THE EVOLUTION OF INTRACORPORATE DOMAINS: DIVISIONAL CHARTER
LOSSES IN HIGH-TECHNOLOGY, MULTIDIVISIONAL CORPORATIONS

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ABSTRACT

Modern corporations have become synonymous with the multidivisional form of organization. Various interdependent divisions are “chartered” to look after one or more business areas, in effect defining the “turf” of the division and its purpose within the corporation, and collectively defining the corporate domain. However, once created, these divisional charters should not be regarded as rigid; they are susceptible to change. Particularly in fast-paced environments, such as in high-technology industries, divisional charters are liable to change as divisions add or subtract businesses to their charter responsibilities. These charter changes are seen as an adaptive device for large, multidivisional corporations in fast-paced environments.

This paper presents a process model of how divisions change their domains in hypercompetitive contexts, focusing on the specific question of how divisions lose all or portions of their business charters. The paper is based on a larger inductive study of charter changes in 10 divisions, both domestic and foreign, of a large, multinational, high-technology corporation. Data were collected over an 18 month period and included formal interviews, questionnaires, company documents, group interviews, media publications and direct observations of strategy formation sessions. Over 80 informants were interviewed across several managerial levels.

Our data revealed three distinct patterns and logics of charter loss depending upon what phase of core business development a division found itself: (1) Divisions starting-up new core businesses lost these charters because of a combination of their failure in the new area and competition with other divisions in the company- the process revealed a competitive market for new charters; (2) Divisions rapidly growing new core businesses lost peripheral business areas in order to focus on the core business- the process emphasized a focus logic for charter change; finally (3) Divisions with mature charter areas were found to shed their core business areas because of an emerging misfit between their skills and culture and the nature of competition in the industry- the process emphasized the emerging nature of corporate misalignment and the abrupt charter changes that can follow. This paper contributes to organizational theory by exploring the evolution of large, diversified corporations, focusing on the organizational responses to fast-moving, competitive environments. It also contributes to strategy by revealing a “Re-combinant” multidivisional organizational form, by which timely charter changes can be used by large corporations to keep pace in these turbulent contexts.

Key Words: Evolution, Strategic Process, Multidivisional Firm, Organizational Structure and Change.
The multidivisional organizational form has become the dominant paradigm for organizing diversified corporations (Chandler, 1962; Rumelt, Schendel & Teece, 1994). Globally, these M-form organizations account for trillions of dollars in worldwide assets and employ tens of millions of people (Fortune, 1992). Traditionally, the M-form has been justified on the basis of transaction and information processing efficiency (Chandler, 1962; Williamson, 1985). In recent years, however, rapid change and unrelenting erosion of competitive advantage have made speed, flexibility, and adaptation central to the organization of large corporations (Eisenhardt, 1989b; D'Aveni, 1994). This paper attempts to offer new insights into the nature of M-form organization, particularly its adaptive capabilities in these turbulent business environments.

Fundamental to the multidivisional form is the concept of domain (Levine & White, 1961; Scott, 1981; Thompson, 1967). An organizational domain consists of the goods or services an organization provides and the markets or populations it serves (Thompson, 1967). In the case of the entire corporation, corporate domain entails very broad, often abstract, claims, defining the turf that the corporation occupies. For example, corporate domains are often synonymous with industries, such as agriculture, chemicals, or electronics.

Domains, however, are often more sharply articulated at the divisional level as divisional "charters." For example, within a corporate domain of transportation, a more concise and definitive division charter for producing luxury cars may exist. Moreover, several closely related businesses can make up a divisional domain or charter. For example, a division charter could include both personal computers and related peripheral devices such as monitors, keyboards, and perhaps modems. Thus, divisions are "chartered" to look after one or more business areas and these constitute the "turf" of the division. Specifically, we define a "charter" as the businesses (i.e., product and market arenas) in which a division actively participates and for which it is responsible within the corporation. In turn, divisional charters represent the building blocks of the corporate domain.

Substantial research exists on the multidivisional form (see Ramanujam & Varadarajan, 1989 and Galunic & Eisenhardt, 1994 for related reviews). Figure 1 summarizes the major
perspectives on the M-form, which we briefly outline below. Two early streams highlight the fit between strategy and structure, with one focusing at the corporate level and the other at the strategic business unit level. "Corporate Strategy and Structure Fit" represents the founding literature, focusing on diversification and the question of which form of organizational structure "fits" this corporate strategy ("fit" meaning what structure is theoretically most suitable and/or positively impacts performance). "SBU Strategy and Structure Fit," on the other hand, focuses on the fit between SBU strategy and structure. Corporate level issues are largely ignored, although useful archetypes for SBU strategies and structures are developed and used in subsequent perspectives. More recently, additional streams have emerged. In the "Intracorporate Fit" stream, emphasis is no longer on purely Corporate or SBU level issues, but the perspective on the M-form broadens to examine the interrelationship between these two levels in the corporation. In particular, fit is examined between SBU strategies and the nature of corporate governance and control. A second perspective "Intracorporate Networks," centers on the horizontal relationships among SBUs, emphasizing potential interdependence amongst SBUs and the need for synergistic integration. This stream, with a particularly normative slant, includes the popular Asea-Brown-Boveri exemplar (Taylor, 1991) and the "Transnational Solution" for structuring multinational firms (Bartlett & Ghoshal, 1991). Finally, the stream we label "Corporate Entrepreneurship and Renewal" contains two major foci. One emphasizes the process by which new businesses (and, often, new divisions) are created within large corporations (e.g., Burgelman, 1983), and the other emphasizes how pre-existing businesses are transformed and renewed (such as major changes in marketing, product development, and/or operations) (e.g., Pettigrew, 1985; Guth & Ginsberg, 1990; Chakravarthy & Lorange, 1991). Yet, while this latter literature stream considers changes to existing divisional structures (typically moments of cataclysmic organizational restructuring), regular, reoccurring patterns of charter change have not been studied. Indeed, despite variations among these research streams, the underlying vision is that M-form corporations are divided into subunits focused on fixed business domains.

[Insert Figure 1 about here]
In contrast, real divisional charters are seldom timeless creations. Businesses may be added to divisions, taken away, or switched from one division to another. Therefore, division charters are not once-and-for-all creations. Indeed, we find charter changes can be made on a continual basis in the course of a corporation's development. One of the informants in this study said it best:

A charter is really a time dependent concept, since it is not something that remains forever with the division. Generally, it is a statement of purpose. It includes the task, market, and the customer the division is concerned with. It also tells you something about how the division is linked to the rest of the company, but these things can change.

Charter change can be viewed as a critical adaptive device for M-form corporations. In essence, charter changes are an organizing strategy by which M-form corporations continually align evolving business areas with pockets of corporate resources. This stems from our conception of divisions as, fundamentally, consisting of underlying resources (i.e., skills, routines, competencies, etc.) and product-market areas where these are utilized (i.e. divisional charters). Although these two components certainly require one another, we point out that these two components are also separable- product-market areas can be matched with different divisions and the resource pools they represent. Moreover, we can conceive of some division-charter match-ups being potentially superior or inferior to others. Charter changes, therefore, via a process of dynamic realignment, have a potential to offer greater adaptability to the corporation.

The motor behind charter changes is often evolving technologies and markets. For example, new technologies (e.g., RISC computing, gene-splicing) and new products (e.g., cellular phones, mini-vans) open new charter opportunities. Such new businesses might become the charters of new divisions or be added to the charters of established ones, perhaps through a competitive intracorporate market for charters. Sometimes business opportunities converge (e.g., fax products combine print and telecommunications know-how) such that the charters of once separate divisions collide and compete. In this case, businesses may be moved between divisions to redraw the charter boundaries, and therefore, reassert distinctions between divisions. At other times, the market of a particular division can explode, spawning many new business opportunities (e.g., microprocessors expanded to personal computer, workstation, and lap top products). In this case, redistribution of business responsibilities may be necessary to focus the burgeoning division
and find appropriate homes for spillover charter areas. Existing divisional charters might again be readjusted to better fit the expanding marketplace. Finally, sometimes markets simply fade and charter-division match-ups must be appropriately reconsidered. Overall, because markets and technologies are dynamic, so division-charter match-ups may need to coevolve.

Charter change is particularly relevant as an adaptive strategy in high-velocity settings. When technologies and markets are evolving rapidly, the match between existing charters, divisional skills, and business opportunities is most likely to fall out of alignment. Moreover, if the business areas are highly competitive and advantages erode quickly, such as in hypercompetitive contexts, there may be even greater pressure to shift charters in order to maintain competitiveness. Thus, rapidly evolving markets and technologies create opportunities to change charters and competition makes it imperative to do so. Indeed, we argue that the continual assessment, movement, and recombination of divisional charters may be an important adaptive device used by corporations to remain competitive in high-velocity settings. Yet, given the static conception of charters in previous research, there is little conception of how these processes operate, an important next step for research on diversified corporations to take.

So, the question arises, how do charters change? Is charter change fundamentally a selection or an adaptation process (e.g., Mintzberg, 1990; Burgelman, 1991)? Time-based vs. event-based (Gersick, 1994)? Does charter change involve long periods of relative stability followed by short bursts of tremendous change (e.g., Tushman & Romanelli, 1985)? Or is it more a case of frequent, incremental, and quasi-planned changes (e.g., Quinn, 1980)?

The purpose of this paper is to explore the evolution of divisional charters. Given the complexity of this topic, we focus our attention in this paper on one research question: How do divisions lose all or portions of their business charters? Specifically, we ask: What initiates such losses? What roles do various entities in the corporation play in these losses? How can we characterize these changes?

As noted above, since past research usually takes a static view of charter domains, there is little theory to guide our thinking. So, in taking this next step in multidivisional research, we
conducted an inductive study of 9 charter losses in a major, US multinational firm. This firm competes in a number of hypercompetitive industries (e.g., telecommunications, computers, electronics, semiconductors) where opportunities for divisional domain changes are frequent.

We begin by discussing the inductive methodology that this paper employed. We then turn to our findings, which reveal 3 distinct patterns of charter loss contingent upon a division’s phase of business development. One ("start-up losses") revolves around divisional failures to launch new businesses. The second ("growth losses") involves the shedding of charters by booming divisions in search of focus. The third ("maturity losses") is associated with divisions in mature markets falling into misalignment with the market. Within each pattern, we note the interplay between the focal division, other divisions, and corporate executives.

We conclude with the observation that Omni, our focal firm, effectively relies on the strategic use of charter changes as a means of adaptation with rapidly coevolving markets and technologies. This "recombinant" view of organizations, where charters, like genes in DNA, are respliced to fit changing conditions, is the conceptual contribution of the paper. It is intended to be a more dynamic vision of large, diversified firms than the static conceptions of the past. We see this as an important next step in research on the diversified corporation.

METHODS

We pursued our research inductively using 9 cases of charter loss in a major, US multinational. The use of multiple cases allowed a replication logic whereby each case was used to test emerging theoretical insights. This method also allowed for a close correspondence between theory and data, a process whereby the emergent theory is "grounded" in the data (Glaser & Strauss, 1967; Eisenhardt, 1989a). No hypotheses or theories were constructed prior to the research effort. This research strategy is appropriate given the inductive nature of the study and its focus on strategic process modeling.

The study captured multiple sources of influence on the charter change process, including industry forces and various levels of authority in the corporation. It also involved understanding the history of the company and the division being studied, linking the past to the events and actions...
surrounding specific charter changes (Pettigrew, 1990). Finally, the design included both retrospective and real-time data on charter change, the former increasing the economy of multiple case studies while the latter allowing greater depth of understanding of this longitudinal process (Leonard-Barton, 1990).

**Research setting.** This research is the result of a broader, 18 month study of charter changes in 10 divisions, both domestic and foreign, of a large, multinational, high-technology corporation based in the United States. “Omni” corporation is a Fortune 500 high-technology firm whose interests lie across a wide, but related, spectrum. Customers include large private businesses, scientific and academic institutions, the government sector, and individual consumers. The corporation is divided into multiple groups and divisions. Each group consists of related divisions, and each division is treated as a profit center and holds strategic and operational control over its business(es). The corporate structure is of a global product-division type (Beamish et. al., 1994), that is divisions have global responsibilities and are not distinguished on geographical dimensions. Rather, divisions are distinguished according to product, market (i.e., nature of enduser), and technological dimensions. Divisions were sampled according to the following criteria: (1) Divisions had experienced one or more recent charter changes (typically within two years) or else were currently undergoing a charter change; (2) Divisions were selected from different business groups, thus increasing the likelihood of differences in divisional business contexts and thereby increasing the generalizability of findings (5 of Omni’s 15 groups were represented); (3) Two divisions were typically sampled per group to allow us to observe the interdivisional dynamics that constitute these charter changes. Table 1 outlines the cases that comprise this study.

[Insert Table 1 about here]

The unit of analysis was the charter change experienced by a division. A division’s charter typically included the responsibility over one or more related businesses. Charter changes were found to be of two basic types: *gains* and *losses*. A charter gain occurs when a division is made responsible for a new product to produce, market to serve, and/or new area to develop. A charter
loss. In turn, occurs when a product or market area of responsibility is removed from a division. Of the 10 divisions sampled, 9 cases of charter loss were found. This paper analyzes these 9 cases of charter loss.

**Data Collection.** Data were collected primarily through semi-structured individual interviews and questionnaires. Informants in the interview process included corporate vice presidents responsible for the group to which the division belonged, division general managers (one per division), division functional managers (multiple), and occasionally lower level project managers, although informants mostly comprised of the division’s top management team (general manager and functional staff). Also, numerous discussions regarding charter change processes were held with corporate-level staff responsible for organizational design support (and who were familiar with the charter change events). Two feedback sessions were also used to gather further insights from informants on charter change processes. 82 informants were interviewed in total.

Interviews were usually conducted during a site visit to the division. Informants were briefed beforehand as to the nature of the research and most of the interviews were tape recorded and transcribed. In all cases, the occurrence of charter change had been confirmed through telephone conversations with the general manager or functional staff member before a site visit was scheduled. Informants were selected on the basis of their presence during, and involvement in, charter changes. Early contacts with managers also helped to establish a list of “must” interviews during the site visit, although other actors were pursued if their involvement in the charter changes became obvious after the initial interviews. Interviews typically lasted 90 minutes, although some interviews went on for several hours. Notes taken during the interview were entered into a database created on a notebook computer, typically during that same 24 hour period. The focus here was on quickly getting the story of the change recorded in as much detail as possible in order to help understand the interview transcripts. In addition, an ordinary paper notebook was used to collect impressions and new ideas regarding the charter change process for every site completed.

An interview guide was used to conduct the investigations. There were three sections to the interview guide. First, questions were asked regarding the informants’ history with the company
and division, along with their understanding of the division charter, both past and present. Questions regarding the division's performance were also asked. Second, the informants were asked to provide a detailed account of the charter change(s). Informants were given freedom to develop the story as they observed it, although probing questions were used to flesh-out details (e.g., "When did you first hear about the change?", "Who were the key players involved?", "What were the arguments in favor of the change?", "Was the change resisted? How? By Whom?" etc.).

The final section focused on specific constructs and their change over the course of the charter change, including: division goals, strategy, internal structure, technology, extent of decentralization, conflict, and communication patterns. We regarded these as key issues in the study of large corporations and therefore wanted more focused comment on how these may have been affected by the change process.

Retrospective data collection occurred during 2-3 day site visits to divisions. Real-time data collection, where the charter change was in progress, involved at least two entries. In the case of Patriarch division, data were collected via a site visit shortly following an initial decision to transform the domain and then 7-8 months later, via telephone interviews, as the charter changes were being implemented. In the case of Zeus division, data were collected over a 2-3 month period with 5 points of entry. Information was gathered both retrospectively, regarding a recent charter change, and in real-time, concerning current decision making that sought to transform division boundaries.

Questionnaires, including a financial data sheet, were also used to gather quantitative data on some of the constructs discussed in the third section of the interview. In particular, the questionnaire attempted to gather information on changes in divisional goals, strategy, and decision making influence. Secondary sources of data included company documents, group interviews, media publications and direct observations of several strategy formation sessions.

**Data analysis.** Data analysis used familiar approaches for qualitative, inductive data analysis (Glaser and Strauss, 1967; Miles and Huberman, 1984; Eisenhardt, 1989a; Yin, 1989). Analysis began with detailed written accounts and schematic representations of charter changes at
each division. Initial versions of the charter change story were written immediately after each site visit was completed. These were followed by much more extensive accounts of the charter change process, making full use of quotes from transcripts and combining accounts of multiple informants. We usually found high agreement between respondents over critical issues, such as who were the main players involved and what were the key actions. Secondary data were useful in confirming or verifying events. We met frequently to discuss the events of the cases and to exchange information.

After construction of the case histories, within case analysis was conducted by answering the focal research question for each case. These answers were the basis for developing early constructs surrounding patterns of charter change for each division, involving at least two investigators in the construct development and confirmation of findings. We analyzed the cases separately, and then came together to discuss each case and our interpretations of the events in the loss process, referring frequently to the data and our personal notes. Significant dimensions emerged in describing each loss through an iterative process of going into the data for insights, suggesting constructs, dipping back into the data to check for inconsistencies, emerging with refreshed constructs, and so on. These constructs were kept "close to the case." That is, we described the loss process in very case-specific terms. When common dimensions of the charter loss process began to emerge, as we moved from case to case, we noted these but refrained from further refinement of the emerging dimensions until we finished our analysis of each case and began our cross-case analysis.

Cross-case analysis produced the working framework of the charter loss process. Charter change cases were compared and contrasted using methods suggested by Miles & Huberman (1984) and Eisenhardt (1989a). These typically involved the use of tables and matrices to examine the emergent dimensions across the cases. Typically, a series of two or three cases were compared at a time before attempting to generalize the constructs across the whole sample. This allowed us to still focus deeply on the data before trying to elevate the level of abstraction. Constructs were lifted to higher levels of abstraction as we compared across the whole sample.
In particular, we found that three entities were reappearing as significant factors in each case of change and that they could be used effectively to categorize other constructs. The three entities were: the focal division, other divisions, and corporate executives. Interactions among these players, both horizontal (between divisions) and vertical (between hierarchical levels) interactions, also appeared important. Overall, this triad provided an effective lens through which to view each case and examine other constructs, such as performance, charter overlaps, and conflict. A breakthrough occurred when we noticed that three patterns, contingent upon the phase of business development at the division, were emerging across the cases. What resulted was a rough framework of the overall process, revealing three patterns of loss that involved distinct processes of interaction. Taking this framework, we then went back into the data to re-examine our emergent model. This began another iterative process of going back-and-forth between the emergent model and the data. This further grounded our findings and shaped the development of a process model of charter losses, to which we now turn.

PATTERNS OF CHARTER LOSS

How do divisions experience charter losses? Figures 2 and 3 summarize the process model that emerged from our analysis of nine charter losses at Omni. As Figure 2 displays, we found 3 patterns of charter loss that correspond to three phases of core business development. These phases are consistent with the well-known concept of a product life-cycle (e.g., Porter, 1980). Divisions were either attempting to launch new businesses ("start-up phase"), growing their businesses ("growth phase"), or managing maturing businesses ("maturity phase") when they suffered charter losses.

[Insert Figure 2 about here]

Second, we found that each business phase had a distinct pattern of charter loss (see figure 3). The patterns varied in terms of the logic of change (i.e., the underlying theoretical motor), the importance and nature of interactions between particular corporate actors, and the difficulty of the change. For example, in the start-up phase, the divisions competed with one another in a kind of Darwinian competition to create viable new businesses. Although there were "losers", the loss
process itself was relatively painless. In the growth phase, the group executive played a decisive role in a more difficult change process that was motivated by the need to keep booming divisions focused on their burgeoning markets. In the maturity phase, once-dominant divisions had lost touch with their markets and the result was a wrenching, charter battle between competing divisions.

[Insert Figure 3 about here]

Third, although the pattern in each phase was unique, the actors, consisting of group executives, the focal division, and other divisions, were always the same. That is, the interplay among these three actors consistently shaped charter losses, although in no single fashion. Of particular importance was divisional interdependence ("horizontal" interplay), vacillating between competition with one another in the corporate marketplace for charters and cooperation with fellow divisions who were ultimately on the same "team". Similarly, tensions arose between divisions looking out for their own interests and corporate executives trying to take the corporate perspective ("vertical" interplay). So, charter loss depended not only on characteristics of the focal division, but also on the needs and successes of other divisions and the interests of the corporation as a whole. Moreover, there existed a duality between competitive and collaborative mechanisms of interaction, a theme that will be evident across the three patterns of charter loss and one that we will return to in our discussion. We now turn to an explication of the three patterns and logics of charter loss that comprise our model.

**Start-Up Losses: Survival of the Fittest**

One pattern of charter loss occurred as divisions were launching new business areas. Charter loss in these cases involved the removal of the emerging charter from the focal division. The charter loss process was characterized by four key elements: (a) performance crises in the focal divisions as they attempted to build new businesses; (b) availability of competing and typically more successful divisions as alternative sites for the charter; (c) fluid commitments to any specific charter-division match-ups by corporate level managers; and (d) ambivalence within focal divisions surrounding the new charters. Overall, these losses were characterized by an evolutionary logic of
natural selection and a consensus among all concerned about the wisdom of the loss. Venture, Scout, and Pioneer divisions experienced this pattern of charter loss as we explain below.

[Insert Table 2 about here]

The Setting: Novelty, Excitement and Crisis (Table 2, column 1) In large corporations, there is often intense pressure to grow. Growing a division carries with it significant rewards, including higher salaries, promotions, and prestige within the company. And, growth ensures the future of the corporation. Thus, at Omni, seeking growth had become a powerful norm, driving managers to seek new charters or domains as sources of expansion. As one manager put it, “Everybody's going nuts trying to find ways to grow at phenomenal growth rates...and if you're not growing at that rate, you might want to be considering getting out.” Not surprisingly then, 3 of our divisions (Venture, Scout, Pioneer) went after new opportunities.

There was excitement surrounding these promising markets. For example, in the case of Pioneer, an emerging business area provided an opportunity to take part in an intriguing new market that was projected to grow wildly. As one manager emphasized, “This was just the hottest thing...there was excitement about this new product charter”. At Venture, the new charter created excitement as well. As one manager put it:

We really wanted to grow. And when all of a sudden, we kind of said “we really can't do it with [our existing business],” and the new business came in and we said “this can do it for us! Now let's go do it.”

As time went on, this early optimism waned as within 2 years of starting the new core charter, performance problems became apparent. We defined performance problems in terms of difficulties in generating sales, profit, and strategic direction for the new business. At Scout, falling margins and lack of a viable strategy signaled performance problems. Scrutiny intensified over Scout's charter performance when profit margins fell 6% in the first year, a surprising amount given the fact that early (and costly) product development was conducted in another division. More importantly, Scout failed to devise a future direction for the business. Despite their time with the charter, Scout executives remained uncertain about where to go. As a manager stated, “Our problem was figuring out where the hell to go once we needed to be tuned to this new charter, and figure out where was the market headed, what were the customer needs, and we thrashed a long
Pioneer faced similar problems. The division had mounting financial losses as they spent tremendous resources in developing the new charter. First, Pioneer faced major problems defining their new charter, as one manager noted:

The new business was a very difficult concept to explain to people. On the surface it seemed simple. When you get into trying to explain it to somebody it's difficult to grasp.

Pioneer also faced the realization that its product, in its existing form, would not sell well. One manager summarized:

We couldn't get it cheap enough. So we said, “Let's scale it down”. It still wasn't cheap enough... It became clear that this wasn't going to work and at the same time in the external environment it became clear that...the move wasn't going to happen as fast as people thought.

Finally, Venture division experienced abysmal market response to its new charter product. Profit margins plunged. Since this charter was expected to be a new core product for Omni, it had aroused excitement and inflated hopes. The dismal early returns, therefore, were particularly shocking, quickly triggering attention and raising serious concerns. One manager summarized the final months:

I don't think that reality really set in until the end of the first month of sales. Our first day was actually a very exciting day, because we sold enough units that would put us on track with expectations. But then we didn't sell any more!...We didn't even live up to our most pessimistic forecast.

In sum, poor performance in terms of weak revenues, falling profit margins, failure to develop viable products, and inability to provide future direction signaled crises in these divisions. Although in all cases divisions had placed great hopes in the new charter areas, expectations were not met, early performance measures were poor, and the businesses were lost. On the surface, simple financial considerations explain these charter losses. Yet, our data reveal that these are not complete explanations. After all, executives could have waited longer, invested more money, changed management or reshaped strategy and processes. Rather the loss process was heavily influenced and shaped by other factors.

Other Divisions: Strong Rivals (Table 2, column 2) Omni competes in many highly competitive and fast changing markets. Theirs is an aggressive “have lunch or be lunch” world. Not surprisingly then, as we mentioned before, senior executives at Omni encourage divisional managers to go after new markets. Thus, not surprisingly divisional managers went out looking
for new businesses. However, they ended up with charters that bumped and overlapped with other divisions from time to time, particularly as “hot” new business areas emerged that attracted divisions from several vantage points. The fuzziness of new markets made it even more likely to run into other divisions even when not trying to do so. Indeed, in each of the three cases, while the focal division was going after a new domain, so too were others either pursuing the same domain or posturing to do so. Sometimes the divisions knew about each other, but sometimes not. These overlaps eventually created competition and were a critical element in the charter loss process.

Sometimes there was direct competition within the same emerging business area. For example, both Pioneer and another division were actively developing products in Pioneer's new domain, each approaching the domain from a unique technical vantage point. This created confusion over where the charter for this business area belonged. As one manager stated, “At the time there were not good clear boundaries.” Moreover, since they were part of the same group, these divisions were striving for the same set of resources. As a corporate level executive reflected on this emerging situation in the group:

One of our biggest problems was that we still had too many entities, and too much overhead... for our size in the industry we were in, we had too many organizations.

In the case of Venture, another division was also developing a very similar business, creating confusion and friction over who was the actual owner of the charter. As one manager claimed:

It was a war! And who owns this entire new area? Do we own it? Do they own it?

Competition was also emergent, coming in the form of other divisions posturing or lobbying to attempt the same business opportunities. Venture also faced competition of this sort, most notably from a site with similar (if not advantageous) competencies that created a strong alternative to Venture as a home for the charter. Venture was developing a new product that relied on several technical competencies. Venture could deliver in one critical area, but the competitive division could deliver on another. Also, the other site was considered “up-and-coming,” was concurrently searching for a brand new business charter, and was generally keen about this new area. Moreover, having successfully managed its existing business duties, the other site was in a good position to seek greater responsibilities. The combination of having developed a critical
expertise, being successful in this undertaking, and needing a new business charter created a powerful rival for Venture’s charter.

Unfortunately, Scout, Pioneer and Venture did not measure up against their internal competition. For example, Pioneer failed to develop a product in its emerging business area. The other division’s development, on the other hand, looked promising, particularly since they had recently developed a successful, related product which they were using as a source of leverage into the new domain. As one Pioneer manager stated, “They were experiencing [the necessary] expertise.” In the end, problems with their approach, mounting losses, and the recognition of ever increasing overlaps with a more successful division led Pioneer managers to reconsider their new charter, a business area they eventually chose to terminate.

Similarly at Venture, the presence of another division served as an important facilitating factor in the charter loss process. As one manager summarized:

What happened concurrently was that the group manager was being pressured to create a charter at this other site. He was looking for a charter for this new entity... they had done well and the company was looking for a charter for them... it seemed to make sense to him to have them focus on our charter area, since we were kind of floundering with it and not doing well. He agreed, and took advantage of the opportunity to move it out of our division and over to the new site as their official charter.

Finally, Scout faced a rival that was considered very competent in Scout’s new business area. As one manager of the rival division said, “[a senior VP] has told me a couple of times that we...have all this [relevant expertise] here...” Scout’s rival also faced possible closure and massive relocation of employees if they could not gain a new charter, because the division recently lost its current charter to a third division. Thus, their acknowledged competence within Scout’s domain and Scout’s mounting performance problems led Scout managers to agree to transfer their new business to their rival, particularly since Scout employees could readily relocate to nearby sites.

**Corporate Executives: Fluid Commitments** (Table 2, column 3) Corporate executives played an intriguing dual role. They were often among the instigators of forays into new markets. They wanted divisions to try new markets and new ideas since they, just like divisional managers, were concerned about future growth possibilities. But, while the divisions became emotionally invested in their new charters, these senior executives were more detached regarding the division-charter match per se. They were more generally concerned with the well being of the
new opportunity wherever it may reside. To them, most attempts at starting-up new businesses were experiments. If one bet did not work, another might. These executives were consummate experimenters, as reflected in this description of Venture’s corporate executive by a Venture manager:

Strategically, [the executive’s] thinking was sound in the sense that he felt like we don’t know a lot about this market, so don’t spend a lot of time designing a product. Get something out there, we’ll learn more from having even a poor product on the market than we would to take two years to get what we think is the perfect product.

Moreover, although Venture’s executive showed tremendous interest in the new venture per se, the concern was more from the perspective of the entire business group. As another manager reflected, “He was fascinated with the concept, liked it, thought it was a great concept, and wanted to go forward with it from his business group standpoint.”

Simultaneously, corporate executives were also guardians of corporate profit and they passed that pressure onto the divisions. For example, one manager at Pioneer worried, “You've got like a 1 year transition time where the [old] business is going to keep you alive, but if you want to maintain the size of this organization you've got to find several hundred million dollars worth of revenue from the [new] business.” So, much like Gersick’s (1994) venture capitalist, these executives experimented, but usually with limits on time and funds available. The result was that corporate executives were only weakly committed to any particular attempt to start-up a new charter. They wanted new charters to succeed, but were willing to attempt different charter-division match-ups for the new charter area. Indeed, executives apparently preferred to have multiple experiments in the early going, allowing charter overlaps and boundary issues to be played out between divisions instead of dictated from above. As one Scout manager recounted:

[The executive] delegated a great deal to [our GM] with respect to shoring up the charter. [The executive] would swoop in everyone once in a while, kind of give us a tune-up on what the group was doing, the vision of his organization, and then he'd go away. And [our GM] was left to develop the relationships between his compatriots [in the group]--we were then trying to share charters... it was my sense that [our GM] was out on his own, trying to duke it out with the other GM’s, to define what Scout’s charter was.

Focal Division: Ambivalent Suitor (Table 2, column 4) As mentioned earlier, great enthusiasm accompanied attempts to start-up new business areas. But division members also had substantial concerns. For example, some division members were concerned about the changes that the new charters involved. At Scout, managers worried that the change was taking them too far
from their pre-existing domain. As a manager reflected:

It was a lot of work to get the organization to accept and believe that we could jump in this vicious battle that was going on in the marketplace... a lot of the aspects of it were outside of the troops comfort zone... the pace and the pressure of the new business was much different than what people were coming from. The people who were highly suspect of the change were... especially the engineers.

Another example is Venture. Here there was skepticism about the realism of schedules. The division was expected to develop a complex charter under tight time pressure. As two managers stated:

It had an extremely aggressive schedule. We knew nothing about the new area, and we were asked to produce a product in 15 months... and the proposal there was 24 months. We felt that was aggressive.

As we started looking at it, you know, we've been talking about this [downsized] version, and we began to say, "I'm afraid we're going to get into trouble with this."

Likewise, Pioneer managers were skeptical about whether they could generate revenues quickly enough as they transitioned from the old business to the new one. Pioneer managers also worried that the new charter contained too many complex pieces. The possible strain on employee "bandwidth" (i.e., extent of job responsibilities and duties) created mixed feelings. As one manager stated:

I think [the mood] was mixed... the mixed reaction was more that people's bandwidth [was stretched], [our] ability to juggle all the different balls in our court.

In general, the dynamics of "start-up losses" reflected an uneasy emotional duality. Moods swung between excitement and apprehension, as a manager from Venture vividly claimed:

We went through cycles. There'd be periods of time when people'd get pretty excited about the potential for the program, what it could do for us, that it could give us growth, and then we'd go through periods of non-excitement when we'd hit the problems.

A second source of ambivalence was fallback options. In all cases, these divisions concurrently managed older charter areas along with starting-up their new domains. The ties to their previous core charters, therefore, were often strong. For example, Venture was still considered a market leader in the old charter area and they maintained active investment in this charter. The move back was, therefore, natural. As one manager said, "I requested that we get out of this business and get back on the business that's paying the bills." Similarly, in the case of Scout, their pre-existing business provided a viable alternative, as a manager stated, "We were trying to make a transition, but we had these 'nice things' [from our pre-existing charter]."

At Pioneer, the maintenance of relevant core competencies and the success of their final
product in their former core charter area (which they were in the midst of dissolving) provided a path for their return to this domain. As one manager stated:

We had a good business understanding of [the old charter]... and we lost it because we got diddled and dallied in other things. But, the core capability and skill set was here.

**Losses: Consensus** (Table 2, column 4) The combination of competing divisions, weakly committed corporate executives, and ambivalent losing divisions made for a relatively painless charter loss. For example, as the situation within Pioneer worsened, and as the competition with another division became more apparent and their success more obvious, both the divisional general manager and the corporate vice president came to the same conclusion to terminate Pioneer's new charter, as reflected by the general manager's comment, "The executive was looking at this charter, I was looking at this charter and we said 'this thing ain't going to cut it!""

Similarly, Venture managers and the corporate executive decided simultaneously that the charter responsibilities for the new area should be moved from Venture. As a Venture manager recounted:

[We] made a decision to go to the [corporate level executive] and recommend at the quarterly review that we get out of the [new] business. And it turns out they had come to the quarterly review with a similar idea!... So both felt the same thing, and so it was a pretty easy thing to do at the meeting.

In fact, in all three cases the charter loss showed very little top-down forcing of any kind. Most of the writing, as one Scout manager put it, was "on the wall." Arguably, this reflects Omni's culture. We observed Omni to be a team-oriented institution. However, it is important to remember that this did not preclude these divisional competitions from being generated in the first place. Nor does this culture explain the greater harshness of the loss process that we observe in subsequent patterns. Rather, the circumstances and structural conditions (e.g., ambivalence and shallow organizational roots in the new charter) apparent during this phase were important in explaining the relatively consensual atmosphere surrounding the losses.

In summary, charter losses in this phase are triggered by performance problems. Losing divisions could not find a clear charter, could not develop a product, or could not sell. Perhaps these situations might have turned around with more time, money, or different management. But, other factors were key. The presence of competing divisions was critical in pulling the charter
away from the focal division. These divisions gave these attractive charters somewhere else to go. Senior executives displayed fluid commitment. In their minds, attempts to start-up new businesses were experiments, tempered by demands for profits. Finally, within the focal divisions, rather than escalating commitments, there were doubts and fallback positions.

Overall, this charter loss pattern resembles a natural selection mechanism of adaptation. Variation (i.e., random emergence of novel forms) was evident in the number of divisions attempting to develop the same charters from different vantage points. For example, Pioneer was engaged in creating the new charter using one expertise, while a rival division approached it from strength in a different technical arena. Selection (i.e., choice among forms) was based on internal comparisons (typically of performance and skills) of alternative homes for the emergent businesses. For example, Scout was selected out because of slumping financial performance when compared with another division with the requisite skill set in a closely related area. Finally, retention (i.e., perpetuation of selected form) occurred as the redrawn boundaries were implemented around new charters. In short, “start-up losses” display another example of a natural selection process within an organization (e.g., see also Burgelman, 1991; Miner, 1994).

Our data, however, also revealed a more complex process than simply natural selection. There were critical time and resource constraints on variation. Consistent with Gersick's (1994) venture capitalists, corporate executives here were instrumental in triggering variations. More importantly, they thought of variations in terms of limited experiments - experiments with only so much time or so much money. For example, Venture was given only 15 months to deliver a product, while Pioneer was given a rigid, two-year window in which to make money. Thus, rather than purely blind and random variation, attempts at launching new charters (i.e., variations) were always constrained.

Second, although performance was a key selection criterion, selection was a more social process than simply financial “winners” and “losers.” The data revealed a self-selection component, whereby internal attitudes within focal divisions helped to explain the losses. For example, as noted above, there was substantial ambivalence in each division about the new charter.
In addition, despite internal competition among divisions for the best charters, there was also a sense of equity and cooperation towards other divisions. For example, Pioneer managers were sensitive to the fact that in past disputes their rival division had been mistreated. Leaving the charter area graciously partially redressed these past injustices towards a fellow division. Thus, efficiency-based decision making was coupled with social dynamics that recognized that competing divisions were ultimately in the same corporation. Finally, factors beyond performance weighed heavily in the selection process. Scout lost to a rival division not only because of poor performance, but also because the other division needed to maintain the employment base in a sensitive geographic region. Similarly, Venture partially lost because the corporation wanted to expand its presence in a key overseas location. So, in addition to the relative performance of divisions, the social fabric of these divisions and the broader corporate context influenced the selection process.

The findings also illustrate the link between “shallow structures” and the natural selection mechanism. The mixed feelings over new business domains and the brief time with the new charters were symptomatic of the shallow roots of these charters within divisional homes. In contrast, Gersick (1991) observed the presence of “deep structures” as organizations become entrenched in some endeavor over time. Deep structures are interlocking configurations of organizational structures (formal and informal) and processes that develop and, more importantly, persist around some endeavor within organizations. History is particularly important in their development. They are difficult to change, often requiring “revolutionary periods” (Gersick, 1991). Clearly, divisions facing start-up losses had not had time to form deep structures around these charters. Since structures were shallow, uprooting new charters proceeded relatively smoothly.

**Growth Losses: Tracking the Market and Focusing the Division**

A second pattern of charter losses was found among divisions that had survived the launch of new core charters and were successfully growing their new businesses. Charter losses occurred as peripheral charter areas (both older businesses and new ventures) were stripped from these divisions in order to ensure focus on the booming business areas. “Growth losses” were
characterized by four essential elements: (a) focus problems created by very rapid growth in market size and divisional revenues; (b) needy alternative divisions; (c) watchful corporate leaders; and (d) burgeoning charter responsibilities limiting divisional resistance to change. Overall, the process was marked by a teleological logic of change, as corporate executives continuously focused the focal division on riding its booming core charter. Zeus, Dynamo, and Marvel divisions all experienced charter losses of this pattern, to which we now turn.

The Setting: Booming Business (Table 3, column 1) Large corporations are often portfolios of businesses. As such, they occasionally have “big winners”, divisions that perform enormously well. But, ironically, these wins set the stage for a second pattern of charter losses that we found in 3 divisions (Zeus, Marvel, Dynamo). Charter losses occurred as peripheral charter areas (both old businesses and new opportunities) were shed while these divisions focused on growing their burgeoning core charter area.

Zeus, Marvel, and Dynamo were riding exploding markets. For example, 6 years after entry into this business area, Zeus was growing sales at 40-50% and adding employees at the same rate. They were among a small number of companies that had entered this rapidly rising sector of their industry. And, they were winners. One manager colorfully described, “It’s like drinking out of a fire hose...And we haven’t stopped to get air yet!”

Marvel was also an early participant in a growing market area. 6 years after the charter began, Marvel was booming, doubling revenues and enjoying healthy profits. A manager within Marvel’s group stated what was generally acknowledged when he said “Marvel division [had grown] from nothing to a big success.”

Dynamo was also tracking a lucrative market area. As one manager testified, “It’s growing and gaining customer acceptance, and dollars are starting to flow through, and all of a sudden it starts to grow and grow”. Although not as firmly entrenched on the growth curve of the life cycle as Marvel and Zeus, Dynamo was also successfully competing in an exploding business.

As time went on, however, it became more difficult for divisional managers to keep track
of their enterprises. Managers became cognitively overburdened as divisions attempted simultaneously to manage their booming core charters, older business areas that preceded the boom, and new opportunities spawned by the exploding markets. As one Zeus manager said, "I could not deal with both business issues, I was stretched-bandwidth, focus, all of those issues".

These difficulties were manifest in focus problems. Some involved neglect of new opportunities. Booming divisions were often teeming with new ventures, some of which these divisions could and should pursue. However, despite their lucrative nature, these opportunities could not always be accommodated in the over-burdened divisional structures. For example, Zeus' labs had expanded to where it was difficult for the R&D manager to guide strategically more than incremental innovations. As one manager described, "we had too many technologies that we were mucking around with." Thus, although attempts to champion new businesses were encouraged, straining internal structures and systems usually slowed their progress. A Zeus manager said:

The strategy was to pursue the neat opportunities that were emerging from Zeus. (But), the perception was that with the structure that existed at Zeus, you could not make them happen here. You could not get the results.

Marvel experienced similar problems with new opportunities. Marvel had enjoyed tremendous success since its inception, as one manager stated, "the heart of the [group] at that time was in Marvel." However, Marvel also spawned new charter opportunities that could not be given adequate attention within the division. As one corporate executive stated, "I looked at what was going on in Marvel and they had [their core charter] business by the tail, a tiger by the tail, trying to make that a success and this other business was there and not clearly a high focus of the team."

Managing old businesses was a problem as well. Although they had passed their primes, these businesses were often still valuable generators of profit and brand image. At Zeus, these businesses were ignored. In contrast, at Dynamo managers paid too much attention to them. As one executive related, "Although net margins were strong for the entire charter at the time of the split (18%), the new core area had only managed to make up 50% of the overall revenues for the division in the 4 years of its existence." This was substantial, but still disappointing for divisional managers given the rapid growth of the new marketplace. For Dynamo, the old business was easy since it involved selling to captive internal customers. In contrast, the booming marketplace was
more competitive. As a result, the distraction of the old business damaged Dynamo’s competitiveness. One manager testified:

Generally, I thought we had pretty good technology but we were slow to react to changes because we had this umbrella of [secured internal customers]. People were not very well focused on productivity improvements, time to market, cost...it was really a nice protective environment.

These problems led to periodic “shedding” of the old and new businesses that surrounded the primary charter area. As a corporate executive explained, “[We were] refocusing the product definitions of what [these divisions] were going after”. For example, Dynamo split off the old charter. The division subsequently refocused on its booming business while the old business was spun-off to form a new division. Marvel grafted a new opportunity onto another existing division. Zeus spun-off both the old and the new. The rationales were the same. As a Zeus manager said regarding the older business, [We lost the business] primarily because of the fact that we really needed heavy duty focus to deal with the [booming business].” The result - “more focus for us!”

On the surface, a simple focusing rationale explains these charter losses. Yet, there were other options, such as adding administrative staff and expanding divisional structures, that might have worked. Rather, the loss process was also influenced by other factors.

**Other Divisions: Opportunistic Transfers** (Table 3, column 2) As mentioned earlier, corporations such as Omni are portfolios of businesses. Thus, while divisions such as Zeus, Dynamo, and Marvel were booming, others were not faring so well. Not surprisingly then, to some of these latter divisions, the cast-offs from the corporate titans looked attractive. Thus, losses occurred not only to focus the corporate “golden geese”, but also to help other divisions.

For example, at Marvel, their charter loss was facilitated by a fellow division (Omega) that was desperately seeking new business domains. Omega, as we shall detail later, was facing a maturing business and needed new business opportunities to remain viable. Moreover, Marvel was not able to exploit this new part of their domain, straining, as we saw above, merely to keep up with managing an explosive core business. However, other than Omega’s high technical competence and ability to devote total attention to the new venture, there were no particular advantages to Omega. Rather, Omega was in need and Marvel had excess. One corporate executive recounted, “[Marvel’s new venture] was small at the time and so it was pretty low risk to say let's
get a new organization focused on this and bring all the energy of a dedicated management team, a
dedicated resource of people who deal as though their lives and their future depends on this, then
you get different results.”

Similarly, Zeus transferred an older charter area to another division that was seeking a new
charter. Although this site did not necessarily contain competitive advantages for the older
business, their need for charter was itself a facilitator of the charter loss. As one manager said,
“...it was real clear that [the other division] needed a product charter.”

Overall, these divisions facilitated charter loss by providing somewhere for excess charters
to go. However, unlike “start-up losses,” interdivisional relationships were not competitive in the
sense that the recipient divisions were rivals, with selection based on performance. The recipient
divisions were in no position to challenge the corporate engines of growth. Rather, other divisions
were convenient parking spaces for the excess businesses of corporate titans. In fact, there were no
existing recipient divisions in several cases. For example, in Dynamo’s charter loss, a new
division was created by “spinning-off” a peripheral business area since a suitable alternative
division was not readily available to absorb the business.

Corporate Executives: Watchful Parents (Table 3, column 3) Corporate executives
were invariably instrumental to the “growth losses” process. Our data revealed that in all cases
corporate executives closely monitored the performance, market conditions, and divisional
structures of these emerging giants. Strategically, these were now the engines of growth in the
corporation and were carefully tracked. As Burgelman (1991) found, these businesses often come
to dominate corporate strategic thinking. A manager at Zeus described, “[Corporate executives]
saw that there was this [new business] empire to build here and there were a lot of things to get
done...”

As corporate executives followed these divisions, the divisional bandwidth problems
described previously became increasingly acute, suggesting the need for shedding charters.
However, bandwidth problems were not the whole story. Our interviews with corporate executives
suggested there were political issues as well. Corporate executives worried that large divisions
would build ever bigger domains, perhaps becoming too powerful in directing the future of the group for which the corporate executives were ultimately responsible. These executives favored spreading the wealth by slicing out business areas to reduce dependence on one division. Moreover, they worried that such powerful divisions would not show the financial returns that could be expected from more tightly managed charters. This is reflected in one corporate executive’s lament about a division that historically had enormous reach and control over group businesses but did not, presumably as a result, perform well. He claimed, “They were basically the Vienna of [their “Hapsburg”] empire that retained all the structure, but didn’t have the majority of the revenue” (i.e., this division was retaining more control over charter areas in the business group than they were effectively able to direct and manage). Thus, unlike executive actions in the previous phase, where executives stepped in to redraw boundaries in a consensual situation, executives in this phase preemptively redrew existing divisional domains. By so doing, executives not only ensured divisional focus, but also retained greater political control over charters in their domains.

**Focal Division: Preoccupied Travelers** (Table 3, column 4) Division managers were reluctant to lose pieces of their charters. Their reluctance partially stemmed from a fear of losing a source of steady revenues and profit. For example, Dynamo resisted losing their older business area because of the financial security this business brought. It provided extensive divisional profit margins and thus shielded the division from competitive forces mounting against the core charter. As one manager reflected, “...the core charter was hiding under the cloak and profit of the past.”

Divisions also feared losing strategic control over the general business area. This was a particular concern when a new business was closely coupled to the core business. For example, Zeus had an opportunity to develop a new business that was a technically advanced version of its booming product line, catering, however, to a different customer. Although Zeus managers acknowledged that their current divisional structure could not handle both businesses, they feared that the two businesses were so related that they would lose some control over the general business area. This attitude is reflected by a manager's comment:

One of my fears... if we split this division , you lose this power [over the business]... Right now we have
controlling power... I need to feel more comfortable with [the loss], but I don’t. So everybody is thinking, is there some way to keep this thing together?

These divisions also had remedies that differed from corporate cures for focus problems. For example, Dynamo and Zeus attempted intradivisional reorganizations by forming separate business teams around the charter areas and using matrix structures. Indeed, divisional managers, agreeing that divisions were becoming simply too large to manage effectively, joined corporate executives in recognizing the problems of focus. They were not, however, so convinced that a charter loss was the solution.

These divisions, however, were also very busy. Although the focal divisions typically opposed the charter losses, the exploding market conditions surrounding them provided enough distraction and, more importantly, security for divisional managers to prevent full blown resistance to change. They ended up simply being too busy to block charter losses. As one Zeus manager recalled:

It was an unbelievable time for all of us here...very fast paced...It was phenomenal!!...I actually had to leave my phone off the hook to just go to the rest room.

Similarly, in Marvel, they were trying to wrestle with their “tiger” business, which needed full attention in order to ensure continued growth and profits. In the case of Dynamo, the enormous size to which the division had grown made change, perhaps of any sort, highly desirable, and thus strong divisional resistance less likely:

But anyway...Dynamo was just a huge division that just was becoming unruly in terms of managing it. And Dynamo had grown beyond traditional size even of a large division.

**Losses: Top-Down Push** (Table 3, column 4) The combination of available and needy divisions, motivated corporate executives, and preoccupied focal divisions led to losses that were driven by corporate executives. For example, Dynamo’s executive stepped in to streamline Dynamo’s charter responsibilities and separate the division from an older, lucrative business that was distracting managers from the central, but more competitive, core charter. As one Dynamo manager recalled, “Well, [the new executive] comes on board and starts looking and realizing that it is good for Dynamo to have to live [with the new conditions]...” Similarly, in the case of Zeus, the executive played a critical role in pushing through the charter loss. As the general manager recounted, “No I wasn’t behind it... much of it was driven by [the corporate executive].” Finally,
in the case of Marvel, as we noted previously, the corporate executive was key in noticing the focus problems at Marvel, the lack of attention to a new business area, and the opportunity to place the new area within Omega. This executive subsequently pushed through the charter loss despite reluctance at Marvel.

In summary, booming divisions shed old charter areas and new opportunities that defocused them from their burgeoning charter areas. Losing divisions could not keep track of old businesses and new opportunities while simultaneously managing their exploding businesses. They could, of course, have added more staff and expanded structures. But, other divisions often were searching for charters and so provided homes for excess businesses. Corporate executives were taking no financial or political chances with their engines of growth, preferring to keep them focused. Finally, division managers themselves were usually too busy to mount significant protests. Like Eisenhardt’s strategic decision makers in high-velocity environments (1989b), these managers (particularly the more successful ones at Zeus and Marvel) became absorbed by their fast moving, increasingly complex core areas. They naturally gravitated towards these “real-time” businesses, neglecting past and future opportunities. Generally, therefore, the underlying evolutionary logic was one of focus.

This process of charter change relates to the information processing perspective on organizational design. That is, information processing failures are seen as leading to reorganizations which either increase processing capacity or decrease the need to process information (e.g., Galbraith, 1973), with charter losses representing this latter logic. However, unlike these reorganizations, consisting of major structural changes to the core activities of an organization, the reorganization process here is a shedding of peripheral activities around the core business. This trimming of excess businesses suggests an additional design strategy for the information processing perspective.

This process of charter change also relates to Van de Ven and Poole’s (forthcoming) description of teleological adaptation. Teleological processes are characterized by highly purposeful, adaptive actions. Entities evolve towards readily identifiable endstates or goals through
explicit actions. Similarly, “growth losses” involved a central and clearly understood mission to focus on the cardinal task of growing the core businesses, and thus to shed new ventures or old business areas as needed. There was no doubt among all concerned regarding the primacy of these engines of corporate growth. However, our data also reveal that the evolutionary processes of Marvel, Dynamo, and Zeus were not purely teleological. Rather, executives were focused on keeping pace with their changing businesses, rather than arriving at some endstate per se, as in a purely teleological process. So, they were directing their energies towards tracking and exploiting the present, rather than reaching some future goal. As in surfing, their mission was to ride the market wave as long as possible, not to reach the endstate of the “beach.”

Charter losses of this pattern also revealed the critical role played by group executives. Whereas the predominant interaction in the previous pattern was among rival divisions, this pattern reveals strong vertical interactions. Partially, the vertical interactions reflected power struggles. Division general managers were pitted against corporate executives attempting to maintain control over these business areas. By dividing up charters, corporate executives were able to exert, and assert, greater control over these business areas. However, there was also a strategic role evident in the group executives’ conduct. These executives went to great lengths to ensure the continued viability of these engines of growth in the company. By matching up needy divisions with excess opportunities that “fell off the plate” of these burgeoning divisions, corporate executives also better aligned these market opportunities with corporate “homes” within which they could be nurtured. In this way, these executives influenced the strategic direction of the company. They protected corporate “empires” while enabling experimentation into potential future “empires” that we saw in the previous loss pattern. These charter losses were, therefore, a key executive tool for shaping corporate strategy within Omni.

**Maturity Losses: Emergent Tensions and Upheaval**

The third pattern of charter losses occurred among divisions with maturing businesses. Charter losses occurred as these divisions lost their mature businesses in order to pursue new business areas that better matched their organizational competencies and cultures. “Maturity losses”
were characterized by four essential elements: (a) a fundamental misfit between the competencies, structure and culture of the focal division and the nature of competition in the industry; (b) competition with closely related and ambitious corporate divisions/subsidiaries that better fit the needs of the maturing business areas; (c) heavy top-down forcing by corporate executives, marked by upheaval in group and division management; and (d) extensive resistance in the focal division. Overall, this pattern of charter loss was characterized by an emergent tensions logic, marked by confrontations between the focal division's normal mode of operation (e.g., heavy emphasis on R&D, innovative culture, high overheads) and both the changing nature of competition in the industry (e.g., low-cost emphasis, modest extensions of existing technological platforms, downsizing) and the availability of other divisions to accommodate this approach. Faust, Omega, and Patriarch divisions all experienced this pattern of charter loss.

The Setting: Maturing Businesses (Table 4, column 1) Success is not eternal and businesses tend to mature (Harrigan, 1988). At Omni, that was certainly the case for 3 of our divisions (Faust, Omega, Patriarch). Each had been a corporate powerhouse. In the late 80's, Omega had been known as “Mecca”. Patriarch had been a market leader for almost a decade. Faust had prospered as well in a rapidly expanding market. As one manager recalled:

If you look through the second half of the 80's they were just phenomenal! And we were just going like crazy. For a few years we just doubled the size of the division every year.

But, by the early 90's, these divisions were slumping. As one Faust manager stated, “Performance was pretty crummy really. Nothing to be proud of.” Similarly, Omega's boom years gave way to struggles with new competitors and lost competitiveness. After years of high margins, Omega's costs became too high and profits disappeared. As one manager reflected, “I think that there was the perception that Omega ... enjoyed tremendous leadership in the market place, tremendous profit...but that allowed [them] to have a fat cost structure...that was okay until there were many [competitors] in the world.”

As time went on, misfit grew. Markets became more competitive and cost sensitive. These divisions increasingly lost their alignment between core competencies and the evolving demands of
their chartered areas. For example, although Faust grew wildly when the market was unexplored and customers appreciated novel product features, the division gradually became misaligned with the marketplace when efficient production and "no-frills," low-cost products captured interest. Faust maintained a large R&D department, complex matrix structures, high costs (40% above other competitors by one manager's estimates), and an innovative culture. The competitive environment, on the other hand, became focused on low cost, low price, and small extensions of standard designs. One manager summarized:

There was a lot of competence in taking new technologies and developing them to specific products in Faust, and the feeling was that the market was moving to where you didn't need that as much, there wasn't so much value in all that engineering and so we felt that [we did not fit]...if we want to stay in the [old] business, the gross margins that you can make in that business in order to fund R&D, marketing and things like that are so much smaller that if we stay in that business we're going to have to tear this place apart.

Omega experienced similar growing misalignment. Omega retained an R&D focus while competitive conditions evolved towards efficient manufacturing and low cost. Omega became less and less able to compete effectively. Omega's strong engineering culture played a particularly strong role in creating misfit. One manager explained:

That goes back to culture... it came from the strong engineering environment, so Omega tended to be feature oriented, Omega was not a low cost site, Omega did not have manufacturing efficiencies.

At Patriarch, the charter marketplace moved away from military applications towards commercial ones. Patriarch found its operations uncompetitive, too focused on development of expensive novelties while the market placed greater emphasis on price. One manager summarized the misfit:

We designed this stuff in the heydays of the boom. We did not design for manufacturability back in the 80's... we had no cost of sales pressure... we had the world's greatest idea every 3 years... But, that has changed.

One response could have been to divest these businesses, as suggested by portfolio planning models (see Berg, 1984). However, none was. Rather, these were seen as still important businesses in the overall "brand" image of the company, and in some cases, they held promise of some future growth. A second response could have been to realign and downsize these divisions. But, there was a desire to preserve expertise and avoid layoffs. One manager described the typical situation:

We had this core expertise here, we had this skill set. We didn't necessarily want to break that apart...

The result was that old charters were replaced by new ones which better matched the
division. For example, Faust was stripped of its old charter, but given the charge of finding new businesses that fit their existing competencies. The guiding principle was to enter emerging niches. One manager noted that they were “really trying to go off and establish a new area.” Only new niches were likely to have the growth potential to maintain the employment base and to exploit the innovative skills of the division. As another Faust manager stated, “[so we said] ‘let’s see if we can find another market where we can take these technologies and keep high gross margins.’” Similarly, Omega lost its core charter, but, as noted in the previous section, gained a new venture opportunity from Marvel. Omega had the technical expertise and desire to drive the new business. Patriarch also lost its core charter and refocused on an emerging marketplace that provided a better match with, as one manager said, Patriarch’s “world-wide expertise” in new product development.

Thus, “maturity losses” involved an emerging misfit between divisional competencies and the nature of competition in core businesses. Rather than divest or realign, these divisions switched charters. However, these losses were also greatly influenced by other divisions and corporate executives. Indeed, whereas “start-up losses” were marked largely by intradivisional dynamics (horizontal interaction), and “growth losses” were marked largely by hierarchical dynamics (vertical interaction), “maturity losses” were significantly affected by both.

Other Divisions: Evolving Competition (Table 4, column 2) Rival divisions played an important role in charter loss. In each case, rival divisions began to outcompete focal divisions. However, the dynamics of this competition differed from those in “start-up losses.” Whereas competition in the earlier phase was marked by relatively autonomous forays into emergent business domains by divisions that were sometimes even unaware of each other, competition in this later phase was often the result of the complex structures and relationships that had been developed over the long histories of these divisions. These typically came in the form of long-existing charter overlaps between these former engines-of-growth and other corporate divisions. These overlaps created the potential for charter competition, as market changes caused commensurate shifts in the appropriateness of existing charter-division alignments and suggested new match-ups. Indeed, as a result these rivals often targeted the charters of the focal divisions.
Consider, for example, the complex structures that evolved around Faust and Omega. As noted above, both divisions had enjoyed substantial success during their long existence. Their emergence as vibrant divisions had required elaboration of their structures and systems to cope with increasing size, including, most significantly, the establishment of divisional subsidiaries within lucrative global markets. Although the subsidiaries were initially set-up as assembly sites to serve foreign markets, they were eventually given a broader range of responsibilities, including the design of second-generation products and the full compliment of manufacturing duties. Strategically, these subsidiaries operated as cost-centers and not surprisingly their strengths lay in efficient production. As a manager from Faust’s subsidiary noted, “We were focusing more on second generation type of product where the main interest is focused on reducing costs, increasing manufacturing [attention].”

As marketplace demands evolved, the competencies developed by these subsidiaries became more closely matched with the needs of the marketplace. Moreover, both subsidiaries established excellent performance records, as, for example, a manager from Omega’s subsidiary noted, “...our history is a succession of small successes.” Their management actively lobbied for more responsibilities. For example, the management of Omega’s rival admitted to lobbying regularly for 2 or 3 years for domain changes. Similarly, the management of Faust’s rival also lobbied for the main part of Faust’s charter and clandestinely attempted to develop competing products.

Similarly, Patriarch’s rival evolved from structural complexities as well, driven by 11 years of co-existence and interweaving of its charter and those of other divisions. The divisions began with distinct domains. Gradually however, their technologies converged and their markets overlapped, particularly as a result of increasing similarities in their basic product platforms. Yet, these overlaps (or redundancies) in basic platform design and manufacturing were tolerated because of the lucrative nature of their business areas and the greater design and operational freedom available to each division in serving customers who were often willing to spare no expense in order to ensure the most reliable, custom-made product. One manager described the
situation:

There was redundancy occurring between the organizations...we had at various times as many as three or four of the divisions developing [basic platforms]. We were able to get away with that in the early 80's because of the amount of defense money that was being spent...

These overlaps, however, did not preclude divisions taking different paths to develop their charters. As we have noted, Patriarch chose to maintain a highly innovative mentality. A fellow division, however, chose to focus more heavily on manufacturing and cost reduction. As one manager stated, "We took more out of manufacturing costs and improved speed in manufacturing, more than some of [the other divisions]." Not surprisingly, when the marketplace shifted and the redundancies became too costly, the other division was in a better position than Patriarch. Moreover, the management of the rival division explicitly lobbied corporate executives to take over a portion of Patriarch's business.

In sum, while focal divisions slipped into misalignment with their markets, other parts of the corporation came into alignment. Whereas previously described overlaps (i.e., divisions experiencing “start-up losses”) were the result of experimental forays into emergent domains, these latter overlaps were often the result of previously created structures. In all cases, as market conditions changed, the better fit between the competitive demands of the marketplace and the competencies of the rival sites created a powerful pull on the focal division’s core business. Moreover, rival managers also explicitly attempted to strengthen their positions and lobby for victory. Thus, once again we see interdivisional competition as a powerful factor in the charter loss process.

Corporate Executives: Change Agent (Table 4, column 3) Despite growing misalignment and pressures from rival divisions, charter loss was slow. Although problems were often apparent for several years, existing corporate executives often tolerated the evolving misalignment. Indeed, the impression was that corporate executives were too much a part of the divisional arrangements for them to comfortably make the changes that were required. Nevertheless, performance deteriorated to the point where some action at the highest levels in the company was unavoidable.

Key events broke the logjam. At Faust and Omega, key corporate level executives were
replaced (one retired, one resigned), representing the first steps in relieving the tensions building in
the system. These new executives saw themselves as change agents with a mission to “shake
things up.” As a Faust manager explained, “I think [the new corporate executive] wanted to make
something positive happen, and languishing as it had for a couple years of not being sure what to
do, that he firmly believed [there was a change needed].” In describing the new corporate
executive overseeing Omega, one executive said, “I saw a change, a very important change.” At
Patriarch, pressure to change emanated from the CEO, although the group executive stayed the
same.

These corporate executives instigated a detailed evaluation of the competencies and charter
options of focal divisions and neighboring divisions - a fundamental rethinking of divisional
domains and alignments. These evaluations were instrumental in the decisions to remove maturing
businesses from focal divisions and transplant them to other sites. For example, at Faust, as a
corporate executive explained:

We had very long discussions about it and took inventory of what skill sets we really had in each of the
locations. What are the core competencies that we really command as opposed to the one’s that we wish we
did or other hoped for criteria.. So, I guess we can shorten that by saying we took a good census of skills,
knowledge and where the time was going and what we were spending our time and effort on.

At Omega, the new corporate executive also brought together divisions and asked “nasty”
questions regarding division directions, as one manager noted:

[The corporate executive] did a great job in asking the right tough questions... He will go and visit the
division and say ‘okay, show me your numbers or can’t you do any better... he didn’t make a lot of friends.
What he did is make people aware of the business environment.

At Patriarch, the corporate executive spent several months privately interviewing divisional
managers in order to gather ideas and, perhaps more importantly, create expectations of change
within the divisions, having been shoved into action by top corporate officials.

These evaluations gave the corporate executives the insight and the basis to push through
what were often unpopular changes. In all three cases, corporate executives drove the change. At
Patriarch, the corporate executive was described as “the main mover and shaker”. Likewise, the
corporate executive at Omega was quoted as saying, “I moved here to do something and I’m going
to and really not wait for the bottoms up reaction, but put on a lot of top-down pressure.” Thus,
although the stresses that emerged in the system may have forced some change, corporate
executives, operating as change agents, pushed them through.

**Focal Divisions: Embattled Resistors** (Table 4, column 4) As mentioned earlier, these divisions had been very successful in the past. Thus, it was not easy to face the loss of a charter that had done so well. Part of the resistance was nostalgia and a sense of history in the business area. For example, the old charter would be missed within Patriarch. As one manager explained:

I think there is just a real emotional attachment - it’s been the heart of this division’s charter for 40 years. We are the experts in the world on this stuff.

There was also fear and a sense of imminent devastation. Engineers at Omega were particularly hard hit. As one manager described:

The engineers had a very hard time, it’s very difficult, very difficult when you work so hard on a particular market to be successful... and the division was being shaken out like hell, so their motivation... well, I hope I never see this again.

Divisions also worried about the new charters they would pursue. There were tremendous uncertainties associated with changes of this magnitude. On the one hand, divisions faced downsizing as they lost large, older businesses. On the other hand, they were expected to create new growth in emerging markets. This generated worries in divisional managers, as two Patriarch managers explained:

We reviewed our business plan and we said [to the corporate executive], “here is the problem we are facing. You’re telling us to fund this growth opportunity- we need to do that. But, we need dollars and people to do that. How are you going to handle that?”

I was afraid that [the charter change] would be a convenient way to shift all the down-sizing headaches to Patriarch.

Resentment was also a factor. At Patriarch, there was a belief that the rival division had become too close to the corporate executives and obtained a “good deal” at the expense of Patriarch. In fact, Patriarch managers resented the rival division and, as one executive related, “it [charter loss] was described by some people as a hostile takeover!” In the case of Omega, one manager described how Omega managers viewed their rival, “they never wanted (rival division). They said it was a big waste... they saw it as a real drain.”

Not surprisingly then, the focal divisions engaged in intense politicking. Omega managers attempted to undermine their rival by lobbying corporate executives into having it closed. They argued that any downsizing should happen outside of Omega. Then, when it appeared that the rival
would succeed, top managers from Omega went uninvited to meetings between corporate executives and the rival division to plead their case.

At Patriarch, the 10 month period after the announcement of the charter loss was filled with misunderstandings, politicking, and conflict. Patriarch managers lobbied a senior corporate executive to intervene on their behalf. As the Patriarch general manager recalled, “I started talking to him directly when I started thinking ‘shit, I wonder if we are going to lose this battle.” Patriarch managers attempted to stall the process. One tactic was described as “sacrifice the knight”. It involved agreeing to give up a portion of the core charter - but one that they did not really want. One manager described, “We don't need it - we kind of sacrificed a knight.” Sometimes they just stonewalled. Overall, as one manager described, “In the ensuing months I was actually amazed at how little consensus [the corporate executive] had developed...”

**Losses: Upheaval** (Table 4, column 4) The combination of a frightened focal division, determined corporate executives, and ambitious rivals lead to a bloody process. At Faust there was almost a complete turnover of the top management team preceding the charter loss, including the division manager and functional staff, as the new general manager noted:

I have a completely different functional staff. Everybody has changed.

Omega also experienced a similar change in the top management team. Although not all functional staff members were replaced, the process was nevertheless wrenching. As a corporate executive observed, “...we basically changed two thirds of the management team in Omega so it was very very tough, it was very difficult.” At Patriarch, however, although there were no management changes, the implementation of the charter switch, as we noted, dragged out and became increasingly politicized. It was well summarized by one manager, “I viewed the [charter loss decision period] as the [group executive] putting on his black and white striped shirt and refereeing how [the divisions] carved-up some of the activities.”

Overall, this pattern relates to a punctuated equilibrium process of evolution (e.g., Miller & Friesen, 1984; Tushman & Romanelli, 1985), which is characterized by long equilibrium periods of mounting tensions and short periods of intense change. In these cases, we observed mismatches building between divisions and their environments, often over several years. The eventual
recognition of these mismatches by corporate executives was particularly instrumental in catalyzing the change process. That the process was so wrenching and difficult is suggestive of the deep structures (e.g., Gersick, 1991) that had built up over many years in the focal divisions and that are so often related to punctuated change processes.

However, our data also reveal a more complex process than simply the building of tensions within the focal division in the face of growing environmental misalignment. Rather, competitive divisions were central to the process. Their managers were persistent advocates of change, often over several years. They lobbied and engaged in covert activities to force change. Just as importantly, these divisions were strong performers and moved into positions of better fit with the maturing charter. So, while the focal divisions were being pulled apart internally by misalignment, these other divisions exerted a strong, external pull to strip charters. Also striking was the level of politicking. The interdivisional competition created bitter, political battles among the divisions, especially when the divisional managers or executives remained unchanged.

Finally, and perhaps most noteworthy, in most exemplars of punctuated change in organizations (e.g., Tushman & Romanelli, 1985), strategies, structures, processes, and culture are dramatically shifted. In contrast, the major change here was the domain in which the divisions operated. Strategies, competencies, and culture remained relatively intact (i.e., high innovation and development focus, attack emerging market). As a result, these fundamental organizational features, arguably more difficult to re-engineer and more valuable to maintain, were kept in tact while businesses were switched. Singh and colleagues (1986) have noted the important distinction between adaptation of peripheral versus core features. What we see here is that Omni executives treat charters as peripheral while structures, culture, and processes are more immutable core features.

DISCUSSION AND IMPLICATIONS

This paper is intended as a first step towards building a more dynamic vision of large, diversified firms. Although the last three decades have seen significant research on diversified companies, the fundamental concept of divisional domains remains static. Chandler’s (1962)
articulation of multidivisional organization assumes that divisions are neatly boxed into static business charters. This assumption endures. Yet, it seems likely that the divisional domains of real firms, especially those in highly competitive and high velocity industries, will coevolve with changing markets and technologies.

Our model highlights three patterns of charter loss, each operating with a different logic and associated with a different phase of charter development. The loss pattern associated with early charter development, as divisions attempt to launch new business areas, reflects a natural selection logic. Initial excitement about new charters gives way to problems in defining the charter, developing strategy, and creating successful products. Eventually, lagging performance brings on charter loss. In addition, the loss process is importantly influenced by other experimenting divisions, fluidly committed corporate executives, and ambivalence within the focal division. A second pattern of loss is associated with divisions riding the crest of booming charter areas. Here the logic is focus. Initially, divisions are able to manage old businesses, current growth, and new opportunities. As time goes by, this becomes more difficult to do. Eventually, the pattern of loss depends on powerful corporate executives concerned with focusing the corporate engines of growth in the face of reluctant focal divisions. Finally, the loss pattern associated with maturing charters reflects an emergent tensions logic. Initial success yields to increasing mismatch as the demands of the marketplace diverge from the competencies and culture of the division. Loss occurs as the misfit becomes too extreme to ignore, particularly as rivals come to provide a better fit with changing market conditions. Since the three patterns of charter loss occur across the broad range of product life-cycle phases within which most divisions find themselves, our model of charter losses is perhaps a modest first step towards a more general model of how M-form organizations adapt in fast-paced environments. Table 5 compares these three patterns.

[Insert Table 5 about here]

From an organization theory perspective, these patterns of charter loss have implications for central debates surrounding change. A fundamental debate centers around whether adaptation or selection better capture organization change processes. That is, are organizations able to adapt or
do new forms arise primarily from selection processes? Our data allow us to examine this issue at the intracorporate level of analysis. First, natural selection mechanisms are found to operate within Omni. Specifically, the results of the “start-up losses” process suggest that natural selection was at work. Divisions were found to be competing, sometimes even unknowingly, for charters, and certain division-charter match-ups were selected out while others were retained. This is consistent with recent papers that use evolutionary theories and intracorporate ecology to understand how strategies unfold within a firm, a novel and emerging use of ecological perspectives (e.g., Burgelman, 1991; Miner, 1994). Our paper extends this perspective by exploring divisional selection processes within a corporation, a compliment to the more common corporate level of analysis.

However, while we observe that natural selection processes occur within corporate settings, we also found support for other logics of change, including more adaptive responses. Charter change processes borrow from several logics of change, not just one. For example, adaptation through a teleological process is apparent in the “growth” loss pattern. Here group executives engaged in purposive action to focus divisions onto their evolving markets by altering their charter responsibilities. The change process of these divisions was adaptive-competitive selection mechanisms were relatively absent. The “maturity” loss pattern exhibits bits of both processes. Selection occurred among competing divisions, but losses involved purposive action by group executives and major adaptive shifts by divisions. Thus, charter loss in M-form firms is a complex mixture of selection and adaptation processes.

Our work also relates to questions surrounding the fundamental nature of social interactions in M-form corporations. First, as others have argued, M-form organizations behave a lot like markets (e.g., Henderson, 1979; Vancil, 1979; Eccles & White, 1986). That is, corporate divisions, like independent firms, often have overlapping claims on (typically scarce) corporate resources. What results is a process of competition such that these resources can be efficiently allocated between divisions- a process, in essence, that tries to mimic the price mechanism in a marketplace. However, the traditional conception of competition within the M-form focuses on the
favorable re-allocation of financial resources. Divisions compete, typically within fixed product-market areas, for the retained earnings of the firm, offering-up to corporate headquarters different investment opportunities that are measured with the aid of some form of net-present-value analysis. The more lucrative investments, in theory, are endowed with the necessary capital. The resulting conception of the M-form organization as a marketplace, therefore, is centered on the way corporate profits are internally redistributed among divisions. In contrast, at Omni, the competition among divisions is for more than financial resources. The dynamism of evolving markets and technologies creates a market for business opportunities, that is a market for charters among divisions. So, divisions are competing not only for financial resources, but more importantly, within an “economy of charters” for the opportunities to pursue choice business areas. For example, constant flux in markets and technologies made it more likely that divisions would collide with each other from time to time in emerging product-market areas, creating competition for charters, as was particularly evident in “start-up losses.” The evidence suggested that the division better able to survive and compete in this marketplace would be awarded the charter. Moreover, the running-down of certain marketplaces, and the subsequent misfit of some divisions while others gained in fit, also introduced opportunities for charter competition, as was seen in “maturity losses.” Overall, therefore, market-like competition is seen as a defining feature of the M-form organization, with a particular emphasis in this paper on a marketplace for charters.

On the other hand, although Omni behaves like a marketplace for charters, it also behaves much like a hierarchy. For example, “winning” firms were not always granted the plum charters. In the “growth losses” pattern, neighboring, needy divisions were often given charters because they were in trouble and faced possible demise (e.g., Omega). The spoils of successful divisions, in Robin Hood fashion, were passed on to wanting divisions. In other cases, charter assignments were affected by needs for maintaining employment in particular locations or developing a presence in important geographic areas. Several explanations of these charter decisions strike us as plausible. First, a sense of cooperation and equity among divisions coexisted with the market-style competition described above. Managers certainly felt part of a strong corporate heritage and
culture, and seemingly altruistic, sacrificial behavior was not out of place, if it was seen as "best for the corporation." Of course, this behavior may have been a signaling attempt by up-and-coming divisional managers of their loyalty to the whole company, thus not truly altruistic- it is difficult for us to discern the exact motives. Yet, what is clear is that charter decisions were sometimes made without a hint of market analogies, but rather a strong sense of collaboration, mutualism and even a social welfare mentality. Finally, political activities played a role in charter change. That is, outside of market-like conduct and mutualistic behavior, charters were sometimes altered simply because of the power and authority accumulated by those who wanted the change. For example, "growth losses" reflected, to some extent, a struggle for power between corporate and division executives, with corporate authority winning-out in our sample. Of course, it is unclear whether these "hierarchical" aspects of Omni are efficient (i.e., in terms of an intracorporate marketplace for charters, providing "optimal" charter-division match-ups). Yet, at firms such as Omni, the fast pace of the business environment may make a quick adaptation process (teamwork, flexibility, etc.) more desirable than one that is slower and more methodical in matching charters to divisions. Speed and experimentation is particularly valuable where the product-market conditions change quickly, frequently, and are often difficult to interpret. In sum, the nature of interactions within Omni reflected both intense market-like activities and hierarchical features (i.e., a concern for mutualism and the use of top-down decision making). To us, therefore, it seems unbeneficial to identify large corporations are purely markets or hierarchies, but rather we should observe more closely under what conditions and circumstances they can exhibit either trait (see also Hill, et al., 1992).

Finally, an important contrast with the traditional M-form organization is the critical role played by group executives at Omni. These executives were experimenters, profit guardians, and change agents. But, their most critical role was as corporate matchmaker. Whether wielding an "iron fist" in "maturity losses" or an "invisible hand" in "start-up losses," these executives continually matched and re-matched charters with divisions, a response to the dynamism of markets and technologies. Theirs was a challenging job. Focal divisions could not give up their
charters without having new ones. They could not gain new ones without finding homes for the old. Every division needed a charter, every charter needed a division. In this "recombinant" view of organizations where charters, like genes in strands of DNA, are continually spliced and moved throughout the corporation, group executives were critical. This role adds an important new dimension to the potential contribution of corporate headquarters. During the 80's we witnessed agnosticism towards the value of corporate headquarters, evident in increased LBO activity and commensurate break-ups of large diversified corporations: The message was that corporations were worth more in pieces than when managed as a whole. We would argue that "charter changes" afford corporate headquarters new opportunities to create value. In particular, these changes highlight the fundamental task of corporate leadership- to continuously align business charters with divisional skills in order to keep pace with coevolving markets and technologies. The task is no longer just to choose what business areas are to be entered or exited (i.e., without considering organizational issues), nor just to re-engineer troubled operating units (i.e., without considering charter issues). Rather, via charter changes, the task is to manage both aspects of corporate reality.

CONCLUSION

We conclude this paper with a question: Are the results from Omni generalizable? Although generalizability is, of course, an empirical question, it does seem likely that some firms may rely more on acquisitions to enter new domains, may let booming businesses burgeon, and may divest mature businesses more often than did Omni. In particular, firms in slower-paced industries would probably show less frequent charter change. So, Omni is not "everyfirm".

On the other hand, Omni can be thought of as one way to organize complex, diversified firms. Seen in this way, Omni's organizing strategy is to 1) attack new markets through limited thrusts by several divisions, 2) restrict the scope of divisions in booming markets, and 3) preserve skills and culture by appropriate switching and matching of charters. Overall, the organizational hallmark of Omni is the strategic use of charter changes to align and realign, on an apparently continual basis, the competencies of various divisions with coevolving markets and opportunities. It is this dynamism which weeds out inferior match-ups, nurtures and protects productive ones.
and, therefore, offers greater adaptability to the diversified corporation.

How has this affected Omni's performance? Although it is impossible to tie performance to one element of a corporation's strategy, it is worthwhile to note that Omni has been a very successful firm in the time period relevant to this study. During the 1988-1993 fiscal period, Omni experienced significant overall growth (over 50% growth in revenue), remarkable given the stagnant nature of most economies where Omni participated during that period. Omni is also considered by many to be a superbly managed firm and a leader in a number of markets that could be termed "hypercompetitive". This superior performance, therefore, suggests that Omni's organizing model may also be an exemplar for effectively managing large, diversified firms in hypercompetitive markets. That is, Omni's ability to shift businesses among divisions may be a key organizational competence. In an age when greater emphasis is being placed on organizational capabilities and processes as sources of high performance (as opposed to just industry position), the effective recombination of corporate charters may be a worthwhile consideration for other managers of large, diversified corporations. Given the limitations of an inductive study with a limited number of cases, we hope that this study will offer ideas and lessons towards future empirical tests of this phenomenon, thus helping to build a new, more accurate model of the operation of our largest and perhaps most influential organizations.
ENDNOTES

1 Distinguishing between gains and losses served as convenient way in which to analyze the data, creating a
distinction in the charter change outcome that was both naturally occurring and useful for data analyses purposes.
Most importantly, it introduced parsimony into the modeling process. This is not to say that the two are totally
independent- certainly some losses lead to a search for new charters, and some lucrative new opportunities lead to
losses of older charter portions. But we found losses and gains also to have a life of their own. More to the point,
within the confines of one research paper that seeks to develop new theory, it would be unnecessarily complex to
introduce, contrast, and compare both processes. This we leave for a later date. We begin with an exploration of
losses, although gains could have served equally well as a starting point.

2 Indeed, there were divisions within Omni that faced similar early crisis but that did not lose their charters. Although
the study of how these divisions successfully survived their rough beginnings is an interesting issue, the focus of
this paper is in explaining the process of charter losses.
REFERENCES


FIGURE 1
Brief Review of Research Perspectives on the M-form

Corporate Strategy and Structure Fit

SBU Strategy and Structure Fit

Intracorporate Fit

Intracorporate Networks

Corporate Entrepreneurship and Renewal

Evolution of Intracorporate Domains

Thick rectangular outlines indicate the general "focus" of each respective research stream.

- Chandler (1962)
- Rumelt (1974)
- Williamson (1975)
- Vancil (1979)

- Miles & Snow (1978)
- Porter (1980)
- Berg (1984)
- Miller (1988)

- Gupta & Govindarajan (1986)
- Gupta (1987)
- Govindarajan & Fisher (1990)

- Porter (1985)
- Prahalad & Doz (1987)
- Taylor (1991)
- Bartlett & Ghoshal (1991)

- Burgelman (1983)
- Pettigrew (1985)
- Guth & Ginsberg (1990)
- Jelinek & Schoonhoven (1990)
- Garud & Van de Ven (1992)
FIGURE 2
Business Life Cycle Phases within which Divisions Losing Charters were Found

Start-up | Growth | Maturity
---|---|---
Core Business Life Cycle

- New Charters
- Uncertain Viability
- Strong Growth
- Acknowledged Viability
- Declining Growth
- Questioned Boundaries

- Cases: Venture, Pioneer, Scout
- Cases: Zeus, Marvel, Dynamo
- Cases: Patriarch, Omega, Faust
FIGURE 3
Charter Loss in a Large, Multinational, High-Technology Corporation

Context of Change

Business Life Cycle Phase

Start-up Losses
- New Charters
- Performance Crises

Growth Losses
- Booming Markets
- Focus Problems

Maturity Losses
- Slumping Businesses
- Misfit

Summary of Interaction Patterns

<table>
<thead>
<tr>
<th>Other Divisions</th>
<th>Corporate Level</th>
<th>Focal Division</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Strong Rivals</td>
<td>• Experimenters &amp; Profit Guardians</td>
<td>• Ambivalent Suitors - Charter Concerns - Fallback Options</td>
</tr>
<tr>
<td>• Opportunistic Transfers</td>
<td>• Watchful Parents</td>
<td>• Preoccupied Travelers - Reluctant - Busy</td>
</tr>
<tr>
<td>• Evolving Competition</td>
<td>• Change Agents</td>
<td>• Embattled Resistors</td>
</tr>
</tbody>
</table>

Dominant Interaction Type
- Horizontal
- Vertical

Level of Difficulty
- Low
- Moderate
- High

Logic of Change
- Natural Selection
- Focus
- Emergent Tensions
TABLE 1
Description of Cases

<table>
<thead>
<tr>
<th>Charter Loss Case</th>
<th>Phase of Business Development</th>
<th>Total Interviews</th>
<th>Division Location**</th>
<th>Data</th>
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</thead>
<tbody>
<tr>
<td>1. Venture</td>
<td>New Charter</td>
<td>5- pilot, div. level</td>
<td>Group B</td>
<td>Retrospective</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7- division level</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1- corporate level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Pioneer*</td>
<td>New Charter</td>
<td>5- division level</td>
<td>Group D</td>
<td>Retrospective</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1- corporate level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Scout</td>
<td>New Charter</td>
<td>7- division level</td>
<td>Group D</td>
<td>Retrospective</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2- corporate level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Dynamo</td>
<td>Growing Charter</td>
<td>7- division level</td>
<td>Group C</td>
<td>Retrospective</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2- corporate level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Zeus</td>
<td>Growing Charter</td>
<td>8- division level</td>
<td>Group B</td>
<td>Retrospective &amp; Real Time</td>
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<td></td>
<td>1- corporate level</td>
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<td></td>
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<tr>
<td></td>
<td></td>
<td>2- group sessions</td>
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<td>6. Marvel</td>
<td>Growing Charter</td>
<td>8- division level</td>
<td>Group E</td>
<td>Retrospective</td>
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<td>1- corporate level</td>
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</tr>
<tr>
<td>7. Patriarch</td>
<td>Maturing Charter</td>
<td>10- division level</td>
<td>Group A</td>
<td>Real Time</td>
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<td></td>
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<td>2- corporate level</td>
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<td>8. Omega</td>
<td>Maturing Charter</td>
<td>4- division level</td>
<td>Group E</td>
<td>Retrospective</td>
</tr>
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<td></td>
<td></td>
<td>1- corporate level</td>
<td></td>
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<tr>
<td>9. Faust*</td>
<td>Maturing Charter</td>
<td>5- division level</td>
<td>Group D</td>
<td>Retrospective</td>
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<td>1- corporate level</td>
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</table>

* Each case of charter loss consisted of a separate division, except in the cases of Pioneer and Faust, which occurred in the same division although at two different points in its recent history and under a different management team. We identify the cases under separate names in order to fully distinguish the processes of loss experienced.

**Charter losses were only from US-based divisions. However, data collected from 2 foreign divisions (which gained charters lost by Faust and Omega) were used extensively in the data analysis.
TABLE 2
Cross-Case Illustrations of "Start-up" Charter Loss Pattern

<table>
<thead>
<tr>
<th>CASE</th>
<th>SETTING</th>
<th>OTHER DIVISIONS (HORIZONTAL INTERACTIONS)</th>
<th>CORPORATE LEVEL (VERTICAL INTERACTIONS)</th>
<th>FOCAL DIVISION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>VENTURE</strong></td>
<td>New Charter: 2 years old at loss</td>
<td>Strong Rivals: - Up-and-coming site in search of charter&lt;br&gt; - Critical competencies&lt;br&gt; - Successful</td>
<td>Experimenter &amp; Profit Guardian: &quot;...[the executive's] thinking was...start trawling.&quot;&lt;br&gt; &quot;...Venture had not found a way that we could achieve [the executive's] growth goals and [the executive's] profit goals...&quot;</td>
<td>Concern: Rapid Schedule &quot;It had an extremely aggressive schedule&quot;</td>
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<td>&quot;We really wanted to grow...this can do it for us!&quot;</td>
<td>&quot;the [group executive] was being pressured to create an entity [overseas.] And he was looking for a charter for this entity...they had come up to speed and had done a very good job with [their small charter]... it seemed to make sense to [the group executive] to have them focus on our charter area, since we were kind of floundering.&quot;</td>
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<td></td>
<td>Performance Crisis: No Demand</td>
<td>&quot;We didn't even live up to [our] most pessimistic forecast... it just never took off.&quot;</td>
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<tr>
<td></td>
<td>- Growth= Insignificant&lt;br&gt; - Net Margins= 0%</td>
<td>&quot;[the executive] was being pressured to create an entity [overseas.] And he was looking for a charter for this entity...they had come up to speed and had done a very good job with [their small charter]... it seemed to make sense to [the group executive] to have them focus on our charter area, since we were kind of floundering.&quot;</td>
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<tr>
<td><strong>SCOUT</strong></td>
<td>New Charter: 1 year old at loss</td>
<td>Strong Rivals: - Needing charter&lt;br&gt; - Relevant competencies&lt;br&gt; - Successful in highly related area&lt;br&gt; - Ease of people transfers</td>
<td>Experimenter &amp; Profit Guardian: &quot;[The executive] came in and really provided a lot of enthusiasm and excitement [around this new charter].&quot;</td>
<td>Concern: Extent of Change &quot;It fundamentally didn't make sense to [employees] that you could [make that change]...&quot;</td>
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<td>&quot;...our manager pushed hard [to get this charter]&quot;</td>
<td>&quot;Closing the division was discussed... [but a senior VP] has told me a couple of times that we [Scout's rival]... have all this relevant expertise here, we've been in the business for a long time...&quot;</td>
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<td>Performance Crisis: No Direction</td>
<td>&quot;We were never really clear that we could produce the miracle breakthroughs.&quot;</td>
<td>&quot;[Highest corporate levels] put some reasonable pressure, I would guess, on [our executive], to dig in and face off with his cost [crisis]... and make a decision and do it quickly.&quot;</td>
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<td></td>
<td>- Growth= Poor forecasts&lt;br&gt; - Net Margins= 28% drop</td>
<td>&quot;We were never really clear that we could produce the miracle breakthroughs.&quot;</td>
<td>&quot;[Highest corporate levels] put some reasonable pressure, I would guess, on [our executive], to dig in and face off with his cost [crisis]... and make a decision and do it quickly.&quot;</td>
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<tr>
<td><strong>PIONEER</strong></td>
<td>New Charter: 1 year old at loss</td>
<td>Strong Rivals: - Competing in same area&lt;br&gt; - Further along in related business&lt;br&gt; - More promising venture</td>
<td>Experimenter &amp; Profit Guardian: &quot;The other reputation [the executive] has is great visionary...&quot;&lt;br&gt; &quot;Profit was a remote concept to most of these people!&quot; (executive)</td>
<td>Concern: Pace &amp; Complexity &quot;I think [the mood] was mixed... people liked the charter, I mean it's fun... I think the mixed reaction was more that people's bandwidth was stretched, [our] ability to juggle all the different balls in our court.&quot;</td>
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<td>&quot;This was just the hottest thing... there was excitement about this new product charter.&quot;</td>
<td>&quot;At the time there were not good clear boundaries.&quot;</td>
<td>&quot;The other reputation [the executive] has is great visionary...&quot;&lt;br&gt; &quot;Profit was a remote concept to most of these people!&quot; (executive)</td>
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<td></td>
<td>Performance Crisis: No Viable Product&lt;br&gt; - Growth= 0%&lt;br&gt; - Net Margins= Large Losses</td>
<td>&quot;What [this other division] is doing is [our new area], so why are we building [this stuff]?... they were experiencing that expertise.&quot;</td>
<td>&quot;The other reputation [the executive] has is great visionary...&quot;&lt;br&gt; &quot;Profit was a remote concept to most of these people!&quot; (executive)</td>
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<td>&quot;It became clear that this wasn't going to work and at the same time in the external environment it became clear that people weren't ready yet for this concept.&quot;</td>
<td>&quot;At the time there were not good clear boundaries.&quot;</td>
<td>&quot;The other reputation [the executive] has is great visionary...&quot;&lt;br&gt; &quot;Profit was a remote concept to most of these people!&quot; (executive)</td>
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**Concern:** Rapid Schedule
- It had an extremely aggressive schedule

**Fallback Option:**
- "I requested that we get out of this business and get back on the business that's paying the bills." (GM)

**Consensus Over Loss:**
- "So both [the GM and Corporate Executive] felt the same thing, and so it was a pretty easy thing to do at the meeting."

**Concern:** Extent of Change
- "It fundamentally didn't make sense to [employees] that you could [make that change]..."

**Fallback Option:**
- "We were trying to make a transition but we had these 'nice things' [from our pre-existing charter]."

**Consensus Over Loss:**
- "I think that for the most part, most of the writing was already on the wall."

**Concern:** Pace & Complexity
- "I think [the mood] was mixed... people liked the charter, I mean it's fun... I think the mixed reaction was more that people's bandwidth was stretched, [our] ability to juggle all the different balls in our court."

**Fallback Option:**
- "We had a good business understanding of [an older area]... and we lost it because we got diddled and daddled in other things. But, the core capability and skill set was here..."

**Consensus Over Loss:**
- "[The executive] was looking at it, I was looking at it and we said this thing ain't going to cut it."
<table>
<thead>
<tr>
<th>CASE</th>
<th>SETTING</th>
<th>OTHER DIVISIONS (HORIZONTAL INTERACTIONS)</th>
<th>CORPORATE LEVEL (VERTICAL INTERACTIONS)</th>
<th>FOCAL DIVISION</th>
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<tbody>
<tr>
<td>ZEUS</td>
<td>Booming Business / Marketplace:</td>
<td>Needy Division</td>
<td>Watchful Parent:</td>
<td>Reluctance:</td>
</tr>
<tr>
<td></td>
<td>-6 years old</td>
<td>&quot;[A foreign division] was needing a</td>
<td>&quot;[Corporate Executives] saw that there</td>
<td>&quot;I need to</td>
</tr>
<tr>
<td></td>
<td>-Growth= 40-50%</td>
<td>product charter. &quot;</td>
<td>was this [new business] empire to build</td>
<td>feel more</td>
</tr>
<tr>
<td></td>
<td>-Net Margins= 9-12%</td>
<td>New Division Created</td>
<td>here...&quot;</td>
<td>comfortable</td>
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<td></td>
<td>&quot;It was an unbelievable time for</td>
<td>&quot;[Other divisions'] had their hands</td>
<td></td>
<td>with the</td>
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<tr>
<td></td>
<td>all of us here... very fast</td>
<td>full.&quot;</td>
<td></td>
<td>[loss], but</td>
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<td></td>
<td>paced. It was phenomenal!&quot;</td>
<td></td>
<td></td>
<td>I don't.&quot;</td>
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<td></td>
<td>Focus Problems: Old business &amp;</td>
<td></td>
<td></td>
<td>Busy:</td>
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<tr>
<td></td>
<td>New opportunities</td>
<td></td>
<td></td>
<td>&quot;Our hands</td>
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<td></td>
<td>&quot;[We had shed the old charter]</td>
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<td>were full</td>
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<td>primarily because of the fact</td>
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<td>at Zeus!&quot;</td>
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<td>that we really needed heavy</td>
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<td>Top-Down</td>
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<td>duty focus to deal with the</td>
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<td>Push:</td>
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<td></td>
<td>[core]...&quot;</td>
<td></td>
<td></td>
<td>&quot;No, I wasn't</td>
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<td></td>
<td>&quot;The perception was that with</td>
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<td>behind it...</td>
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<td>the structure that existed at</td>
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<td>much of it</td>
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<td>Zeus, you could not make [new</td>
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<td>was driven</td>
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<td>ventures] happen here.&quot;</td>
<td></td>
<td></td>
<td>by [a corporate executive].&quot; (GM)</td>
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<tr>
<td>DYNAMO</td>
<td>Growing Business/Booming</td>
<td>New Division Created</td>
<td>Watchful Parent:</td>
<td>Reluctance:</td>
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<tr>
<td></td>
<td>Marketplace:</td>
<td></td>
<td>&quot;[Corporate] wanted... complete focus</td>
<td>&quot;...[division</td>
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<td></td>
<td>-4 years old</td>
<td></td>
<td>on [the new business]...&quot;</td>
<td>managers]</td>
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<td></td>
<td>-Growth= Core 50% of Total Sales</td>
<td></td>
<td>&quot;Well, [the new executive] comes on</td>
<td>were getting</td>
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<td></td>
<td>-Net Margins= 18%</td>
<td></td>
<td>board and starts looking and realizing</td>
<td>a lot of</td>
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<td>&quot;...dollars are starting to</td>
<td></td>
<td>that it is good for Dynamo to have to</td>
<td>pressure from</td>
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<tr>
<td></td>
<td>flow...&quot;</td>
<td></td>
<td>live [with the new conditions]...&quot;</td>
<td>their people</td>
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<td>Focus Problems: Boom business</td>
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<td>to kind of</td>
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<td>&quot;Generally I thought we had</td>
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<td>keep things</td>
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<td></td>
<td>pretty good technology but we</td>
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<td>going as</td>
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<td>were slow. Slow to react to</td>
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<td>they are...&quot;</td>
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<td>changes... People were not very</td>
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<td>Busy:</td>
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<td>well focused on productivity</td>
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<td>&quot;Dynamo was</td>
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<td>improvements, time to market,</td>
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<td>just a huge</td>
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<td>cost.&quot; [Corporate Executive]</td>
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<td>division that</td>
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<td>&quot;Marvel division [had grown]</td>
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<td>just was</td>
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<td>from nothing to a big success...&quot;</td>
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<td>becoming</td>
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<td>Focus Problems: New opportunities</td>
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<td>unruly in</td>
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<td>&quot;...this other business was</td>
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<td>terms of</td>
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<td>there and not clearly a high</td>
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<td>managing it.</td>
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<td>focus of the team.&quot; [Corporate</td>
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<td>Top-Down</td>
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<td></td>
<td>Executive]</td>
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<td>Push:</td>
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<td></td>
<td>&quot;Marvel had to be successful...</td>
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<td>&quot;There were</td>
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<td>Because the heart of the</td>
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<td>a few of the</td>
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<td>program at that time was in</td>
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<td>top manage-</td>
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<td>Marvel.&quot; [GM in a &quot;needy</td>
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<td>ment people</td>
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<td>division&quot; in Marvel's group]</td>
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<td>that recog-</td>
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<td>&quot;...there was a group of people</td>
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<td>nized this</td>
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<td>who felt that they had</td>
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<td>and said</td>
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<td>started the business and they</td>
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<td>these are</td>
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<td>were losing something so [the</td>
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<td>changes that</td>
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<td>CASE</td>
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<tr>
<td>FAUST</td>
<td>Maturing/Slumping Core Business:</td>
<td>Emergent Competition:</td>
<td>Change Agent:</td>
<td>Resistance:</td>
</tr>
<tr>
<td>-9 years old</td>
<td>-Growth= flat</td>
<td>-Well positioned subsidiary</td>
<td>-New group executive</td>
<td>&quot;People in our organization would question us giving away everything but either you're going to give it away or you're not going to give it away.&quot;</td>
</tr>
<tr>
<td>-Net Margins= mounting losses</td>
<td>-Active lobbyist</td>
<td>&quot;We had very long discussions about [misfit] and took inventory of what skill sets we really had in each of the locations. What are the core competencies that we really command as opposed to the one's that we wish we did or other hoped for criteria... So, I guess we can shorten that by saying we took a good census of skills, knowledge and where the time was going...&quot;</td>
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<td>&quot;[Performance] was pretty crummy really. Nothing to be proud of being in [this] business.&quot;</td>
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<td>Misfit:</td>
<td>&quot;I'd been pushing people extremely strongly...&quot; [GM]</td>
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<td>-Innovation focused versus low-cost focused marketplace</td>
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<td>&quot;There was a lot of competence in taking new technologies and developing them to specific products in Faust, and the feeling was that the market was moving to where you didn't need that as much...&quot;</td>
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<tr>
<td>OMEGA</td>
<td>Maturing/Slumping Core Business:</td>
<td>Emergent Competition:</td>
<td>Change Agent:</td>
<td>Resistance:</td>
</tr>
<tr>
<td>-20 years old</td>
<td>-Growth= flat</td>
<td>-Well positioned subsidiary</td>
<td>-New group executive</td>
<td>&quot;...Omega never wanted [rival division]. They said it was a big waste... they saw it as a real drain.&quot;</td>
</tr>
<tr>
<td>-Net Margins= n/a</td>
<td>-Successful</td>
<td>&quot;You would see always a constant in every, every one of our steps [the division took in its progression] which is always exceeding expectation.&quot;</td>
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<tr>
<td>&quot;...top managers were] convinced that Omega became too... non-competitive.&quot;</td>
<td>-Active lobbyist</td>
<td>&quot;[Our GM] said 'we want a charter'... it was [the GM's] speech for 2 years or 3 years...&quot;</td>
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<td>Misfit:</td>
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<tr>
<td>-Innovation focused versus low-cost focused marketplace</td>
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<td>&quot;[we] enjoyed tremendous leadership in the marketplace, tremendous profit... but that allowed Omega to have a fat cost structure... that was okay until there were many [competitors] in the world.&quot;</td>
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<tr>
<td>PATRIARCH</td>
<td>Maturing/Slumping Core Business:</td>
<td>Emergent Competition:</td>
<td>Change Agent:</td>
<td>Resistance:</td>
</tr>
<tr>
<td>-11 years old</td>
<td>-Growth= flat</td>
<td>-Well positioned division</td>
<td>-Executive pushes change</td>
<td>&quot;...it was even described by a few people as a hostile take-over.&quot;</td>
</tr>
<tr>
<td>-Net Margins= &quot;Poor relative to others&quot;</td>
<td>-Successful</td>
<td>&quot;the actual initiation of [change] probably occurred when [the corporate executive] decided that it was time to make a structural change.&quot;</td>
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<tr>
<td>&quot;...we don't want to get trapped into the buggy whip scenario...&quot;</td>
<td>-Lobbyist for change</td>
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<tr>
<td>Misfit:</td>
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<tr>
<td>-Innovation focused versus low-cost focused marketplace</td>
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<tr>
<td>&quot;I think [our GM] pushed for some of these concepts in the past...&quot;</td>
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<tr>
<td>&quot;I think we were very R&amp;D creative driven. We weren't thinking cost of sales and leverage... we didn't have to. But, that has changed in the last couple of years.&quot;</td>
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</tbody>
</table>
TABLE 5
Comparison of Loss Patterns

<table>
<thead>
<tr>
<th></th>
<th>Start-up Losses</th>
<th>Growth Losses</th>
<th>Maturity Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Logic</td>
<td>Natural Selection</td>
<td>Focus</td>
<td>Emergent Tension</td>
</tr>
<tr>
<td>Nature of Horizontal Interaction</td>
<td>Experimentation: Competitive Behavior</td>
<td>Opportunistic Transfers: Mutualistic Behavior</td>
<td>Evolving Overlaps: Competitive Behavior</td>
</tr>
<tr>
<td>Nature of Vertical Interaction</td>
<td>Fleeting Commitments &amp; Consensus</td>
<td>Strategizing &amp; Top-Down Push</td>
<td>Upheaval &amp; Heavy Top-Down Forcing</td>
</tr>
<tr>
<td>Dominant Interaction Type</td>
<td>Horizontal</td>
<td>Vertical</td>
<td>Horizontal &amp; Vertical</td>
</tr>
<tr>
<td>Difficulty of Loss</td>
<td>Low</td>
<td>Moderate</td>
<td>High</td>
</tr>
</tbody>
</table>