top level managers.

The ABB organization is structured in three key layers of general management. The front-line of the organization is represented by the 1200 operating companies, each a legal entity incorporated and domiciled in one of the 140 countries in which ABB operates. Headed by a president with his or her own management board, the operating companies focus on a particular business in the country of its domicile. Don Jans, the head of ABB's relays business in the United States and Horst Stange, the head of ABB's transformer business in Germany are examples of the company's front-line general managers, each responsible for the local strategy, operating results and day-to-day management of the units under his charge.

Above the company level, ABB is structured as a global matrix. The company's diverse activities are structured in 65 Business Areas (BAs). Each BA represents a distinct worldwide product market, and is headed by a worldwide BA manager. For example, Ulf Gundemark, located in Sweden, heads the relays business area: a $200 million global activity that includes, beyond the U.S. operation acquired from Westinghouse and managed by Don Jans, similar units assembled by ABB though the merger of the relays businesses of Asea, Brown Boveri and Stromberg. Responsible for worldwide strategy, organization and performance of the business area, each BA manager reports to one of the 11 executive vice presidents of the company responsible for individual business segments (i.e., clusters of related BAs).

In the other dimension of the matrix are the regional sector managers, responsible for a business segment in a specific country. On this dimension, Jans reports to Joe Baker, the U.S. regional head of the Power transmission and distribution sector. Baker, in turn, reports to Gerhard Schulmayer, one of the 11 executive vice presidents and the head of ABB, inc, the U.S. holding company responsible for all the 110 companies of ABB incorporated in the United States. The BA managers and the regional sector managers represent the second layer of general management in ABB.

The third layer, at the apex of this global matrix, consists of the 11 member Group Executive management chaired by Percy Barnevik. Each member of the group is responsible for a business segment, one or more country operations, and a key corporate function. Schulmayer, for example, beyond his role as the U.S. country manager, is also responsible for the "industry" business sector, including ABB's process automation, metallurgy, semiconductor and instrumentation business areas, and also for the purchasing function at the corporate level. Eberhard Von Koerber, the head of Germany is similarly responsible for all of ABB's fifty operating companies in that country, including the transformer unit of Horst Stange. He is also responsible for Eastern Europe and Italy and for the company's marketing and information functions. Goran Lindhal, another executive vice president, has overall responsibility for the Power transmission business sector, including Gundemark's relays business area. Collectively, the Group Executive Management carries the responsibility for resolving the three contradictions that lie at the core of the company's organizational philosophy: to be global and local, big and small, radically decentralized within a centralized framework.

While the 1200 legally incorporated companies at the base of the organization may be unusual, ABB's global matrix itself will look familiar to managers in many worldwide companies. Yet, as we studied what Don Jans, Horst Stange, Ulf Gundemark, Goran Lindhal and others within that matrix actually did and how they related to one another, we found a pattern very different from the roles and relationships of their counterparts in more traditional hierarchical companies. In ABB,

- Front Line managers, like Horst Stange and Don Jans, instead of being operational implementers, functioned like aggressive entrepreneurs.
- Middle Level managers, like Ulf Gundermark and Joe Baker, were more inspiring coaches than administrative controllers.
- Top-Level managers like Goran Lindhal and Eberhard Von Koerber served as institutional leaders rather than as resource allocators.

Front-Line Managers as Entrepreneurs

The German transformer business of Brown Boveri had been a consistent poor performer losing, on average, DM 20 million a year on sales of about DM 100 million throughout the 1980's. In 1987, before the company merged with Asea, losses had peaked to DM 32 million. Horst Stange, who had headed Asea's transformer business in Germany, assumed responsibility for ABB's consolidated German transformer operations almost immediately after the two companies formally merged on January 1, 1988. By the end of 1991, Stange had turned around the business to yield a profit of 10 percent on sales.

A continent away, Don Jans, who had joined ABB when Westinghouse sold its troubled power transmission and distribution business to them in early 1989, had achieved similar improvements in the performance of the relays business he headed. However, to do so, Jans - like most of the company Presidents of ABB - had to make major changes in his business assumptions, management practices and personal style. In Westinghouse, Jans had five layers of management between himself and the CEO; in ABB, there were only two. In Westinghouse, he had to adjust to working with the bureaucracy of a 3000 person headquarters; in ABB he had to be more self-sufficient in an organization with 100 people at corporate. In Westinghouse, decisions had been top-down and shaped by political negotiations; in ABB Jans had to take most of the decisions himself, driven by data and results.

As we reviewed the activities and tasks carried out by these front-line managers, it became clear that they were the key drivers of business performance in ABB. While the other layers of management provided framework, guidance, support and challenge, the operating responsibility for results rested fully with them. In driving corporate performance, these front-line managers appeared to focus on three core tasks.

First, they focused on leveraging their organizational assets and resources. Driven by the stretched performance standards, each improved asset utilization dramatically. Stange, for example, reduced the manpower in Brown Boveri's Käfertal production complex by 70 percent, cut inventory from DM 50 million to DM 10million, and halved receivables from DM 15 million to DM 8 million. Total working capital, net of advances to customers, was reduced from DM 43 million to DM 6 million. Two floors of the factory were emptied and redeployed, both reducing space use and also improving work flow. Carefully selected investments improved equipment efficiency. As the first round of restructuring ended in 1991, with significantly improved operating results, Stange focused on the second round, with equally ambitions objectives. This focus on continuously improving resource productivity was a common concern among all of ABB's front-line entrepreneurs we met.

Second, they were responsible for expanding the business opportunities. While many competitors saw the changes brought about in the relays business because of the fast penetration of microprocessor technology as a topic for debate in their corporate executive committees, in ABB, Don Jans created a new profit center to focus on this opportunity and negotiated with his board to invest $1.5 million for new hires to develop microcontroller-based products. Because the profit performance made it difficult for the U.S. operation to fund this development, Ulf Gundemark shared the investment by providing resources from Sweden. Such fast and flexible response to emerging opportunities is perhaps the greatest strength of decentralized operation, and is a key part of the role and tasks of front-line managers in entrepreneurial companies.

Third, the front-line managers also played a key role in building new capabilities. Recognizing that in the mature and highly competitive transformer business, efficiency is not enough for building sustainable competitive advantage, Horst Stange focused on building total quality and organizational flexibility as ABB's key distinctive capabilities. He created a team to develop a zero-defect strategy, which was then successfully implemented throughout the business. Compressing throughput time for all activities was a second part of his quality management thrust. He built consciousness for time-based management through a series of "just-in-time" seminars, pushed decision making to small self-organizing teams, changed people who could not or would not adapt to his new demands and successfully reduced throughout time by over 60 percent in many activities. Similarly, factory workers were trained to do up to three different jobs and dual roles were created for sharing knowledge so as to build organizational flexibility.

In traditional hierarchical companies, capabilities are often viewed in highly aggregate and macro terms at the level of the overall company. In the entrepreneurial companies, in contrast, capabilities are built in much more focused ways, through the combination of dedicated assets, special skills and tailor-made processes that create specific sources of competitiveness within specific businesses. While the company often benefits by linking and bundling those capabilities across businesses to broaden the scope of their exploitation - and this, as we shall discuss, is an important task for middle managers - building the new capabilities is seen as a key part of the front-line entrepreneurs' role.

Middle Managers as Coaches

In many large companies, recent waves of delayering and destaffing have created a serious problem the full import of which is only slowly beginning to be manifest: plunging morale of middle managers have severed not only the communication chain but also the chain of commitment.

Historically, middle managers enjoyed a central position in a company's decision processes because of their consolidator role, disaggregating corporate objectives into business unit targets and aggregating business unit results for corporate review. They were the crucial lynchpins in resource flows within the company, since corporate managers relied on their judgment of people and situations for allocation of both capital and rewards. This was the basis of their controller role, giving them enormous status within the company. And their role as communicators, broadcasting and amplifying top management priorities and channeling and translating front-line feedback, gave them power because of their ability to influence the vital information flow across the hierarchy.

As changes on organizational practices have threatened to obsolete all these three traditional roles, middle management has emerged as the silent resistors whose fine tuned, invisible yet well organized subversion have derailed the change efforts in many companies. In others, a hard driving top management has broken through the resistance, by-passing the middle layers and establishing direct contact with the front-line. In either case, the irrelevance of middle management has become a self-fulfilling prophecy.

In contrast, in ABB, managers like Ulf Gundemark and Joe Baker play a crucial role in guiding, developing, reviewing and supporting the entrepreneurial initiatives of front-line managers and in building the critical linkages necessary to combine the local, small and decentralized aspects of the company with the benefits of being global, large and centralized. In creating this synthesis, they focus on three core tasks. They are the company's strategists, building the overall strategic and organizational framework within which the mandates of the front-line managers are defined. They are also the administrative integrators, linking and bundling the diverse capabilities of the front-line units. Finally, and perhaps above all, they are the key source of support and guidance to the entrepreneurs, helping them not only with their personal advise and guidance, but also with their broader knowledge of and access to the required corporate resources. We describe this middle management role as that of a coach. Our metaphor, however, is that of a football coach who bears overall responsibility for the team's success, has the expertise to improve the players' skills, possesses the experience to guide the team's strategy, and enjoys the authority to change players when the need arises.

ABB's formal organization description defines the role of the BA head as "the business strategist and global optimizer", a formidable challenge for one heading the relays business assembled from the disperate operations of four erstwhile competitors. In·the three years since he took up the job in December, 1998, Ulf Gundemark has been remarkably successful in creating a shared vision for the worldwide business, in defining the strategic priorities, and in building an implementation framework in which each operating company plays a special role, providing leadership for specific businesses and activities. But, in playing this strategist role, Gundemark has been more an orchestrator than a soloist, developing and managing a process that has involved all levels of management in collectively building a strategy rather than preparing a strategy document at the top and communicating it through numbered confidential copies.

Building on an Asea practice, Gundemark has established a steering committee for each of the national relays companies. Meeting between two and four times a year, these steering committees have become the key forums not only for reviewing the companies' operating performance but also for indeapth discussion of their long-term strategy.

Creation of the steering committees, in turn, has allowed Grundemark to redefine the role of his own BA board which had become a monthly forum swamped with current operating issues, with little opportunity to focus on the long term strategic agenda. Having delegated most operating responsibilities to the steering committees, the BA boards now meet only quarterly but focus more on global strategy and policies.

To diffuse strategic thinking deeper into the organization, Gundermark set up a nine-person task force consisting of profit center and functional managers drawn from the operating companies in Brazil, Germany, Finland, the United States, Sweden and Switzerland. He changed them with the task of creating a vision for the relays BA. He made it clear that the task force could challenge every assumption and objective: there were no sacred cows. With the inputs from the BA board and other key managers, the work of this task force developed into a 24 page document titled "Strategy 2000" which has since been approved by the Group Executive Management of ABB and has been widely communicated throughout the relays organization.

Beyond orchestrating the processes to build a global strategy, Grundemark has devoted most of his time to creating mechanisms for linking and leveraging the capabilities of his operating companies. As a first step, he eliminated the duplication and redundancies inevitable in an operation that merged the businesses of four companies. The Revaba project (Restructure Vasteras and Baden), initiated and driven by him, has developed the Swedish Vasteras unit as the specialist for high voltage products while the Baden unit in Switzerland has assumed the lead role for project and system deliveries that require integration of multiple products for turnkey installations. The unit in Vaasa, Finland, has been similarly focused on low voltage relays that had been Stromberg's speciality and for which it was clearly the technological leader.

To build cross-country synergies, Grundemark has formed the R&D, Total Quality and Purchasing Councils and charged each with the task of developing policy guidelines that capture "best practices" for their functional areas. Each council includes specialists from several operating companies, including the four major centers. All three councils have been extremely successful in creating contact among specialists in diverse geographic locations and providing them with a forum at which to share knowledge and expertise.

Finally, perhaps the most important activity of Gundemark has focused on providing support to the front-line entrepreneurs like Don Jans in achieving their objectives. Sharing a trait common for all ABB senior managers, he travelled constantly to the operating companies, making presentations to ensure that the whole organization understands the business concept, the marketing, manufacturing and R&D principles and responsibilities, and the management and organization philosophy. At the same time, he seeks feedback, discussing problems and finding ways to help. As described by Jans;

> The top ABB guys really know their stuff. They come with stacks of transparencies and can talk for hours about how the industry is developing, where ABB wants to be and how to get there. It's spellbinding - a real education... And just as important is their willingness to listen to our proposals.

Top Level Managers as Leaders

Structure follows strategy. And systems support structure. There are few aphorisms that have penetrated as deeply into western business thinking as these two. Ever since Alfred Sloan and a few of his pioneering contemporaries discovered how the then emerging strategy of diversification was facilitated by the newly-developed divisional structure, and how that structure could be supported by some tightly designed planning and control systems, this strategy-structure-systems link has become an article of faith and has shaped top management roles in most companies. Those at the apex of complex organizations have viewed their primary roles as the formulators of strategy, the builders of structure and the designers of systems.

One of the main objectives of the strategy-structure-systems paradigm was to create an organizational infrastructure that could free management from the idiosyncrasies and pathologies of individuals. If all the three elements could be properly designed and effectively implemented, companies could run with people functioning as interchangeable parts. In this objective of eliminating dependence on individuals, the paradigm has indeed been highly successful. Most large companies today are depersonalized. As desired, people have become captives of the system.

To free these entrepreneurial hostages requires a roll-back of this dehumanizing paradigm. Managers in the entrepreneurial companies we studied have begun to rediscover the simple truth that their organizations are not mere economic entities - they are also social institutions. to capture the energy, commitment and creativity of their people, these managers are replacing the hard-edged strategy-structure-systems paradigm with a softer, more organic model built around purpose, process and people. In this new model, top management roles change fundamentally. From being the formulators of corporate strategy, they become the shapers of an exciting and fulfilling institutional purpose with which its members can identify and to which they can personally commit. Instead of being the builders of formal structure, they see themselves as the architects of organizational processes that can capture individual initiative and create supportive relationships. And, rather than being the designers of systems, they refocus on the individual as the primary unit of analysis in the management task and become the moulders of people.

While delegating the strategy making task to the BA managers, Goran Lindhal has focused his own energy on creating what he calls the "framework". Not unlike Canon's premier global company plan, the framework defines his goal as unambiguous global leadership in the power transmission segment and challenges his managers into redefining their businesses to achieve the strategic, technological and financial performance necessary to meet this ambition. He has forced this agenda throughout the organization through constant communication and regular reviews.

Beyond articulating corporate ambition, Lindhal's framework also defines a clear and strong value system to guide management action. As described by him, "in the end, managers are loyal not to a particular boss or even to a company, but to a set of values they believe in and find satisfying". He has identified the core values as being an emphasis on quality, not only in products but also in organizational processes and relationships; a commitment to excellence in technology to ensure that the business remained at the forefront of the industry; a dedication to productivity and performance not just in the plants but at all levels of the organization; and in belief in people, both customers and employees, as the means for achieving the first three.

Instead of starting with strategy as a carefully defined market positioning exercise, Lindhals' 'framework' has focused on building an energizing ambition and a set of satisfying values to provide a broader sense of purpose for his people, and a creative strategy has been the product of the resulting initiative and commitment.

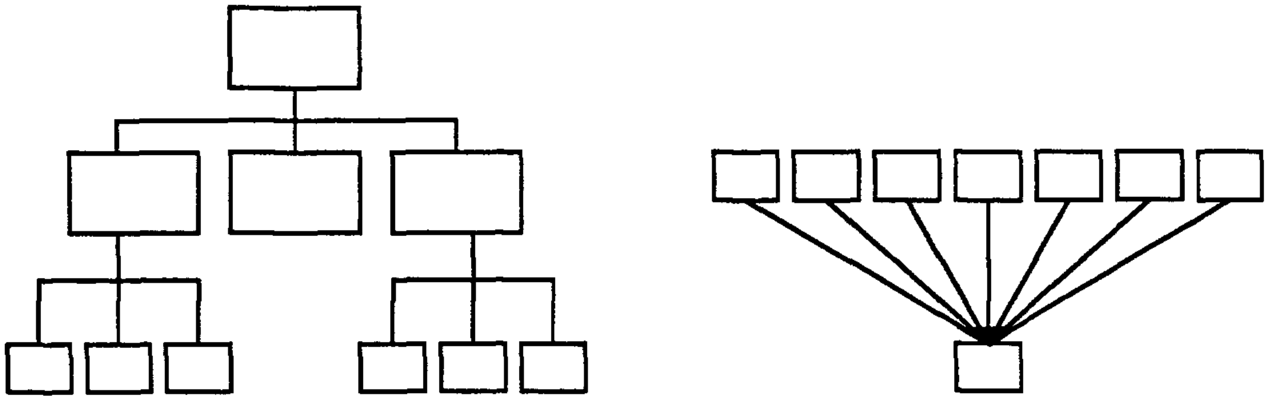
A second focal point for Lindhal has been what he calls "human engineering" - an aspect of his personal style that keeps him constantly in touch with managers throughout the organization in order to align the organization towards his goal. He sees human engineering as a vital personal task to shape management processes. On the one hand, he has used casual meetings to present personal challenges and formal reviews to send signals about overall priorities and specific targets. On the other hand, he has created a variety of mechanisms such as the BA boards to ensure effective cross-unit integration and improved cross-cultural communication. While the processes have been built around the roles of the front-line entrepreneurs like Don Jans and their coaches like Ulf Gundemark, Lindhal has been the key architect, both shaping the processes and continuously reinforcing them through his "fingers in a pie" style of personal interventions.

Finally, most of his time and energy - between 50 and 60 percent by his own estimation - has been reserved for the task of selecting, developing and deploying people throughout his organization. His first task, after being invited by Barnevik to join the top management team as the executive vice president responsible for power transmission, was to identify the key managers who would drive the different businesses and capture the synergies that were fundamental to ABB's strategy. As described by him, "the key qualifications were proven performance in their business and broad experience in more than one discipline. But as important as their career background was their personality - their flexibility, integrity and statesmanship".

Having built his team, Lindhal has maintained a close personal involvement to create a learning environment in which his managers could develop and grow. In his view, this requires the creation of uncertainty to encourage "unlearning" of old assumptions and behaviors, particularly in the early stages of development. He set challenging goals for them - tightly defined at first, but gradually expanding and loosing. Instead of delegating too much, too fast, his approach to development has been a phased process of "first providing a framework to help them develop as managers and then expanding the framework to let them become leaders". In his definition, leaders were the individuals who had developed the requisite personal characteristics of flexibility, statesmanship and generosity, and who were ready to take responsibility for setting their own objectives and standards. "When I have developed all the managers into leaders", he says, "we will have a self-driven, self renewing organization".

REFRAMING THE ORGANIZATIONAL CONCEPT

The traditional hierarchical corporation looks very different from the top and from the bottom (figure 1). From the top, the CEO sees order, symmetry and uniformity - a neat instrument for step-by-step decomposition of the organizations' tasks and priorities. From the bottom, a hapless front-line manager sees a cloud of faceless controllers - a formless sponge that soaks up all her energy and time. The result, as described colorfully by Jack Welch, is an organization that has its face toward the CEO and its arse toward the customer.



This is how the company looks from the top

This is how the company looks from the bottom

Figure 1

The entrepreneurial corporation we have described is built on an entirely different organizing principle. Instead of being defined in terms of the structuring of organizational units, it is defined as a set of management roles and their interrelationships. Not being defined as a structure, it is difficult to represent it in a diagram, but figure 2 provides one illustrative way.

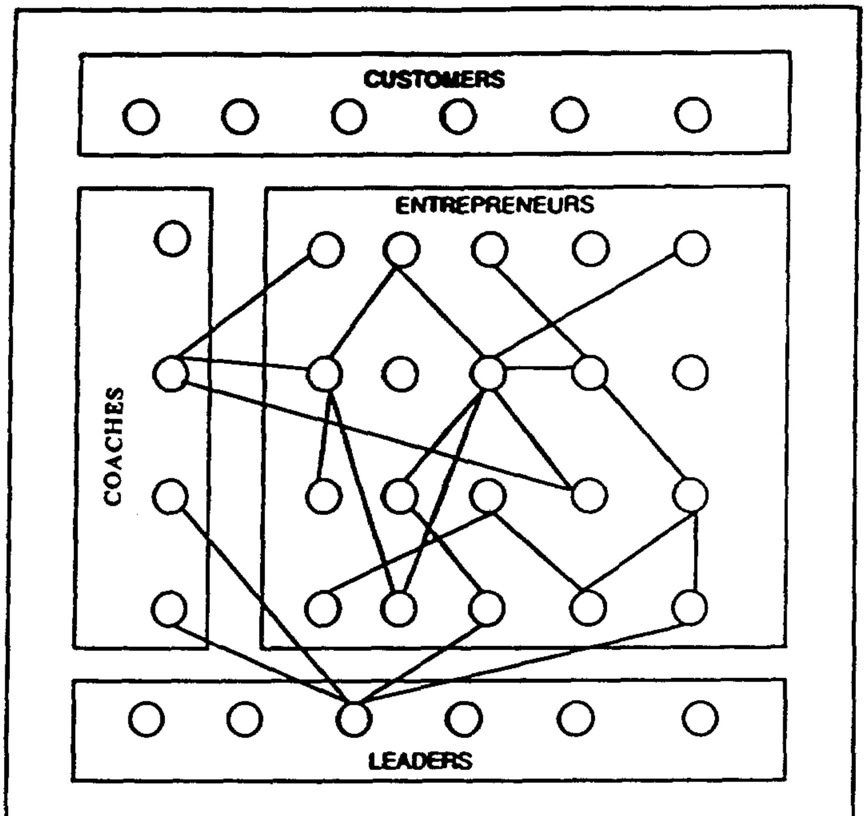


FIGURE 2

Front-line managers, heading small, disaggregated and interdependent units focused on specific opportunities, are the company's entrepreneurs. They are the builders of the company's businesses and they drive the company's performance by continuously strengthening those businesses.

Like coaches who leverage the strengths of individual players to build a winning team, middle level managers link these separate businesses into a coherent, winning company. Their value added lies in creating the strategic and organizational framework within which the diverse capabilities of the front-line units can be integrated across businesses, functions and countries.

Top management infuses the company with an energizing purpose to develop it as an enduring institution that can outlive its existing operations, opportunities and executives. Like social leaders, they create the challenge and commitment to drive change so that the company can continuously renew itself.

It is through the interrelationship and integration of these management roles that the company balances the tensions between short-term and long-term performance; between individual entrepreneurship and collective teamwork; between ambition and discipline; between creating economic value and a sense of emotional fulfillment for its members. Some of the elements of these management roles can be accommodated within the structures of traditional companies. Collectively, however, they represent a radically different way of managing large, complex organizations.

We believe that managers in many hierarchical, divisionalized corporations recognize the need for such a radical change. Yet, most have shied away from taking the plunge. The European CEO of major American company provided what is perhaps the most plausible explanation for this gap between intellectual understanding and commitment to action: "it is more reassuring for all of us to stay as we are, even though we know the result will be certain failure, then jump into a new way of working when we cannot be sure it will succeed".

Simply exhorting front-line managers to feel empowered will not help them break free. If it could, IBM would not be where it is today. Incremental adjustments along the corridors of indifference in organizational politics will not free the hostages either. If it could, General Motors would have turned the corner a long time ago. Sidestepping the problem by creating refuges for radicals at the periphery of the organization will be equally futile in the long run. Otherwise Kodak's market share in the bread-and-butter photofilm business would not continue to erode. To reignite the spark plugs of managerial entrepreneurship that were the original source of their success, large hierarchical corporations need a fundamental reshaping of their organizational mainstream. And to lead such radical change, top management has to first reorient how they think about organizations. Just as those who pioneered the divisionalized organization created enormous opportunity for their companies five decades ago, those who will have the courage to build the entrepreneurial corporation will enjoy a similar advantage in the decades to come.