Divisional Strategy: Value Creation and Relatedness Within the Multidivisional Firm.

by

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Contents

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Abstract

From an economic perspective the value of a group of related businesses under one management is derived from the potential for synergy, based on the exploitation of underlying economies of scope. To realise this inherent economic value, organisational theorists have argued that a purposively cooperative pattern of structures, systems and processes must be put in place. Divisions of modern multidivisional companies are internal, quasi-corporations of related businesses and, as such, theoretical economic/organisational rationales would posit divisions as cooperative enterprises.

Using a sample of divisions purposively chosen to comprise businesses that were highly related, this thesis set out to explore the extent to which divisional managing directors expressed views and initiated organisational dynamics consistent with a cooperative perspective. Semi-structured interviews with senior divisional personnel in 12 divisions and with business and functional level staff in 2 of these provided the prime source of data which served as a basis from which a case study was written for each division. The cases were analysed in terms of the membership benefits (value) the divisional managing director was attempting to optimise for the component businesses and the extent to which he expressed a cooperative orientation and was overseeing cooperative structures, processes and systems.

Two categories of division are identified. The 'cooperative' grouping is consistent with the theoretical view of economies of scope and cooperative structures but a larger number of divisions are categorised as 'non-cooperative' with perspectives, systems etc. consistent with a traditional M-form orientation of autonomous, non-interacting businesses.

Reasons for this mismatch of theory and practice are discussed with the existence of non-cooperative divisions being explained as the consequence of a variety of organisational contingencies. Implications for divisional management and practice in multidivisional firms are suggested.

Figures

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Abbreviations

BM	Business Manager
CEO	Chief Executive Officer
DMD	Divisional Managing Director
FD	Finance Directore
HRD	Human Resource Director
MD	Managing Director
RBV	Resource Based View

Chapter 1

INTRODUCTION

> *"Complex systems have many important behavior characteristics that we must understand if we expect to design systems with better behavior. Complex systems: (1) are counterintuitive; (2) remarkably insensitive to changes in many system parameters; (3) stubbornly resist policy changes; (4) contain influential pressure points, often in unexpected places, from which forces will radiate to alter system balance; (5) counteract and compensate for externally generated action (the corrective program is largely absorbed in replacing lost internal action); (6) often react to a policy change in the long run in a way opposite to how they react in the short run; (7) tend towards low performance."*
>
> (Forrester, 1969: 109)

1.1 The Beginnings

This thesis investigates the strategic management of divisions, those quasi-corporations of related businesses in diversified companies. It does so from the perspective of the divisional general manager and those under him. Born out of the practical managerial experience of the author and the confusions that engendered, it was developed within the context of the literature on strategic management and the multidivisional firm and, in particular, the strategic issues of relatedness and synergy as they apply to business units within divisions.

1.1.1 Practice

Prior to beginning doctoral studies I had spent over a decade in general management positions in listed, diversified, multi-divisional companies in Australia and the UK. My career progression was typical in terms of increasing breadth and depth of responsibility. The first business, part of a whitegoods division, was 'autonomous' in all respects except that brand marketing and sales were a divisional responsibility. My second tenure, in the same company, put me in charge of another consumer goods subsidiary with all functions contained within the business, thus increasing my managerial scope. After a spell in industrial markets within the largest division of a major Australian company I progressed to a managing director position running the Australian subsidiary of the Consumer Goods Division of a UK listed firm. In this position, various board responsibilities allied to the usual business operations as well as the management of overseas operations in New Zealand and Taiwan brought new breadth of responsibility.

Upto this point, equipped with an MBA, numerous management courses, many books on strategic and operational management, various successful peer role models and a previous career working with people, I believed myself to be conceptually 'in touch' with running a competitive business. My numerous mistakes were errors of judgement, timing, care or specific ignorance and were all understandable and (mostly) rectifiable with hindsight.

I was then promoted to the UK to take charge of the Consumer Products Division as the Divisional Managing Director. Reporting to the Managing Director of the company I was now responsible for seven subsidiary companies in 5 countries. The scope and depth of my role had increased significantly along with status, power and rewards. The usual period of occupational disorientation always associated with a new role lasted longer than usual. Periods of 'inactivity[1]' seemed to be an increasing component of my day until I had to admit to myself that I had no real idea of what I was supposed to be doing. What was my role? Having evolved into a 'reward me or sack me but let me run it my way' business manager I gave the same leeway to my subordinate managing directors. I found, therefore, that except for the occasional (heaven sent!) crisis where my assistance appeared legitimately warranted I seemed to have little of value to do. Two related happenings showed me that my fellow executive directors also struggled with the meanings of their roles.

Enlisting the help of some noted academic consultants the MD initiated a major strategic review in late 1993/early 1994. Divisional MDs were asked to prepare strategy presentations for one of the several weekend retreats. The question was raised by a colleague (also encumbered with an MBA) as to the nature of the 'corporate' strategy within which we were to ground our divisional strategies. A long, and at times heated, debate then ensued as to whether corporate strategies preceded

[1] This is a relative term by which I mean lack of <u>useful</u> activity as opposed to paper shuffling, attending or calling non-essential meetings, visiting businesses for no real reason etc.

divisional strategies or vice versa. It struck me that not only did I not know what a 'divisional strategy' was but nor did anyone else, despite the fact that we were all comfortable using the expression. At a later date, when the presentations were made, it was clear that the distinction between 'divisional strategy' and 'business strategy' in our minds was mainly that the former was the plural of the latter[2].

The second event occurred later during the same strategic review process. As part of the review process Andrew Campbell (of Goold and Campbell (1987) fame) made a brief presentation on corporate strategy using the intuitively attractive and relatively new (then) concept of 'parenting advantage' (Goold, Campbell and Alexander, 1994). In addition he posed the more familiar, but still awkward, question as to how the executive committee, as a corporate HQ, added value to the diverse grouping of businesses under their collective management. The struggle with the ramifications of parenting advantage, and the superficiality of the proposed value-adding attributes of corporate and divisional staff again illustrated that our mental maps were guides to competitive strategy and portfolios but left us lost in between. Nobody in the room seemed to really know what divisional level people where supposed to be doing to

[2] By this I mean that divisional strategy was deemed to be the product/market growth strategies of the individual businesses. Also added to this was the 'divisional' growth plans i.e. greenfield or acquisitions in other countries.

add value above controlling business performance and preventing losses due to diminished performance or catastrophe.

It seemed time to turn to the traditional standby of the strategic management texts.

1.1.2. Theory

Sun Tzu in the East and Aineias the Tactician (of Athens) in the West were writing on strategy in warfare over 2400 years ago while Niccolò Machiavelli's thoughts on political strategy, written in 1513, are still pertinent to today's public officers (Griffith, 1963; Adams, 1992; Cummings, 1993). Within this context, literature on strategy in business management is in its infancy. Whilst embryonic conditions for strategic management as a discipline were well established in the economic and managerial literatures from the 1930s onwards, the 1960s are most often cited as the decade of birth (Whittington, 1993; Rumelt, Schendel and Teece, 1994). Chandler's (1962) *Strategy and Structure*, Ansoff's (1965) *Corporate Strategy* and the Harvard Business School's basic strategy text *Business Policy: Text and Cases* (Learned, Christensen, Andrews and Guth, 1969) are frequently nominated as foundation academic works with Sloan's (1963) *My Years with General Motors* being one of the first in a long line of influential practitioner autobiographies and insights. Strategic management became the new teaching metaphor to replace the "functional integration" image which was the basis of business school education in the 1950's (Rumelt et al, 1994).

At the same time that 'strategic management' as a separate discipline was being born, much research and theory was focused on the more behavioural aspects of the firm. While one of the major expressions is seen to be in Cyert and March's (1963) emphasis on organisational learning, work on other aspects such as structure in organisations (Woodward, 1970), the relationship of the firm with its environment (Lawrence and Lorsch, 1967), management (Drucker, 1954) and decision making (Simon, 1960) have equally powerful lineages. From these early days the 'strategists' and the 'behaviourists' pursued parallel but (relatively) non intersecting research paths. The cross-over between the economics dominated strategic management literature and the social science dominated, behavioural stream was infrequent and superficial at best. The last decade, however, has seen a pronounced shift. The emergence of the resource based view (RBV) of the firm as a powerful strategic paradigm (Wernerfelt, 1984) has ensured that such concepts as knowledge (Nonaka, 1994) mental maps (Huff, 1990), learning (Argyris and Schon, 1978) and complex adaptive systems (Gleick, 1987) have become sufficiently mainstream in strategic management literature that a cognitively based paper by Bettis and Prahalad, published in 1986, was the recipient of the first *Strategic Management Journal* Best Paper Prize.

Strategic management burgeoned into a forest of concepts, definitions, processes and issues. Despite the intersection with the more fundamental social disciplines, strategic management remains firmly rooted in practice with the earliest writings describing and explaining structures, functioning and trends in use in business and business units. Early business schools, most notably Harvard, emphasised a practical, atheoretical perspective by initiating and championing the case study as the primary learning vehicle for budding general managers. These case driven, utilitarian underpinnings have given rise to a diversity of frameworks and theories (Whittington, 1993), definitional ambiguities, (Mintzberg, 1987) and an individualistic research tradition (Camerer, 1985) that still bedevil attempts at more holistic integration.

1.2 Definitions

1.2.1 Divisions

At least in terms of levels of strategy there seems to be a general consensus amongst strategic management authors. Strategic management texts uniformly teach that there are three levels of distinct but overlapping categories of strategy. Johnson and Scholes (1997) is a typical example wherein *corporate strategy* deals with the "overall purpose and scope of the organisation", (p 11) *competitive or business unit strategy* deals with "how to compete successfully in a particular market" (p 11) and *operational or functional strategies* deal with "the component parts of the organisation" (p 12).

These traditional categories, are reflected in the archetype organisational chart illustrating the linking of structure and strategic level. (Fig. 1.1) (Grant, 1991: 21).

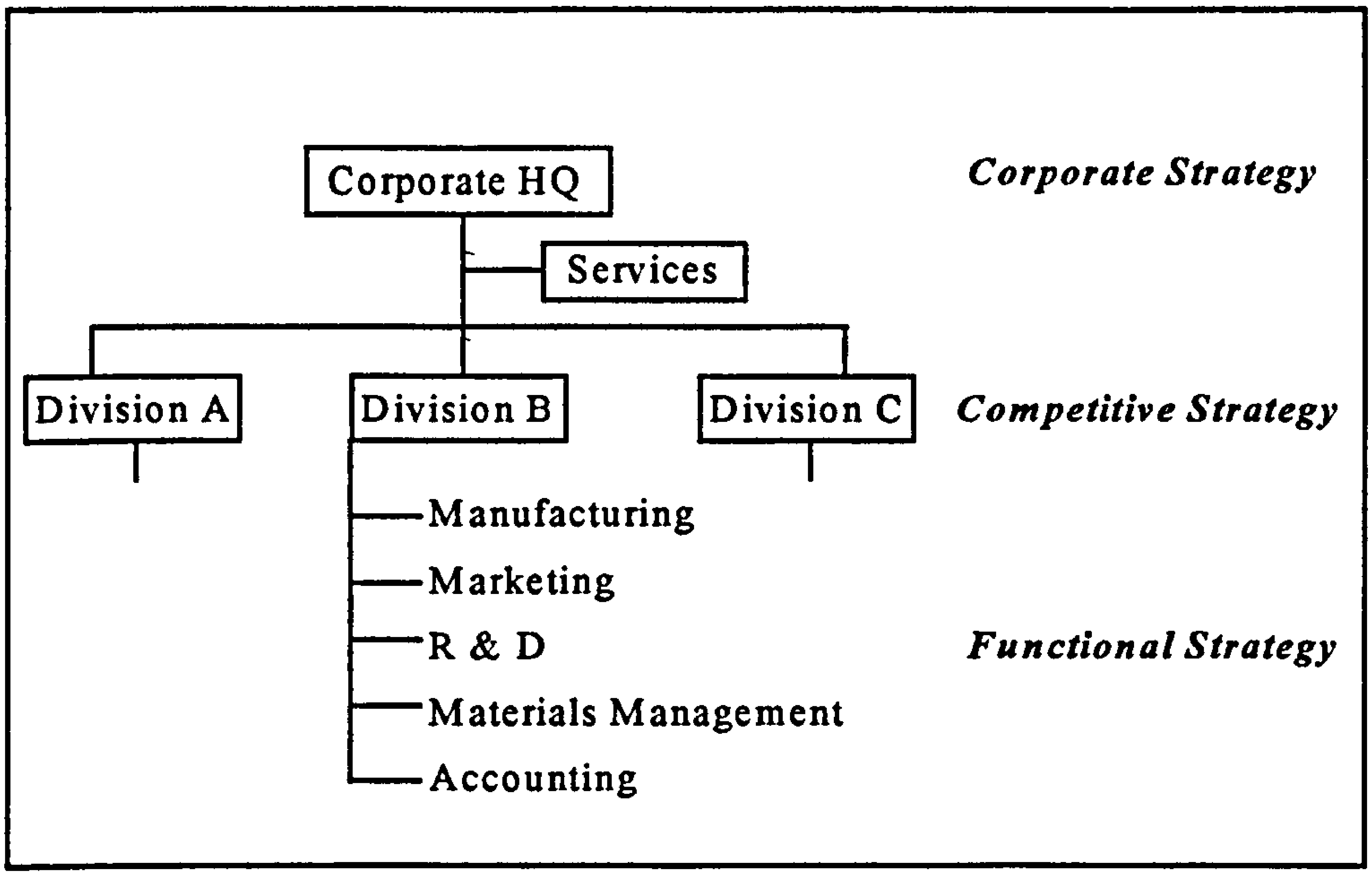

Figure 1.1 Divisional Structure - in Theory

This simple model is a useful heuristic device for teaching strategy to MBAs but the real world situation is far more complex. Mintzberg (1983) coined the term "multiple-divisionalised form" to describe "divisions on top of divisions" while others acknowledged that structural complexity was often more characteristic than the simpler organisations represented in Fig. 1.1 Hill and Pickering attest that

> *"...it appears that the divisions are often complex entities in their own right, thereby serving to emphasize that it is by no means valid to assume that there is a direct one-to-one relationship between a division, one distinct business and one end market".* (1986: 31)

Although still an over-simplification. Fig. 1.2 is a more representative picture of the typical divisionalised form. This reality is generally ignored, however, as (presumably) secondary to the main strategic issues. The divisional level is incorporated into competitive or corporate levels (Goold et al, 1994) or is viewed as an uneasy balancing act between the two (Jemison, 1985).

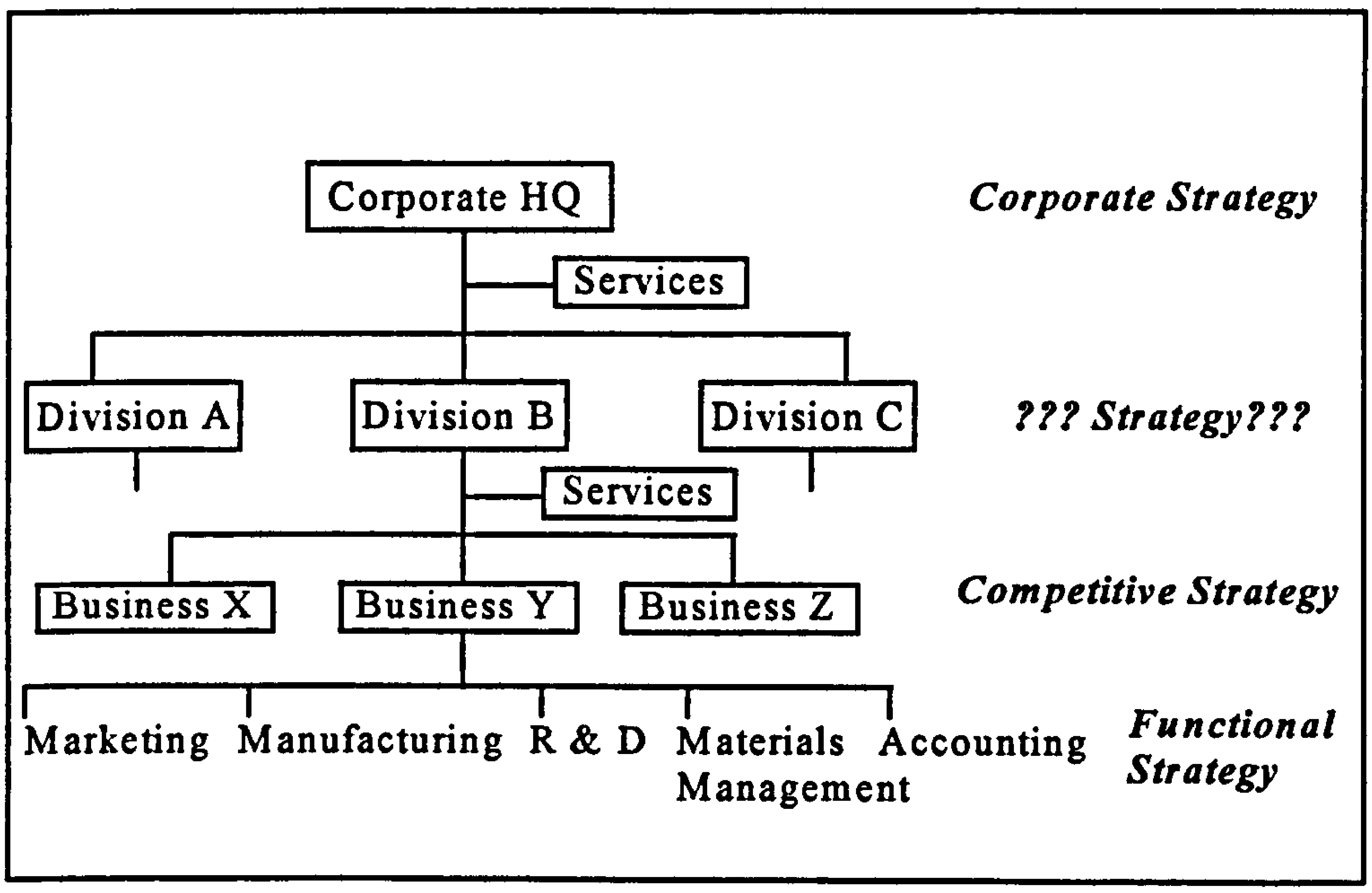

Figure. 1.2 Divisional Structure - in Practice

As suggested in Fig. 1.2, however, the complications may not be merely structural. The neat split into corporate, business and functional strategic levels can still occur but leaves questions to be resolved at the divisional level. The strategic management literature has not attempted to answer these questions to any depth at either the level of the divisional unit;

> *"..in the literature on the theory of the firm, there is great silence on how those units that do contain interdependences should be managed".*
> (Hedlund 1994:84)

nor the manager caught in the middle;.

> *"there has not been widespread, systematic examination of (the divisional general manager) in multibusiness companies and the contribution they make to value creation."*
> (Jemison, 1985:165)

The diversity of modern organisational structures militates against tightly constrained definitions and so "notions of a theoretical optimum must yield to pragmatic initiatives" (McKiernan, 1992: 22). The *typical* division is defined here as a self contained, semi-autonomous, organisational unit within a diversified company (Chandler, 1994). It has an M-form structure and comprises a group of related businesses which are functionally organised (U-form) and which directly interact with the customers, competitors, suppliers etc. of their particular product/market.

A division, as a *group* of businesses *within* a multi-divisional firm, differs from its parent in several ways[3]:

1. It does not perform the "public company" functions of the corporation (tax, law, investor issues etc.)

2. It is focused in a particular strategic domain and, perhaps as *part* of a diversified portfolio of divisions, only has related businesses to manage. i.e. it is created out of and defined by the *relatedness* of its business units.

3. It is subject to the demands and constraints of a corporately imposed framework of systems, structures and processes so that, for example, human resource policies on recruitment, remuneration and promotion are often corporate constraints as are capital expenditure guidelines and limits and budgetary frameworks. The corporate parent has a greater flexibility in meeting market expectations.

So the division has a less diverse range of tasks than the parent firm but has an increased depth of operational responsibility in a more focused arena and is subject to more constraints on its freedom to act. The division is similar to the multidivisional firm, however, in that it has a group of businesses to manage which are themselves semi-autonomous units.

[3] I am referring here to the 'typical' case.

1.2.2 Strategy

The essence of meaning of 'strategy' and 'strategic management' as used in this work derives from the interaction of three orientations:

- The essential definition of strategy" is captured in the classical definition of Chandler (1962), who wrote that it is

  > *"...the determination of the basic, long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for those goals."* (p. 13)

Consistent with the views of Andrews (1971) this definition incorporates *goals and actions* over the *long term* but is grounded in an assumption of managerial *purposefulness* in the management of strategy. Managers are assumed to be purposive, strategic agents who are "*intendedly* rational, but only *limitedly* so. (Simon, 1947: xxiv).

Hence a key assumption underlying this thesis is that management is a key strategic driver. Managers are beset by unforecast environmental contingencies, hampered by cognitive and perceptual boundedness and shaped by inarticulable recipes and routines. Nevertheless they have a sense of a desired long-term organisational future and initiate short, medium and long term activities in attempts to enact it. Another implication of this overall view is that the long term viability of the firm, in particular relative to other competitive firms, is predominantly in the hands of its managers i.e.

over a sustained period those firms whose managers actively develop and enact 'better' strategies will out-perform rivals.

- Secondly strategy as used in this thesis is assumed to be manifest in two of Mintzberg's (1987) 5 'Ps': *perspective* and *pattern*. As Mintzberg indicates, strategy-as-perspective suggests strategy to be a concept that exists in the minds of strategists or in the 'collective mind' (Weick and Roberts, 1993) of the organisation. It infers a shared view of the world, has much in common with culture and ideology, and implies the need to understand the perceptions, cognitions and intentions of strategists. Strategic perspective can be unconscious and deeply engrained (as with the routines of Cyert and March, 1963) and thus may be most eloquently revealed through the *pattern* of behaviour and processes throughout the organisation. Regularities in behaviour and processes i.e. strategy as enacted, may not be consistent with managers descriptions or aspirations i.e. strategy as espoused. In the case of a mismatch what is *done* is strategy.
- Finally this thesis is concerned with strategy in profit-making organisations. In these firms it is assumed that the over-riding long term goal is the creation of *value* which is ultimately measured in financial returns to owners. Objectives may be couched in terms of 'advantage' over competitors or satisfying the needs of

customers, stakeholders etc. but ultimately these are intermediary steps in creating value for owners (Kay, 1993).

1.3 Research Questions

There was no linear progression from practitioner confusions via academic enlightenment to research project. Recursive wanderings through the strategic management literature led down the typical blind alleys before further exploration came full circle to the puzzles of practice. Practical relevance was a substantial criterion underpinning the eventual direction taken. While Montgomery, Wernerfelt and Balakrishnan (1989) argue that the need to show direct management applicability is sometimes a handicap in strategic management research Pettigrew (1995) asserts that such research must surmount hurdles of both academic quality and practical relevance. In accord with this Schendel emphasises that research is

> *"ultimately of value when tested by its contribution to improving practice and organisational performance".* (1995:1).

Thus the research questions reflect an academic/practice mix

1. What is 'divisional strategy' in theory?

   i.e. What is the value creating rationale of the division?

2. What is 'divisional strategy' in practice?

i.e. What is the value creating perspective of divisional management and how do they purposively enact it?

3. How are different divisional strategies reflected at business unit level?
4. What practice implications emanate from a deeper understanding of divisional strategy?
5. In what ways can deeper understanding of the divisional strategic role develop existing views of the multi-divisional firm?

1.4 The Research Process

Drawing on a number of authors and his own experience Archer (1988), writing about qualitative research and in particular case based research, suggests that, while it is not possible to establish *sufficient* conditions, a number of *necessary* conditions for meaningful research can be articulated that at least "signpost major pitfalls".

1. Researchers require *familiarity with the field.* Whilst life experience may be the ideal background it can be also achieved through study of the relevant literature and personal exposure.
2. The research requires an *initial conceptual framework* or 'proto-theory' which is explicitly articulated in writing or diagrammatic form.

3. This framework should contain a *crucial insight* or conjecture which, while not necessarily generating disconfirmable hypotheses, provides a basis for questions or propositions to guide the focus of the research.
4. The achievement of factual status is dependent on the demonstration of stability of the processes under study through a sufficient degree of *replication* in the methodology. Allied to this the base data should be available for comparative interpretation by other researchers.

This thesis attempts to fit within these broad guidelines.

As indicated earlier the researcher had significant 'life experience' of managerial roles at the level of study both in terms of contact with others and though having occupied roles at that level. Also pertinent to the style of this research are the skills developed over an initial (10 year) career in clinical psychology.

Though a review of some of the relevant academic concepts an initial view of divisional strategy is developed in which to ground the inquiry.

Although the methods and analysis used are 'qualitative' and the overall orientation is towards theory development, sufficient replication is undertaken to ensure the robustness of the findings both in terms of their existence in a 'real world' (as opposed to statistically nuanced) sense and in a method/researcher free sense. 'Real world' robustness serves also to further the practical intent of this work. Base data remains available for alternative interpretation.

1.5 Contributions

This thesis aims to make contributions to knowledge at theoretical and practical levels

1. There is a noted gap in the strategic management literature in the area of the modern day business division. This gap may exist for any number of reasons. It may be that the issue is so self-evident that neither research nor deep discussion is warranted. On the other hand the general lack of senior management experience of most researchers may have contributed to a theoretical blind spot in an important area which the simpler model in Fig. 1.1. neatly covers. Notwithstanding the reasons there is a gap and it warrants exploring if for no other reason than 'it is there'.
2. Whilst there has been a significant body of research on the relationship between relatedness and performance there has been little empirical work examining how relatedness is managed. Relatedness as a variable has been accepted as a given state and little has been done to examine it as a managerial process (Hedlund, 1994). Divisions, being created on an à priori basis of relatedness, offer the opportunity to study relatedness as perceived and managed by divisional and business personnel.

3. Synergy is closely connected with relatedness in the strategic management literature and is often given as a significant rationale for strategic actions such as acquisitions. Again there has been little empirical work on how managers perceive and attempt to operationalise synergy from related businesses. Given the theoretical and intuitive power of synergy more work in this area is needed.
4. Multi-business management is a major focus for strategic management authors and consultants and yet little, if any, specific guidance is available to the managers of the most ubiquitous multi-business organisation of all. i.e. the division. Only specific examination of real world divisions can underpin useful counsel.

1.6 Chapter Outlines

Chapter 2 reviews some of the strategic management literature pertaining to the history, rationale and management of the multi-divisional firm. In particular it examines literature on business relatedness and synergy and views these within the context of the resource based view (RBV) of the firm particularly in light of the RBV's commitment to the dynamics of learning and knowledge.

Chapter 3 draws together many of the points raised in Chapter 2 to develop a theoretical perspective of divisions as internal corporations of related businesses wherin inter business and intra-divisional cooperation should be the predominant philosophy and mangerial mode .

Chapter 4 describes the basis for the methodology, design and analysis of the study and the fieldwork undertaken. Practical issues and the relevance of the researcher as instrument in qualitative work are given emphasis.

Chapter 5 presents descriptions and analysis of a set of five divisions that fit with the theory of divisional strategy as the exploitation of (knowledge-based) economies of scope. These are termed 'cooperative' divisions.

Chapter 6 presents descriptions and analysis of a set of seven divisions that fit with a view of divisional strategy as being the management of a set of stand-alone businesses where the focus and dividing imperatives of M-form organisation is the predominate driver of divisional perspectives. These are termed 'non-cooperative' divisions and exist in spite of theoretical rationales of cooperation as the essence of divisions.

Chapter 7 discusses the value-adding roles of the divisional level and the division and offers views on the nature of the *unique* value adding potential of divisions over that of the stand-alone businesses.

Chapter 8 reconciles the theory of divisional strategy as the cooperative, exploitation of economies of scope with the empirical existence of non-cooperative divisions. It then goes on to draw general implications for practice in divisional management.

Chapter 9 revisits the research questions from this chapter and offers brief answers based on the theoretical and empirical inputs. It discusses the limitations in the empirical work and suggest directions for other research.

Chapter 2

DIVISIONALISATION, RELATEDNESS AND CORPORATE STRATEGY.

> *"The pure (conglomerate) Divisionalized Form emerges as a configuration symbolically perched on the edge of a cliff, at the end of a long path. Ahead it is one step away from disintegration - breaking up into separate organizations on the rocks below. Behind it is the way back to a more stable integration, perhaps a hybrid structure with Machine Bureaucracy at some intermediate spot along the path. And ever hovering above is the eagle, attracted by its position on the edge of the cliff and waiting for the chance to pull the Divisionalized Form up to more centralized social control, on another, perhaps more dangerous, cliff. The edge of the cliff is an uncomfortable place to be - maybe even a temporary one that must inevitably lead to disintegration on the rocks below, a trip to that cliff above, or a return to a safer resting place on the path behind...."* (Mintzberg, 1983: 252)

Mintzberg's dramatic characterisation of the multibusiness form suggests a state of tension, ambiguity and instability and yet, particularly for large firms, it remains the most prevalent organisational structure in Western economies. Since their beginnings in the early 1900's in the US, two major questions have framed research, thought and practice in such multidivisional companies:

A. What is the additional value generated by such forms?

This is a question of economics and essentially addresses the issue of the value inherent in having a group of *potentially stand-alone businesses* under one management.

B. How are they best managed?

This is a question of organisation and addresses the issue of how inherent value is optimised.

This chapter reviews some of the research and thought that have gone into addressing these two questions. After briefly tracing the history of the multidivisional company and thoughts about the source of its value, the traditional concept of relatedness as an economic value rationale is highlighted, particularly when linked to ideas of synergy as manifest in the emerging ideas of resource based competences embedded in and driven by organisational learning. The second question is addressed through that part of the literature on corporate strategy that pertains to the processes of *managing* multibusiness organisations.

A. Why Multidivisonals?

2.1 Divisionalisation.

Splitting armed forces into automous units capable of self directed action has long been a feature of military organisation form the cohorts of the Romans to the platoons of the modern British Army. Similarly, during construction of large transportation works such as the Erie Canal in the 1820s and 1830s, the road or canal line was divided into a number of "divisions" each overseen by an "assistant engineer" (Chandler, 1962). In both cases the dividing of force and task helped overcome the administrative and operational problems created by size and complexity and was consistent with the first principle of business espoused by Henri Fayol in the early 1900s (Fayol, 1949).

According to Chandler (1994) the modern, hierarchical business enterprise arose in the 1850s in the United States and Europe to administer the new railroad and telegraph companies. Whilst an early organisational structure of self-contained units was evolved to cope with multi-regional systems in transportation and communication, a structure based on a split into functional responsibilities was the norm for companies of the day. Williamson (1975), coined the term "U-form" (unitary form) for such functionally organised firms and argued that such a structure was the "natural" organisational response to multifunctional activities.

> *"Specialization by function permits both economies of scale and an efficient division of labor to be realized - provided that control over the various parts can also be realized".* (p. 133)

Expanding size however, particularly where expansion includes diversification, compromises the effectiveness of the U-form through cumulative "control loss" effects. Increased difficulties in aligning functional and enterprise goals ("incommensurability"), more extensive coordination requirements between the functions making for control loss between levels ("indecomposability") and increased confounding of operational and strategic decisions compound the overall control problem (Williamson op. cit.). As Chandler (1962: 299) puts it:

> *"The inherent weakness in the centralized, functionally departmentalized operating company...became critical only when the administrative load on the senior executives increased to such an extent that they were unable to handle their entrepreneurial responsibilities efficiently. This situation arose when the operations of the enterprise became too complex and the problems of coordination, appraisal and policy formulation too intricate for a small number of top officers to handle both long-run, entrepreneurial, and short-run, operational administrative activities."*

To overcome such problems a movement to an innovative organisational form was pioneered in the early 1920s in America by Du Pont, General Motors, Jersey Standard and Sears, Roebuck (Chandler, 1962). This innovation, referred to as the "multidivisional" form by Chandler and designated the "M-form" by Williamson (1975), divided up organisational tasks and responsibilities by substituting quasi-autonomous operating units ("divisions"), organised on brand, product or regional lines, for the functional divisions of the U-form. According to Williamson (1970) such a structure is both rational and synergistic i.e. " the whole is greater (more effective, more efficient) than the sum of the parts." (p.121). Chandler (op. cit.) had also been impressed by the success of the multidivisional form,

> *"The basic reason for its success was simply that it clearly removed the executives responsible for the destiny of the entire enterprise from the more routine operational activities, and so gave them time, information, and even more psychological commitment for long-term planning and appraisal...*
> *Thus the new structure left the broad strategic decisions as to the allocation of existing resources and the acquisitions of new ones in the hands of a top team of generalists. Relieved of operating duties and tactical decisions, a general executive was less likely to reflect the position of just one part of the whole."* (p. 309-310)

Williamson (1975) noted that optimising the benefits of divisionalisation is contingent on an optimal structure. In his classification, the *pure* multidivisional (M-form) is one

> *"in which a separation of operating from strategic decision-making is provided and for which the requisite internal control apparatus has been assembled and is systematically employed."* (p. 152)

He divided this into two subcategories; type D_1, "a highly integrated M-form enterprise, possibly with differentiated but otherwise common final products" (p. 153) and type D_2, the diversified M-form.

His classification included other, less optimising, structures:

The H-form, whilst still a divisionalised enterprise, lacked the "requisite control apparatus" (p. 152) with the parent often operating through a subsidiary relationship with its divisions.

The *Transitional Multidivisional (M'-form)* is undergoing a process of adjustment where a "regular divisionalized relationship" (p. 153) has yet to be established. This can be in existence as a U-form moves to an M-form structure or while new acquisitions are integrated where the new divisions have negotiated "special autonomy" (p. 153) i.e. a temporary H-form relationship.

The *Corrupted Multidivisional ($\bar{M}$-form)* is a multidivisional structure which has the requisite control apparatus in place but where the "appropriate distance relation" is missing in that "general management has become extensively involved in operating affairs." (p. 153)

The *Mixed (X-form),* whose viability over the long term "is perhaps to be doubted" (p.154), comprises a mixture of the other multidivisional forms.

Williamson's academic caveats about the need to balance operating distance and control echoed the practical concerns of Sloan (1963) when he wrote his "Organization Study" for General Motors at the end of 1919. He pointed out that while the du Pont company was reorganising from a centralised organisation due to "too much centralization" (p. 46), General Motors' operating problems had arisen from "too much decentralization" and it needed "to find a principle of co-ordination without losing the benefits of decentralization." (p. 46). In Williamson's terms both were seeking to move to an M-form from differing starting structures, the U-form of du Pont and the H-form of General Motors, but for the same reasons; to optimise operating and strategic effectiveness.

Initially the economic depression of the 1930's discouraged other companies from adopting this apparently expensive and complex structure but the post World War II boom, with the consequent growth of large companies through diversification, encouraged its acceptance and rapid adoption. Whereas in 1949 less than a quarter of the Fortune 500 were divisionalised, this had risen to just over a half by 1959. Another ten years on, in 1969, only one fifth of companies in the 500 were *not* divisionalised. Most of this change was due to the firms in the Fortune 500 purposefully adopting an M-form structure (from U or H forms) rather than a change in the composition of firms in the top 500[1] (Rumelt, 1974). A similar trend was evident in the UK and Europe (Scott, 1973, Channon, 1973, Dyas and Thanheiser, 1976) although less so in Germany and France than in the United Kingdom and the United States (Constable, 1986).

Such a rapid spread is consistent with the M-form having 'ecological advantages' (Hannan and Freeman, 1988) over other structural forms. However, the correspondence between rate of M-form adoption and chief executives with elite business school degrees and cross directorships with other multidivisional firms caused Palmer, Jennings and Zhou (1993) to suggest that coercive and normative institutional processes also had a strong part to play. Rumelt's rider that "structure

[1] Rumelt estimated that 53% of the change was due to increased diversification and 47% to "the secular change toward divisionalization." (p. 70)

also follows fashion" (1974:149) was based on similar observations. Enthusiasm for M-form orientation went even beyond business effectiveness. Based on his view that "for large diversified companies, only one form is consistently successful - the M-form" (p. 17), Ouchi (1984) proposed M-form organisation and philosophy as a paradigm for helping with "the problems of managing (US) society" (p. 3). Open economies, like the US, interact with other economies in a way that requires centralised oversight by government. At the same time the individual states operate autonomously within 'strategic' guidelines of the (government) centre.

2.1.1 Value of the M-form

It is a stated or implied premise that to make economic sense the multidivisional firm must add more value than the sum of its stand-alone businesses. (Porter, 1987; Goold et. al, 1994; Mathur and Kenyon, 1997) and the search for the source of this added value has been the basis for much theorising and research (Williamson, 1970; Rumelt, 1974; Teece, 1980).

The value of the multi-business corporation can be represented in the conceptual equation[2]:

$$
\begin{aligned}
V_c &= A_c + B_c + C_c \\
&= A_s + B_s + C_s + M_c
\end{aligned}
$$

where:

V_c = the value of the corporation.

[2] I am grateful to my supervisor Professor John McGee for the idea of expressing these views in this way.

A_c, B_c, C_c = the net values of businesses A, B and C under the control of the corporation (c). For the sake of simplicity it is assumed that all corporate costs are allocated across the businesses on some pro-rata basis.

A_s, B_s, C_s = the respective values of the stand-alone (s) businesses A, B and C.

M_c = the total net[3] value of corporate membership i.e. *membership benefits.*

Following the economic rationale that such corporate groupings have a value greater than the sum of the stand-alone constituent businesses[4] then:

$$V_c > A_s + B_s + C_s \text{ by the value of } M_c{}^5$$

Thus the critical value factor for a corporate group are *membership benefits.*(M_c) and the creation, optimisation and management of these benefits would logically seem to be the essence of corporate (i.e. group) strategy.

In many cases (most according to Goold, Campbell and Alexander, 1994) M_c has proven to be negative i.e.

$$A_c + B_c + C_c + M_c < A_s + B_s + C_s$$

---

[3] The idea of "net" value acknowledges that there are a variety of "costs" of membership. These are more than the financial overheads of corporate staff etc. Examples of other costs include business time and resource invested in corporate or inter-business activities; the potential loss of entrepreneurial drive as market incentives are replaced by more focused, internal rewards that encourage "satisficing" behaviour; the containment of business activities to a more narrow product, process or geographic range than might be attainable in stand-alone mode; the sustained cross-subsidisation of businesses that, in a stand-alone capacity, would be bankrupt; etc.

[4] For the sake of simplicity the notion of inter corporate *relative* value or corporate parenting *advantage* (Goold et. al., 1994) is not dealt with here although the same principles apply.

[5] Note that, technically, only in the case of the corporate restructurer or portfolio manager where the intention is to sell on the business at a profit is it necessary that an individual corporate business (e.g. A_c) have an (eventual) value greater than it had as a prior stand-alone operation (A_s). Collis (1991c) points out that the sub-optimisation of an individual unit (s) to optimise the value of the whole is consistent with value creating corporate strategy. There are potential dangers of value destroying cross-subsidisation in such cases as managers justify long term losses as 'strategic' or, "patient money".

When this situation prevails the break-up of the corporation is an economically logical strategy and proved a lucrative one for the corporate raiders of the 1980's[6].

The value of M_c has been seen to be derived from different sources over the history of the M-form. Organisational gains derived from the splitting of strategy into formulation (and control) by head office and implementation by operating divisions had a value-logic grounded in managerial efficiency and focus (Chandler, 1962; Mintzberg, 1983). This traditional rationale, allied to the benefits of size and scale (Chandler, 1990) seems an adequate explanation of the *reorganisation* of growing companies from increasingly inefficient U-form to efficient M-form. However growth through diversification, and the M-form as organisational progenitor rather than off-spring strains the power of organisational efficiency per se as a source of added value. From an economic perspective Teece (1982) pointed out that under the assumptions of neoclassical theory[7] it is "virtually impossible to erect a theory of the multiproduct firm" (p. 40). It needs the reality of market and human imperfections, and the costly *transactions* these entail, to provide an economic basis for multiproduct organisation through the *governance* and *scope* advantages of hierarchy over markets. While governance advantages reside in the realisation of internal capital market economies, primarily through the corporate office being better informed investors, scope advantages arise from the realisation of economies at operational levels.

[6] Collis (1991) points out that a significant loss of value is necessary before takeover-break-up-and-sell becomes a viable option. With typical transaction costs of 2% and an acquisition premium of 20% a corporation "can be creating only 78% of the value that could be generated... and yet still be immune to the threat of a change in corporate control." (p. 6)

[7] i.e. profit maximising entities, competitive product and capital markets, zero transaction costs and competitive equilibrium.

Governance: It has been suggested that the divisionalised form manifests the advantages of hierarchy over market mechanisms in economising on bounded rationality, attenuating opportunism, and reducing other informational, control and agency problems inherent in the relationship between the stand-alone business and the capital market (Williamson, 1975; Eisenhardt, 1989b). In stand-alone units, business managers can maximise their "on-the-job consumption" (Fama, 1980) as well as taking advantage of information asymmetries and the control disadvantages of the market to escape censure for sub-optimal performance. As part of a corporation, however, the business is informationally more transparent due to the requirement for frequent reporting and the use of auditing functions to maintain the integrity of information. Managers are paid at market rates but are compelled to perform to high standards to retain their positions. Control advantages reside at corporate level which can intervene at an early stage to correct poor performance in one of its sub-units. Hill (1994) refers to these set of advantages as reflecting the "measurement" branch of the transaction cost literature which is essentially concerned with "measurement problems that exist under conditions of uncertainty." Such 'advantages' have not gone unquestioned. For example the top managers of the corporation are free from hierarchical governance and are still in a position to act in their own best interests which may not be the same as those of the shareholders (Jensen, 1989).
Scope: As well as potentially dealing with the tensions between markets (owners) and managers the multi-business organisation is argued to have value enhancing properties over stand-alone operations in the way that it can facilitate economies of scope of

specialised physical capital, knowledge, and managerial expertise (Penrose, 1959; Teece, 1982). In the case of indivisible, specialised physical capital, internal transactions are subject to managerial control devices. These attenuate the "costly haggling and other manifestations of non-cooperative behavior" (Teece, op. cit: 49) which characterise external transactions seeking to extract the quasi rents potentially accruing to specialised assets in small markets. Specialised organisational knowledge embodied in people is also difficult to trade because of its tacit components and team embeddedness and the uncertainty of its value (Williamson, 1975; Teece, 1982; Hill, 1994). The uncertainty of the value of know-how compounded by information asymmetries between buyer and seller is the basis of Arrow's paradox as a barrier to external transacting (Arrow, 1974). i.e. the buyer needs the information (know-how) to evaluate its worth but once he/she has the information there is no reason to pay for it. Similar uncertainties, but this time in measurement, accompany the sharing of resources between businesses that are involved in the exploitation of economies of scope. Again multi-business organisation has advantages in ameliorating the complex haggling and free rider problems inherent in market transactions (Hill, 1994). Another, more controversial, advantage of the M-form, this time over other organisational forms, lies its suitability as a vehicle for growth through acquisition (Chandler, 1994). Unfortunately for shareholders the apparent ease with which this organisational structure facilitated the incorporation of other businesses into the corporate mélange is argued to have therefore led corporate management into inappropriate acquisitions which later had to be divested (Porter, 1987).

The over-enthusiastic use of the M-form as a facilitator for takeover has not been the only drawback noted with this ubiquitous corporate structure. Ironically, given its potential for scope benefits mentioned above, it is seen by some authors as an inhibiting influence on organisational learning, knowledge transfer and cross-company competence development (Prahalad and Hamel, 1990; Hedlund, 1994). In particular, the cross-boundary, "hetarchical" organisational context seen to support *team* learning is argued to be difficult to maintain against the boundary-enforcing properties of the M-form (Hedlund, 1986). It seems that the "division" i.e. "splitting" characteristic of the M-form and the stand-alone operating it demands in some areas, is consistent with the strongly individualistic culture of the US and US managers (Hoskisson, Hill and Kim, 1993). A spill-over from this may be resistance to cross-business sharing of resources and knowledge which becomes an ongoing dynamic contrary to the optimisation of scope economies. Almost inevitably associated with bureaucracy the M-form can suffer from the impersonal, inflexible narrowing of perspective potentially inherent in such structures (Mintzberg, 1983). Rumelt noted dangers in M-form organisation. In his first study of diversification he saw "the decentralized product-division structure as the solution to the problem of managing diversity" (1972). By 1986, however, he was

> *"...increasingly sensitive to the unanticipated side effects of this structure: the financial orientation it imposes on general management; the way planning systems in diversified firms drive out subtlety; and the lure of exciting large-scale acquisitions and mergers to managers suffering the ennui of a move from an operating job to a headquarters position."*

2.1.2 Divisionalisation and Strategy

At the same time that Chandler (1962) was observing that structure followed strategy, Edith Penrose (1959) was characterising firms as a "collection of productive resources" (p.25) with the capacity of one of those resources, i.e. the management team, being both a significant driver and limit to firm growth. She asserted that diversification was a manifestation of this view.

> *"In a sense, the final products being produced by a firm at any given time merely represent one of several ways in which the firm could be using its resources, an incident in the development of its basic potentialities...(the firm's) basic strength has been developed above or below the end-product line as it were..."* (p. 150-151)

Despite this early insight, the 1960-70's saw the strategy-as-resource view of the firm de-emphasised. Academic and managerial focus followed organisational economics in focusing on strategy as responses to the more powerful determinants of market and industry forces. The structure-conduct-performance (SCP) relationship (Bain, 1954), particularly as popularised by Porter (1980), became the dominant paradigm and 'strategy-as-fit' to a relatively deterministic, (product market) environment the normative view (e.g. Andrews, 1971).

Initially the intuitive logic of divisionalisation as a *response* to complexity seemed self-evident. Day-to-day operations and short term tactical issues were handled by the managers of the business unit or division while senior officers in the corporate head office, free from such distractions, focused on long term, strategic issues (Sloan, 1963). The intuitive value of divisionalisation was further boosted during the 1960s as diversification grew as a strategic imperative in its own right and acquisition and merger became a major mechanism for growth (Chandler, 1990). A strategically driven corporate centre with self-contained off-shoots seemed ideally suited to the management of new businesses. While perhaps a response to aggressive anti-trust enforcement in the US, diversification for growth was endorsed by the market and reflected in the increased share prices of acquiring companies (Schleifer and Vishney, 1994). Emboldened by shareholder approval, and armed with increasingly all-encompassing definitions of synergy[8] and faith in the transferability of general management skills, companies embarked on a diversifying buying spree (Chandler, 1994; Goold, Campbell and Alexander, 1994). To accommodate the inevitable growth in ensuing administrative complexity, clusters of market-related units were established as 'groups', 'sectors' or 'divisions' under the charge of a general manager. i.e. not only was divisionalisation a reactive means of easing administrative overload from organic growth it also became a proactive mechanism for growth (Chandler, 1994). In many cases senior managers had no previous occupational experience of the operations and/or markets of the businesses which they bought and subsequently 'controlled' Seemingly, however, the corporate office had no need to fully understand operational details as its role was to formulate and oversee the implementation of value adding strategy which the divisional staff, who often came as part of the

[8] For example Goold et al. (1994) cite the example of the British Oxygen Company (now BOC) buying a manufacturer of frozen pizza on the synergistic basis that gases were used in the freezing process.

acquisition, implemented. Entire collections of new business units were brought under the corporate umbrella.

Whilst demand exceeded supply and industries experienced stable growth, even relatively inefficient firms were able to prosper. By the early 1970's a more complex and turbulent economic environment highlighted the unwieldy nature of many businesses. These changes led to performance problems manifest in capital constraints and engendered a sense of crisis in managers of conglomerates (McKiernan, 1992). Senior managers sought different rationales and tools to manage their set of businesses. Their needs were seemingly met by the new portfolio planning techniques, and most notably, the growth share matrix developed by the Boston Consulting Group (BCG). Based on the cost reducing properties of experience curve dynamics, the growth share matrix gave a cash flow rationale for business linkage, acquisition and divestment. When combined with the logic of risk reduction through diversification (Markowitz, 1954) the portfolio orientation seemed to offer salvation to overstretched corporate managers.

The helicopter view offered by such techniques encouraged managers to correct past mistakes by divesting weak businesses ("dogs") and establishing a seemingly more solid rationale for the corporate mix than some tenuous definition of synergy (Goold et al. 1994). By the end of the 1970's nearly half the Fortune 500 companies were using portfolio planning in some way to deal with a collection of businesses that were often beyond the scope of senior executives to manage and control at other than arm's length (Haspeslagh, 1982). What started off as an aid to analysis became a strategic paradigm in its own right and one that was accepted relatively uncritically by practitioners. This is understandable in the light of McKiernan's (1992, p.15) assertion that although the growth-share matrix was being taught on *all* management degree programmes in UK universities by 1989, only 20% of this teaching was in a *critical* vein. While academic commentators (Day, 1977, Wensley, 1981) were more circumspect and critical about the (over)use of portfolio planning the simplified and stereotyped application by consultants and managers was seen by some to result in caricature rather than strategic paradigm.

> *"It has taken around a decade to reduce the Boston Consulting Group's idea to the demeaning illogicality of supporting the stars, milking the cows and kicking the dogs."* (Reed and Luffman, 1986:29)

Shortcomings of strategies driven by the 'boxes' became not only manifest in academic critiques but also in the profitable buy-break-up-sell tactics of the corporate raiders of the 1980's. By the late 1980's the requiems for portfolio management were many,

> *"In most countries the days when portfolio management was a valid concept of corporate strategy are past".* (Porter, 1987: 51)

Not only did the technique of portfolio management receive the last rites from many authors but also the relative value and performance of diversified companies became a focus of research (Rumelt, 1974; Bettis, 1981; Wernerfelt and Montgomery, 1988). While overall results are equivocal (Ramanujam and Varadarajan, 1989) with value being contingent on more than simple combination (Hill, 1994), a high degree of negative consensus was achieved following a second wave of takeovers and, in particular, the growth of leveraged acquisitions in the 1980's. Spectacular leaps in sales and profit per share of conglomerates in the 1960's and 70's were followed by even more eye-catching decline. In the 1980's a significant number of such diversified companies were bought as wholes and sold off piecemeal with the break-up value routinely covering the purchase price many times over.

Illusory gains followed by concrete losses became such a familiar pattern that diversification and growth via acquisition was seen by some authors to be an ill-fated triumph of managerial "empire building" and short-sightedness over sound, shareholder-value driven strategy (Marris, 1964; Porter, 1987). Whilst undoubtedly true that self-interest is a rational objective for managers it is probably over-simplifying to attribute all diversification to this narrow rationale. It is equally feasible that managers believed they were acting in the best interests of shareholders (owners) *as well as themselves.* Williamson (1975) for one has argued that the corporate office can do better with investments than the capital markets. Owners (shareholders) clearly signalled their approval of unrelated diversification by boosting the stock price of bidders in unrelated acquisitions and diminishing the stock price of bidders in related acquisitions in the 1960s and early 1970s (Shleifer and Vishny, 1994)[9].

i.e. *"The difference between the two returns is significant. It seems that investors fully subscribed to the belief that unrelated acquisitions benefited their firms relative to the alternatives, which makes it even less surprising that firms diversified.* ***They just did what the stock market told them to do."*** (p. 405, emphasis added).

[9] In the 1980s this value relation was reversed. i.e. bidders for unrelated firms saw their share price fall while bidders for related companies increased in value.

Whatever the initiating reasons the subsequent, manifest failure of the acquisition *strategy* of many corporate headquarters also lead to a closer examination of the value and role of headquarters itself; after all it was they who had overseen the mistaken acquisitions (Goold and Campbell, 1987; Chandler, 1994). As well, the self-evident rationale of the multi-divisional firm came under scrutiny with the logic of the capital market being posited as a better alternative. Shareholders could diversify for themselves and there was significant cost and limited apparent value in having a portfolio of potentially stand-alone businesses managed (or , perhaps more correctly, "administered") by a central group. At the very least, detailed understanding of the fit between centre and subsidiary was needed to avoid the value destruction seen to be more typical than value creation as well as a logical coherence of strategic orientation and style of management (Goold and Campbell, 1987; Goold et al. 1994). A current view of the value of many large, divisionalised conglomerates is captured in the title of the book *Break Up! When Large Companies are Worth More Dead than Alive* (Sadtler, Campbell and Koch, 1997). The authors argue that demerging most multi-business enterprises is the quickest way to create value for shareholders. The value added though the financial control, administration, tax benefits and personnel skills of the corporate head office is far outweighed by the pervasive value destruction of the business grouping. In their view single business companies such as Coca-Coal, McDonald's and Intel will be the long term winners for shareholders.[10] Ironically, size

[10] Unsurprisingly these are not universally held views. *The Economist* of 5th April, 1997 (p. 79) cites various conglomerates (e.g. VEBA, General Electric, Samsung) that consistently and significantly out-perform the market. The article points out that these companies are not isolated examples as the

and complexity, amongst the original rationales for the creation of the multi-business firm, are now being seen as the reasons behind the need to break them up. The market had also changed its view in the 1980's by approving of related acquisitions but discounting the shares of unrelated diversifiers (Morck, Shleifer and Vishny, 1990). This would seem to verify Andrew's wry comment, made over a quarter of a century ago, that

> *"..diversification is often an illusory diversion from the opportunities that a company is best able to capitalize."* (1971: 40)

Despite such questions about the structure and even the continued existence of the public corporation in its modern form (Jensen, 1989), the multi-divisional firm continues to dominate the Western corporate landscape. It is, however, perhaps becoming more a collection of *related* businesses (Williams, Paez and Sanders, 1988; Schleifer and Vishny, 1994) as relatedness among business units is assumed to enhance value. Unfortunately the relatedness-value connection is not clear cut.

2.2 Relatedness

The managerial and organisational value of *relating* is intuitively contingent on the degree of actual and potential *relatedness.* Relatedness, however, is a dynamic, interactional construct beset with problems of definition, measurement and value. Most authors (Ansoff, 1965: Rumelt, 1974; Porter, 1985) conclude that relatedness is primarily defined at market (common markets, products or distribution systems) or production levels (common facilities or vertical integration) to which Rumelt (op. cit.)

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top quartile of American, Australian and European conglomerates achieved annual returns between 1985-1995 which were almost 5% above the market average.

adds relatedness based on exploiting patents. More specific conclusions have proven to be less universal.

Rumelt's landmark study followed Wrigley (1970) in moving away from simple product counts and industry classification schemes to "managerially meaningful distinctions among corporate diversification postures" (1974: 95), although later work demonstrated a high correlation between his categories and the simpler market-based classifications (Montgomery, 1982). Wrigley's (1970) classified companies into Single, Dominant, Related or Unrelated Product firms based on a 'specialisation ratio' which indicated "the proportion of the firm's annual revenues attributable to its largest discrete product-market activity" (Rumelt, 1974:11).

1. Single Product companies were those that had not diversified (SR between 0.95 and 1.0).
2. Dominant Product firms were diversified to a minor degree (SR between 0.7 and 0.95).
3. Related Product companies had diversified into new product areas but shared market or technological features with existing product areas (SR less than 0.7).
4. Unrelated Product firms had diversified into totally new areas.

Rumelt's taxonomy allocated companies to one of nine categories. Retaining the basic fourfold system he argued that Wrigley's use of the term "product" was broader "than is usually meant by the term" (1974:12) and substituted 'business' for 'product. He then made the classifications more precise by adding "related" and "vertical" ratios (Table 2.1).

Wrigley (1970)	Rumelt (1974)	Rumelt (1986)
Single Product	Single Business	Single Business
Dominant Product	Dominant Business a) Dominant - Vertical b) Dominant - Constrained c) Dominant - Linked d) Dominant - Unrelated	Dominant Business a) Dominant - Vertical b) Dominant - Constrained c) Dominant - Linked - Unrelated
Related Product	Related Business a) Related - Constrained b) Related - Linked	Related Business a) Related - Constrained b) Related - Linked
Unrelated Product	Unrelated Business a) Unrelated - Passive b) Acquisitive Conglomerate	Unrelated Business

Table 2.1 Categories of Relatedness

The *related ratio* is the degree to which a "common skill, resource, market or purpose applies to each (business) " (p.29). A group is "linked " when each member is only related to one other and "constrained" when all are directly related to one another. A Dominant Business can be linked, constrained or unrelated while a Related Business can be linked or constrained.

The "vertical ratio" is a measure of the firm's vertical integration and reflected in a "vertical" addition to the Dominant Business category.

Finally, arguing that the true conglomerate is "acquisitive" he differentiated between the "passive" and "acquisitive" Unrelated Business.

His study of 246 US firms over the period 1949-69 supported the performance superiority of the multidivisional form but questioned the value of diversification. Dominant-Constrained and Related-Constrained groups significantly out-performed the Unrelated categories. Significant among his general conclusions was that diversity per se was less important than the way firms *related new businesses to current ones* and that the reluctance of managers to invest in unfamiliar areas explained the better performance of the constrained categories. In a later extension of his work he merged the Dominant-Linked and Dominant-Unrelated into one subgroup of Dominant-Linked-Unrelated and ceased the distinction between Passive and Acquisitive Unrelated businesses thus reducing his categories to seven (Rumelt, 1986). Although finding the high return-on-capital of the Related-Constrained group to be an "industry effect" he confirmed his original findings and in particular that the Unrelated categories were among the worst profit performers. Managing sameness or relating the new to the familiar did indeed seem to be a better way of creating value for multi-business firms.

Rumelt's original study confirmed the intuitive wisdom of practitioners and strategic management authors that related business groupings made more sense in terms of value than unrelated ones and hence that management could best develop value by "sticking to the knitting" (Peters and Waterman, 1982). In accord with this view the founders of PIMS, the archetype of quantitative management guidance, suggest that one aspect of corporate strategy is to do with "the design of a portfolio of SBUs that **reinforce each other**" (Buzzel and Gale, 1987: 229 emphasis added.).

The relationship between the make up of business groupings and their economic performance became a major research focus. While some authors were supportive of Rumelt's main contentions (Armour and Teece, 1978; Bettis, 1981; Teece, 1982; Singh and Montgomerie, 1987) a significant body of research was in disagreement (Channon, 1978; Grinyer et al, 1980; Hill and Pickering, 1986; Amit and Livnat, 1988). Factors such as industry structure (Christensen and Montgomery, 1981; Lecraw, 1994; Montgomery 1985) and firm characteristics (Montgomery, 1985; Grant and Jammine, 1988) played important roles and, once these were controlled, 'relatedness' seemed to have little explanatory power. Grant and Jamine (1988), for example, found that only 3-6 percent of performance variance was explained by portfolio composition compared with over 20 percent by industry structure and longitudinal effects. Similarly Montgomery (1985) found that relatedness had no correlation with performance variation once allowances were made for the impact of industry profitability and market share. Using market-based measures of relatedness has produced equivocal evidence on the link between firm performance and the composition of the corporate business portfolio with few *strong* findings on either side and no consensus (Chatterjee, 1986; Ramanjujam and Varadarahan, 1989; Hoskisson et al, 1993; Robins and Wiersema, 1995).

The problem with the demonstrated lack of relationship between relatedness and performance is argued to lie primarily with the validity of the traditional market or industry based relatedness measures (Lemelin, 1982; Markides and Williamson; 1994; Robins and Wiersema, 1995). Markides and Williamson for example claim two major problems with the measures. The first is that they provide an "incomplete and potentially exaggerated picture" (1994: 149) of the scope for exploiting SBU interrelationships because, while they capture surface characteristics of *similarity*, they do not capture relatedness of *strategic importance*. The relatedness that is really valuable is that between "strategic assets" which are important to competitive advantage and cannot be quickly or cheaply gained by nondiversified competitors. The second drawback is that traditional researchers have tended to have a narrow view of relatedness because they tended to view the benefits as limited to "static exploitation of economies of scope" (p. 150) without taking into account the dynamic creation and accumulation of 'strategic assets'. Lemelin (1982) had earlier argued that taking into consideration additional sources of relatedness such as the sharing of technical knowledge, similarity of differentiation techniques and complementary product use, improved explanation of variations in firm performance.

Prahalad and Bettis (1986) also objected to the narrowness of conventional measures arguing that

> *" 'real diversity' in a managerial sense does not arise from the variety in technologies or markets or by the number of distinct businesses, per se, but from the strategic variety among businesses."*
> (p. 496 emphasis in original)

They emphasised the idea that managers' *perceptions* were a basis for the degree of strategic variety and a valid basis for relatedness. Since then others have argued that the subjective views of managers are an important factor in strategic relatedness (Keats, 1990; Nayyar, 1992; Stimpert and Duhaime, 1997) and these views may be a source of sustained competitive advantage (Barney, 1992). "Potential" relatedness may be captured by existing measures but "actual" relatedness can only be seen through the eyes of managers (Nayyar, 1992) or even through their powers of imagination. (Hamel and Prahalad, 1994). Relatedness then is a multi-dimensional construct and while traditional measures may have validly captured the degree of market diversification (Hoskisson et al., 1993), they did not capture the subjective components nor the degree of multi-factor interaction (Stimpert and Duhaime, 1997). A more subtle but significant shift in the behavioural orientation to relatedness is a broadening of the term 'relatedness' to the extent that it becomes synonymous with 'synergy'. This is logically and in practice not the case. Whereas relatedness implies sameness, whether this be in markets, products, processes etc., synergy connotes additional value or performance. Relatedness may be *exploitable* as synergy but it is not axiomatically so.

2.2.1 Relatedness and Synergy

The basis for assuming that relatedness is important in value creation is that it is seen in some way to be a necessary (but not sufficient) precursor of synergy.

> *"Related diversification often leads to synergy".*
> (Salter and Weinhold, 1979: 9)

According to the *Concise Oxford Dictionary* 'synergy' is "the combined effect of drugs, organs etc. that *exceeds the sum of their individual effects*" (emphasis added). while Itami suggests

> *"The goal of synergy is to get a free ride".*
> (1992:44)

Ansoff (1965) was an influential founder who emphasised the major importance of synergy for the firm's product market strategy. He encapsulated it as "2 + 2 = 5" although the definition he quotes in his end notes expresses only the concept of joint action. Trying to maintain a link with ROI measurement he classifies synergy into four components:

1. Sales Synergy - the use of common distribution, administration and advertising offer scale and efficiency benefits and the opportunity for additional and cross selling increases the productivity of the combined sales forces.

2. Operating Synergy - as well as higher facility utilisation there is the potential benefit of common learning curves.

3. Investment Synergy - joint use of plant, inventory, tooling as well as R & D carryover from one product to another.

4. Management Synergy - a more qualitative concept for Ansoff without a direct link to the ROI equation, but seen to be an important contributor. He claims that it only occurs if the problems in the new industry are similar to the ones in the old. If not, then positive synergy can be low and "negative" synergy can result; what Sadtler, Campbell and Koch refer to as "anergy" or "value destroying frictions" (1997: 15). i.e. the concept of relatedness as a *precursor* of synergy is raised here. Salter and Weinhold (1979) offer 5 different areas of potential synergy which are subsumed by Ansoff's categories which, in turn, are taken up by Porter's (1985) value chain analysis. Buzzel and Gale (1987) suggest that synergistic value is created through sharing resources or activities, spillover effects of marketing and R & D, "similar" businesses (in terms of knowledge and skills) and/or a shared image. They also take the view that "'synergy' can be negative as well as positive!" (p. 235) as their definition of "synergy" focuses on the performance of a cluster of businesses "relative to what its expected performance would be as the sum of its components" (p. 235). i.e. synergy is negative when the cluster performs at a lower level than the

potential sum of the stand-alone components. They suggest this as one reason for the relatedness-performance controversy.

> *"This two edged sword of shared-image synergy may be one reason why researchers have not been very successful in finding significant performance differences between the related and conglomerate categories of diversified companies."* (p. 236)

Attached to familiar revenue and balance sheet items and informed by the dynamic underpinning of *commonality* the potential benefits of synergy has wide intuitive appeal. Synergy became accepted, relatively uncritically, as a legitimate and, perhaps more importantly, as *a purposively achievable* rationale for corporate strategy (Salter and Weinhold, 1979; Glueck, 1980; Hofer and Schendel, 1986; Digman, 1990). As such it was a justification for much of the diversification activities of acquisitive conglomerates in the 1960's and 1970's.

Examination of the subsequent failure of much merger and diversification activity led to a closer inspection of the underlying rationales. Using returns to stockholders as a proxy for the benefits of synergy, Haugen and Langetieg (1975) failed to detect any positive signs following 59 non-conglomerate mergers between 1951 and 1968. Chatterjee, (1992) found that restructuring and asset disposal released more value in takeovers than synergy. Despite some positive signs (Brush, 1996) synergy is found by many to have been over-stated and over-stretched as a basis for corporate strategy (Reed and Luffman, 1986; Alexander, 1993).

> *"Benefits of synergy are now truly legendary. Diversification and synergy have become virtually inseparable in texts and business language. Yet as every student knows, those particular benefits show an almost unshakeable resolve not to appear when it becomes time for release."* (Reed and Luffman, 1986: 34)

or more cynically:

> *"...synergy means that the deal makes no financial sense, but (please, God) something will come out of it in the end."*
> (Heller, 1985: 120)

While accepting that synergy seemed "a nice idea **but rarely occurred in practice**" (1985: 318, emphasis in original), Porter was not inclined to dispense with it altogether. In fact he argued for a focus on "horizontal" strategy to drive synergy as

> *"perhaps the most critical item on the strategic agenda facing a diversified firm."* (1985.318)

He contended that the major causes of failure to exploit synergy lay in a lack of comprehension of the "interrelationships" underpinning potential synergy and an inability to implement the appropriate actions, processes and systems. He then offered, through his value chain concepts, a mechanism for conceptualising appropriate, mutually beneficial, connections. Similar views are echoed by Goold, Campbell and Alexander (1994) who, while warning of difficulties for most companies, agree that synergistic benefits are releasable through appropriate corporate involvement at the level of "linkages" between the businesses. Bourgeois (1987) had also identified market, technology and product linkages as key areas for releasing value. The strong message from these authors is that synergy is not an automatic consequence of grouping, it is not akin to spontaneous combustion. It may rely on "metaphysical strategic insights" (Collis, 1994: 145) and must be aggressively managed even for businesses that appear similar. In the same way that relatedness has proved to be a multi-faceted, subjective phenomenon so too has synergy. It seems that

Ansoff's (1965) "management" category may be the most significant and yet it may be management that is the most lacking when it comes to unlocking synergistic benefits:

> *"In a diversified corporation, management's real opinion of the value of synergy is revealed by how it organizes. Related operations are brought together under a group executive. It is at this level that the strategic advantage of synergism must be realised.* ***But there is almost never any strategic staff at the group level.*** *Because group executives realize how little practical value synergism offers, they rarely employ even one strategist to find ways to exploit it."*
>
> (Lauenstein, 1985: 50, emphasis in original)

If management is a key catalyst in exploiting relatedness to create synergistic value and such synergy is based on internal 'strategic assets' then exploitable relatedness may be more comprehensible through the perspective of the resource based view of the firm.

2.2.2 Relatedness and the Resource-Based View (RBV)

What underlies the relative performance of firms, their successes and failures is the central question in strategy and strategic management[11] (Porter, 1991; Teece et al, 1997), with the concept of the *fit* of the organisation to its environment long being seen as an important explanatory variable (Andrews, 1971). Although Andrews highlighted both firm characteristics and external influences as important, economists working within the structure-conduct-performance (SCP) paradigm had long de-emphasised the internal aspects of the firm, giving prominence instead to industry structure and conditions and the positioning of the firm and its products within that

[11] As Rumelt, Schendel and Teece (1991) point out in a footnote (p. 6) they use the terms "strategy" and "strategic management" (along with "policy") interchangeably as they essentially mean the same thing.

industry (e.g. Bain, 1956). "Unfortunately, the academic literature on capabilities stalled for a couple of decades" (Teece et al., 1997: 513). In what was an essentially static framework, internal competences were taken as a given to be matched with given opportunities (Rumelt, 1994).

Building on this tradition, Porter's (1980) integration of economic and strategic concepts triggered a mass of work on generic strategies and industry structural issues (Dess and Davis, 1984; White, 1986; Kotha and Vadlamani, 1995). Strategy became the seeking and maintaining of competitive advantage through cost or differentiation of products while dealing with the structural issues of entry and mobility barriers, substitutes and the relative power of customers and suppliers in markets and industries, i.e. a product-market focus. A key assumption was maintained that industry structure and conditions were the major factors dictating potential rents. These views were consistent with the exploration of relatedness at the product market level as epitomised by Rumelt (1974).

Initially analytic research supported this primacy of markets over companies in determining returns (Schmalensee, 1985). Work that followed, however, took the strongly opposed position that organisational or firm-specific factors explained more of the variance in returns than industry factors (Cool and Schendel, 1988; Hansen and Wernerfelt, 1989; Rumelt, 1991). The current strong consensus is that firms differ in meaningful ways (Nelson, 1991; Carrol, 1993) and that heterogeneity is important in explaining the persistence of abnormal returns over industry based expectations (Jacobsen, 1988).

Proponents of the RBV present the argument that the internal assets and resources of the firm are the key elements in strategy (Carr, 1993; Amit and Schoemaker, 1993). Heterogeneity in these underlying resources and hence in firm performance has always been accepted as the norm due to differences in history (Dierickx and Cool, 1989), managerial talent (Penrose, 1959) and future and past investment commitments (Ghemeawat, 1991) to asset "stocks" (Dierickx and Cool, 1994).

> *"It is the heterogeneity ...of the productive services available or potentially available from its resources that gives each firm its unique character."* (Penrose, 1959: 75)

This theoretical stream is traceable back at least to Selznick (1957), who first coined the term 'distinctive competence' and Penrose (op. cit.), who saw the rate of growth of the firm as hostage to managerial capabilities; the so-called "Penrose effect" (Marris, 1963). However the strong emergence of the RBV as a 'modern' strategic concept can be attributed to the explicit consideration of resources by Wernerfelt (1984) and the significant flow of work thereafter (Derickx and Cool, 1989; Barney, 1991; Mahoney and Pandian, 1992; Peteraf, 1993). Drawing on this work, Collis and Montgomery take the strong position that

> *"Competitive advantage, whatever its source, ultimately can be attributed to the ownership of a valuable resource that enables the company to perform activities better or more cheaply than competitors."* (1995: 120).

They summarise the properties of strategically valuable resources as being difficult to imitate and substitute, durable, appropriable and competitively superior. Imperfect imitability (Barney, 1991) or mobility (Petraf, 1992) must be a key feature of a strategically valuable resource if it is to be the basis of sustained rent earning. Collis and Montgomery (1995) suggest that at least one of four properties must characterise a resource if imitation is to be at least forestalled:

- *physical uniqueness*, i.e. "almost by definition cannot be copied" (p.121);
- *path dependent creation*, i.e. the accumulation process is a key component of the resource;
- *causal ambiguity*, i.e. it is virtually impossible, even for the organisation's managers, to "disentangle either what the valuable resource is or how to re-create it" (p.121);
- *economic deterrence*, i.e. the resource is just too expensive for competitors to replicate.

A complex integration of industry structure, product-market position and resource based perspectives remains the likeliest explanation of sustained out-performance (Porter, 1991). However the RBV has struck a resonant chord with managers and academics and has brought focus back on to underlying *competences* both as a basis for advantage for the individual business and as basis for exploitable relatedness among groups of businesses.

2.2.3 Relatedness and Core Competences.

In a highly influential article[12] Prahalad and Hamel (1990) thrust the concept of core competence into prominence where a stream of other publications have since kept it (Hamel and Heene, 1994; Sanchez et al., 1996).

> *"Core competence are the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technology."* (Prahalad and Hamel, 1990: 82)

Core competences are underpinned by intangible, people-based characteristics and, in particular, by organisationally-specific knowledge and learning. They are the "invisible assets" (Itami and Roehl, 1987) of the corporation but unlike physical assets are enhanced by use. They support a few core products which in turn underpin the end products of the corporation. (Prahalad and Hamel, 1990) or may be reflected in other strategically important processes such as Wal-Mart's fabled logistics techniques (Stalk, Evans and Shulman, 1992). Although discussed by Prahalad and Hamel in mainly managerial terms, core competences have a basis in the economics literature where they are seen as manifestations of economies of scope, viz.:

> *"Economics of specialization assume a different significance when viewed from this conceptual viewpoint, as specialization is referenced not to a single product but to a generalized capability...the organization theoretic firm ...selects an end product configuration, consistent with its organizational technology, which is defined yet fungible over certain arrays of final products."* (Teece, 1982: 45-46)

and, more recently and even more specifically

[12] Heene (1994 p. xxvi) reports that by 1993 the article had become the *HBR*'s most reprinted article ever.

"...the economic logic of exploiting economies of scope ...has received much attention in the business press, and is often known as "leveraging core competences", "competing on capabilities" or "mobilizing invisible assets." (Besanko, Dranove and Shanley, 1996: 179)

Development of core competences is path dependent and causally ambiguous making them difficult to understand and costly to imitate (Barney, 1986; Dierckx and Cool, 1994). As they result from "collective learning" derived from ongoing interaction within a system, (Prahalad and Hamel, 1990) and are embedded in distinctive coordinating and combining routines (Teece et al, 1997) it is unlikely that even individuals within the system can fully specify the competence or any meaningful causal path (Lippman and Rumelt, 1992). As such imitation by competitors is less likely because the source of competitive advantage is not reducible to an economic equation, simple behavioural routine, product or technology.

The economic foundations for multibusiness firms are argued by resource based theorists to lie in the interrelationships between the business units and the *scope economies* therein (Teece, 1982, Peteraf, 1993). Strategic relatedness between businesses in the portfolio is claimed to have a direct link with firm performance (Robins and Wiersema, 1995). In line with these views Rumelt points out that the core competence concept provides a new[13] and valuable insight for multi-business strategy in that

*"core competencies **span businesses and products** within a corporation. Put differently, powerful core competences **support several products or businesses.**"* (1994: xv emphasis added).

[13] The "newness" of the insight is debatable given Penrose's (1959) similar observations with respect to diversified companies and Teece's (1982) comments on "fungible knowledge" underpinning a firm's capability which "lies upstream from the end product." (p. 45)

Core competences also offers potential for further insight into the relatedness/synergy debates. Rumelt suggests that one of his original (and better performing) relatedness categories, the Related - Constrained strategy in which each business "draw(s) on the *same* common core skill, strength or resource" (1972: 360) was a clear precursor of core competence but was essentially a static concept. He suggests that the power of 'core competence' over the original 'distinctive competence' as proposed by Selznick (1957) and developed by the Harvard strategists, and particularly Andrews (Learned et al., 1969), lies in its dynamic and integrative role. In the original conceptualisation

> *"competencies are given, opportunities are given, and the strategist's job is to engineer a creative fit."* (xvi)

i.e. competences were more static than dynamic. Another crucial difference, linked with the dynamic, learning-by-doing aspect of core competence, lies in the "proactive construction of competence" (xvii) inherent in Prahalad and Hamel's (1990) view. This offers scope for purposive enactment of core skills between business units while the original 'distinctive competence' was more constraining in its (implied) view of capabilities as a given. Baden-Fuller and Boschetti (1996) illustrate how resources which include competences and capabilities are built and shared in two cases of transnational mergers.

Not all authors are as sanguine about the purposive creation of distinctive capabilities. Kay (1993) believes that "they are almost never created as the result of a conscious process of strategic choice" and attempts to do so lead "inescapably down the path of wish-driven strategy" (p. 125). This problem is due, at least in part, to the acknowledged problems of definition and operationalisation that exists for both practitioners and researchers (Henderson and Cockburn, 1994; McGrath, MacMillan and Venkataraman, 1995). Given the proposed organisational embeddedness of competences, their dynamic and holistic nature and their causal ambiguity such a problem is perhaps understandable although no less of a problem through being thus understood. "Pinning down" the "concept of core competence" is difficult enough (Segal-Horn and McGee, 1997) given that "there are almost as many definitions of organisational capabilities as there are authors on the subject." (Collis, 1994) but this difficulty is compounded when other descriptors are added. i.e.

> *"Since no clear conceptualisation of* ***competence*** *has yet been put forward...efforts to distinguish competences that are "core" from those that are not "core" are likely to fail on grounds of conceptual inadequacy of the underlying notion of competence* ***per se****".*
> (Sanchez, Heene and Thomas, 1996:5, emphasis in original)

Despite definitional difficulties, Prahalad and Hamel assert that core competences are the "central subject of corporate strategy" (1990: 220) and that multibusiness companies should see themselves as a "portfolio of competences" (p. 221) as well as a portfolio of products and services. They decry what they see as a dominant focus on SBUs in multidivisional firms being defined in the external terms of markets, products and competitors.

> *"When the SBU is an article of faith, resistance to the seductions of decentralization can seem heretical. In many companies the SBU prism means that only one plane of the global competitive battle, the battle to put competitive products on the shelf* ***today****, is visible to top management".* (p. 221 emphasis in original)

The "tyranny of the SBU", if it promotes its own automous functioning, does not facilitate the complex interactions and sharing that are necessary for corporate wide development and exploitation of core competences. This ultimately results in the demise of core capabilities linking the businesses and thus impairs the exploitation of potentially valuable relatedness (Prahalad and Hamel, op. cit.).

2.2.4 Core Competences and Organisational Learning.

Core competences are characterised as organisational knowledge underpinned by individual, group and organisational *learning* processes (Prahalad and Hamel, 1990). Similarly proprietary *know-how* has been suggested as an important scope economy of the multiproduct (multibusiness) enterprise (Teece, 1980). While a full review of the vast work on organisational learning and knowledge processes is beyond the scope of this work, a brief look at findings relevant to inter-business core competence is necessary given the newly emphasised potential of core competences to underpin value in the multidivisional firm (Rumelt, 1994).

'Organisational learning' has enjoyed a long and powerful tradition in the organisational behaviour literature since Cyert and March (1963) made their significant contribution (Argyris, 1977; Fiol and Lyles, 1985; Levitt and March, 1988; Huber, 1991). Despite this history, the learning-by-doing dynamics of the experience curve (Allan and Hammond, 1975) was one of the few overlaps between the learning literature and the economics dominated, strategic management writings.

> *"A decade ago we barely heard knowledge-oriented terms such as 'tacit knowledge', organizational 'competence' and 'capability', 'intangible assets', and 'organizational learning.' Now, reflecting path-breaking work done outside our field by organizational theorists...we hear them everywhere.'*
>
> (Spender and Grant, 1996: 5)

Across a wide spectrum of strategic literature, learning (Hayes, Wheelwright and Clark, 1988; Senge, 1990; Pettigrew and Whipp, 1991) and knowledge (Loasby, 1986, Nonaka, 1994; Hedlund, 1994; Spender and Grant, 1996) are now seen to be central to the long term effectiveness of organisations[14]. The 'learning organisation' is a widely accepted ideal for the successful companies of the 90's (Garrat, 1987; Senge, 1990(b); Garvin, 1993). So pervasive is this paradigm that, in calling for a new theory of strategic management, Hamel and Heene (1994b) suggest that such a theory must explicitly integrate the metaphor of the firm as a 'learning organisation" which they specifically tie into the core competence orientation. Amongst the characteristics of such a learning organisation the authors identify

> *"transrational processes such as intuition, symbolism and metaphors..."*
>
> (p. 319)

The uncritical and enthusiastic promulgation of the learning organisation as current and future strategic model begs the question of consensus about the concepts of organisational learning in the primary literature. Despite a long academic history there is limited agreement on how organisations learn or even how to define organisational learning (Garvin, 1993; Crossen et al., 1993). For example authors are in

[14] The creation, capture and exploitation of knowledge has become of such strategic significance that the 1996 Winter Special Issue of the *Strategic Management Journal* was devoted to 'Knowledge and the Firm'.

disagreement as to whether behavioural change is necessary (Fiol and Lyles, 1985) or whether the *potential* for behavioural change, (Huber, 1991) or merely the acquisition of knowledge is sufficient (Stata, 1989). For some, information processing is the key underlying process (Huber, 1991) while memory and the sharing of mental models is more germane for others (Stata, 1989). Another important debate exists between those who support organisational learning as the result of the pooling of the learning of individual members (Huber, 1991) against the view that there is a superordinate "collective mind" in organisations (Weick and Roberts, 1993).

Given these examples of theoretical debate amongst authors at the heart of organisational learning research, it seems hardly surprising that strategy authors have tended to use the concept at a metaphorical rather than an empirical level (Hamel and Heene, 1994b). This brings its own problems however, as intuitive extensions of metaphor to meta-theory can be at odds with empirical findings in the primary field . For example fast learning, and particularly faster learning than your competition, is intuitively appealing as a source of competitive advantage (de Geus, 1988; Pacale, 1990). Pettigrew and Whipp are typical:

> *"...it is the ability to shed outmoded knowledge, techniques and beliefs as well as learn and deploy new ones which enables firms to carry out given strategies. To do* ***faster than one's competitors*** *is likely to become one of the cardinal determinants of competitive strength in the 1990s".* (1991:238, emphasis added)

And yet Levitt and March point out that falling into "competence traps" i.e. developing expertise in inferior technologies is sensitive to learning rates.

> *"Fast learning among alternative routines tends to increase the risks of maladaptive specialization...**there is a tendency...for faster learners to specialize in inferior technologies**".* (1996: 520, emphasis added)

Sometimes slower learners will survive and prosper over their quicker adversaries. Of more significance, perhaps, is the common view amongst strategy authors that organisational learning is axiomatically to do with *change* or the development of *new* knowledge or skills (Pettigrew and Whipp, 1991; Garvin, 1993; Crossan et al, 1993; Hamel and Prahalad, 1994) or even "re-creation" (Senge, 1990). Such a view focuses on the *acquisition* aspects of learning (Huber, 1991) and neglects the *maintenance* aspects (Skinner, 1953). People and organisations are *continuously* being reinforced for their *existing* behaviour patterns through success, pay, social acceptance, alleviation of uncertainty etc. and thus a similar pattern of behaviour exhibited over a long period illustrates an organisation *learning to stay as it is* (Skinner, 1953; Cook and Yanow, 1993). This is captured by the observations that behaviour in organisations is based on historically dependent routines (Lindblom, 1959; Cyert and March, 1963; Nelson and Winter, 1982) which "adapt to experience incrementally ***in* response to feedback about outcomes**" (Levitt and March, 1988: 320, emphasis added). "Unlearning" (Hedberg, 1981) involves understanding the ongoing learning process which is maintaining the status quo, as well as the content to be discarded. The almost legendary failure rate of organisational change programmes (Wilson, 1992) might well be traced to a failure to understand learning as a continuous, maintenance process as well as the adoption of new modes of operation.

Despite these difficulties a number of (relatively) consensual concepts about organisational learning and knowledge seem to fit with core competences as espoused by the RBV authors.

1. Organisational learning is a process which occurs throughout the *organisation on a number of levels,* (Senge, 1990) and "core competencies are the collective learning in the organisation" (Prahalad and Hamel, 1990: 82).
   Organisational learning and competences are multiple level processes. Two important levels have been identified as characterising organisational learning. The lower level comprises specific, ongoing activities and the higher level the "overall rules and norms" that govern those actions (Fiol and Lyles, 1985: 808). Lower level learning has been variously referred to as "single loop" (Argyris, 1977), "routines" (Cyert and March, 1963) and "exploitation of competences" (March, 1991) while the higher level learning has been characterised as "double loop" (Argyris, 1977) "exploration" (March, 1991) or, "paradigm shifts" (Kuhn, 1970). In the quality field Deming (1986) makes the same distinction when he contrasts working *in* the system (activities) with working *on* the system (the rules and norms). Levitt and March (1988) contrast the trial and error, search dominated mechanisms used in changing behavioural routines (lower level learning) with the transformation of givens, redefinition and frame shifting necessary for changes in "collective understanding"(higher level learning).
2. *Tacit knowledge* is increasingly recognised as a key component in the performance of complex, team-based tasks (Winter, 1987) - "a competence is a bundle of

constituent skills and technologies...the integration of a variety of individual skills" (Hamel, 1994: 11).

Organisational knowledge and competences comprises two significant, interacting components. The "tacit" (Polanyi, 1966), "experiential" (Kolb, 1993) or "procedural" component (Cohen and Bacdayank, 1994) is a key aspect of skilled performance. It is personal, intuitive and difficult to formalise and communicate and is less easily forgotten than explicit knowing (Cohen and Bacdayank, 1994). The individual is unable to specify the exact nature of their knowledge nor the pathway of their knowing. "We know more than we can tell" (Polanyi, 1966: 4). i.e. in the language of RBV proponents, "causal ambiguity" is a feature of tacit knowledge. By contrast, "explicit" (Polanyi, 1966), "declarative" (Cohen and Sproul, 1996) or "articulated" (Hedlund, 1994) knowledge is more consistent with cognitive knowing and can be specified or codified by the individual in speech, writing, drawings etc. The advantages of articulated knowledge are that it is easier to transmit and is less sensitive to team embeddedness (Hedlund, 1994). These advantages, however, are precisely the features that make such knowledge more imitable and tradeable and thus potentially less durable as the basis of competence based advantage.

3. Where the knowledge to be acquired is a complex process of skills and cognitions, learning is facilitated by ongoing group interaction. (Senge, 1990; Grant, 1996, Teece et al, 1997) - "building core competencies requires the accumulation and

integration of knowledge...a rich pattern of cross-discipline communication and learning" (Hamel, 1994: 28).

While organisations learn through individuals, organisational learning and competences are manifest as more than the simple sum of individual learning (Crossan et al, 1993; Weick and Roberts, 1993; Nonaka, 1994, Hedlund, 1994). The content and processes of organisational learning and organisational knowledge are influenced by systems and structure and particularly by the dynamic interactions of people in teams.

Rumelt, Schendel and Teece (1991) point out that the structure-conduct-performance based models of Porter (1980, 1985) and the resource based view of strategy are major attempts within strategic management to synthesise research and economic theory pertaining to the persistence of profit in particular firms. i.e. the long established empirical observations that

> *"firms within the same industry differ from one another, and that there seems to be an inertia associated with these differences. Some firms simply do better than others, and they do so consistently."* (p. 12)

The resource based view has broadened the explanations of such success by bringing "learning, ambiguity, tacit knowledge, nonimitable resources and skills, the sharing of core competences" and other such behaviourally grounded dynamics to a shared forefront with "mobility barriers, entry barriers, market pre-emption" etc. (Rumelt et al., 1991: 13). In particular

> *"This perspective finds its greatest use in examining heterogeneity within industries and in the discussion of 'relatedness' among diversified businesses".* (p.13)

Organisational learning, knowledge and core competences underpin the dynamic capabilities explanation of how relatedness, as congruence of resources or capability (knowledge), can be the precursor of synergy (Nayyar, 1992; Markides and Williamson, 1994). These factors support one perspective of the value of multidivisional firms in epitomising the fungible, tacit, team embedded, process-dependent indivisibilities for which transfer by market mechanisms fail and hierarchical mechanisms (multiproduct/multibusiness organisation) are preferred. (Williamson, 1975; Teece, 1980, 1982).

2.2.5 Summary: Membership Benefits and the Multidivisional.

The section on the value of the M-form began with the conceptual equation $V_c = A_s + B_s + C_s + M_c$ where M_c represents the value benefits of membership. Membership benefits have been suggested to include such general advantages as cost reduction from size effects (Chandler, 1990), transaction cost, including governance and scope, benefits (Williamson, 1975; Teece, 1982) and amelioration of agency problems between owners and managers (Eisenhardt, 1989b)

A particular dimension underpinning the potential added value of M-form firms has been argued to be the degree of relatedness of the business units. Relatedness can be taken as an indicator of the potential for economies of scope or synergy and in particular scope economies based on firm-specific learning and knowledge. Significant research had been undertaken attempting to demonstrate that multidivisional value (as represented in performance) is a positive function of the relatedness between the business units i.e. $M_c = f(A_c, B_c, C_c)$

where $f(A_c, B_c, C_c)$ = a function of business relatedness.

Results have been equivocal but this has been argued to be due to definitions of relatedness being too superficial and, in particular, not taking sufficient account of internal processes of the firm such as its logic of relatedness and how it manages that relatedness. i.e. relatedness, like its off-spring synergy, may be a potential source of value for the multidivisional but, like any resource or capability, its optimisation is contingent on appropriate organisation and management.

This chapter now turns to an examination of these critical processes of organisation and management in multi-business firms.

B. The Management of Multidivisionals.

2.3 Managing the M-form.

Organisational processes, systems and structures are major influences on firm performance. Optimising value from U-form businesses is dependent, amongst other things, on cross functional coordination of separate departments in the service of an overall enterprise goal (i.e. the prevention of "functional silos") whilst simultaneously encouraging the pursuit of stand-alone functional excellence (Lawrence and Lorsch, 1967; Hammer and Champy, 1993). Similarly, whatever the source of added value attributed to the M-form, the realisation of optimal value relies on appropriate management of structure and process (Porter, 1987; Goold, Campbell and Alexander, 1994).

From its inception, academics and practitioners have been aware of the problems associated with the management of the multidivisional firm and the particular tensions inherent in the issues of business control vs autonomy and centralisation vs decentralisation. Williamson's (1975) "M-form hypothesis"[15] was dependent on "more than mere divisionalization" (p. 150). The term 'M-form' was "reserved for those companies that **combine** the appropriate structural and internal operating attributes." (p. 151, emphasis in original). Sloan (1963) founded his reorganisation of General Motors on two principles:

> *"1. The responsibility attached to the chief executive of each operation shall in no way be limited. Each such organization headed by its chief executive shall be complete in every necessary function and enable[d] (sic) to exercise its full initiative and logical development.*
> *2. Certain central organization functions are absolutely essential to the logical development and proper control of the Corporation's activities."*
> (p. 53)

It was only on looking back on his 1919 document that Sloan was "amused" to note the contradiction inherent in these two principles. While in point 1. decentralisation is maximised, i.e. operations "shall in no way be limited", point 2. immediately limits such responsibilities in the interests of "proper control". Accepting the contradictory nature of the language Sloan contended that "its very contradiction is **the crux of the matter**" (p. 53, emphasis added) and that the basic principles remained "in touch with the central problem of management as I have known it to this day" (p. 53). While Sloan was primarily concerned with the relationship between the business unit and the

[15] i.e. *"The organization and operation of the large enterprise along the lines of the M-form favors goal pursuit and least-cost behavior more nearly associated with the neoclassical profit maximization hypothesis than does the U-form organisational alternative".*(p. 150)

corporate level, Lorsch and Allen (1973) also identified coordination *between* business units as key issues facing corporate managers. Business-corporate and business-business relationships remain a central focus of corporate strategy (Buzzel and Gale, 1987; Porter, 1987; Goold et al, 1994; Hill, 1994, Mathur and Kenyon, 1997).

2.4 Corporate Strategy

While "corporate strategy" has been used in an encompassing sense to mean all strategy within a business[16], most authors now identify corporate strategy with multibusiness firms. Porter's (1987) view is typical,

> *"Corporate strategy, the overall plan for a diversified company... concerns two different questions: what businesses the corporation should be in* ***and how the corporate office should manage the array of business units."*** (p.43, emphasis added)

Corporate strategy is concerned with the choice of industries to compete in, or "domain selection" (Bourgeoise, 1980), and with the setting of an organisational context for the operations of the component business units and managing the relationships between them (Ansoff, 1965; Bourgeoise, 1987; Andrews, 1987). Adding value through buying and selling businesses is one aspect of corporate strategy. Porter (1987) terms this corporate approach "Portfolio Management" while Goold et. al. (1994) refer to "Corporate Development" although they take a broader view and include the reshaping of existing businesses by amalgamation or division and the creation of new businesses by internal venturing. Porter's (1987) view that

[16] Some texts maintain this general usage. e.g. Johnson and Scholes (1997)

"portfolio management is no way to conduct corporate strategy" (p. 5) is endorsed by Goold and his colleagues:

> *"The weight of research evidence indicates that the majority of corporately sponsored acquisitions, new ventures and business redefinitions fail to create valu.e."* (1994: 82).

In discussing the aspect of corporate strategy that is to do with the *management* of the multibusiness organisation Porter (1987) identifies three organisational/process concepts of corporate strategy: "restructuring", "transferring skills" and "sharing activities".

Restructuring occurs when businesses are acquired with the specific intent of achieving value by active intervention and improvement. Relying on superior insight in identifying such opportunities the long term view of the corporation is to *sell* the business after achieving restructured value. The centre needs the capability to effect such transformation and thus it exerts strong direct influence on business performance and processes.

Sharing Activities is based on the component businesses using the same facilities, services, processes or systems and thereby reaping utilisation, learning curve (scope) scale or differentiation benefits. Management is based on inter-relationships but not necessarily interdependencies between the business units. i.e. the shared facility can be a corporate level activity.

Transferring Skills is managing ongoing inter-relationships between the businesses. In this case the corporate centre actively fosters the sharing of expertise or skills among the businesses even thought they might have different value chains (Porter, 1985). As with "sharing activities" the centre is actively involved but this time it is in developing and promoting linkages and interdependencies between business units. Research into the management and value of business interdependencies emphasises the delicacy of the corporate balancing act as any benefits gained can be dissipated by the costs of coordination as well as loss of focus, loss of performance visibility and diminished innovation in the business units (Thompson, 1967; McCann and Ferry, 1979; Prahalad and Doz, 1987).

Goold et al (1994) have also spent a considerable time focusing on the multi-business company and how its corporate strategy adds (or subtracts[17]) value. They too identify three classes of corporate strategic management: "stand-alone influence", "functional and services influence" and "linkage influence". They emphasise that these are not either/or choices but can all be in operation at the same time.

Stand-Alone Influence is the value created by the influence on the individual business strategy and performance. The major focus is on vertical linkages mainly to the CEO. It parallels Porter's 'restructuring' category but is an ongoing process rather than, necessarily, an intermediate step between buying and selling.

Functional and Services Influence is again a vertical process on stand-alone businesses with the focus on adding value through the influence of a range of centrally controlled staff functions. These may replace or augment those already in place in the businesses.

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[17] This is more than a technical parenthesis as the general thrust of their findings is that *value destruction* is the norm in multi-business companies.

Linkage Influence aims to increase value through the relationships between the businesses. The focus is on horizontal processes and incorporates both the 'shared activities' and 'transfer of skills' categories of Porter (1987).

Collis (1991c) also suggests an "exhaustive but not mutually exclusive" (p. 6) set of possible management roles for the corporate level in addition to the 'public company' functions of tax, legal, investor relations etc.: "intervening to change SBU decisions", (business units), "central provision of a resource", or "coordinating behaviour across divisions".

Intervening to change SBU decisions. This is done through either behaviour or outcome control. *Outcome control* is based on altering the incentive structure of the business managers and thus focusing his/her attention on particular goals. e.g. the bonus of the manager may be linked to cash generation rather than accounting profit. In this case the specific mechanism for achieving the goal is left to the business manager. These interventions change a business unit's focus from that it may have had as a stand-alone entity. *Behaviour control* aims to directly influence business unit actions, processes, structures etc. e.g. the business manager may be required to introduce a quality programme, develop a range of new products etc. These interventions change a business units strategic and operating decisions from those it might have made as a stand-alone entity. Collis points out in the Cooper Industries Case Teaching Note (1991) that outcome control is a feature of conglomerates (e.g. BTR, Hanson) while behaviour control is a feature of operating companies (e.g. Cooper Industries)

Central provision of a resource. In this role the corporate level provides a service or function which business units use. If such services or functions become critical resources or competences of the corporation then use across divisions enables "leverage" of these resources which then become a source of "corporate advantage" (Collis, 1991b).

Coordinating behaviour across businesses is "the traditional case of exploiting synergy between business units" (p. 4) and is based on exploiting scope economics. He argues that if there are scope economics between business units then "allowing each to maximise its own performance will lead to a suboptimal corporate outcome". (p. 4).

Although terminology and emphasis vary between the three sets of authors their tripartite categorisations of corporate strategic management are similar to each other. Allowing for a certain degree of terminological licence these roles can be seen as 'managerial', 'functional' and/or 'inter-business'(Table 2.2).

Value Role	Collis (1991c)	Porter (1987)	Goold et. al. (1994)
Managerial	SBU Intervention	Restructuring	Stand-Alone Influence
Functional	Central Resource	Sharing Activities	Central Functions
Inter-business	SBU Coordination	Transferring Skills	Linkage Influence

Table 2.2 Categories of Corporate Strategic Management

Managerial. In this most common value role the corporate centre influences business behaviour through its direct influence on the business unit manager in the form of behavioural or outcome control or a mixture of both. This can be directly through the reporting line as one-to-one contact of the business manager with his direct superior or as group meetings of business managers (e.g. monthly executive committee meetings). Managerial influence may also be exerted indirectly through policy and procedure manuals, remuneration systems, capital and expenditure approval procedures etc. If this is the sole mechanism of corporate influence then the business is generally "autonomous" with respect to its operational functioning both in terms of corporate influence and in terms of other businesses in the firm. The less direct and operational (i.e. behavioural) the nature of the influence, the more the corporation is consistent with Williamson's (1975) pure M-form requirements of arms-length influence.

Functional: In this value role the corporate level contains functional "experts" either as individuals or departments who influence or oversee the equivalent function or process within the businesses or replace the business function entirely. When the function augments existing business facilities the influence can be a mandated interaction or based on business request. A well known example of the 'augmenting' value role which combines both prescriptive and voluntary use is the Manufacturing Services Group of Cooper Industries i.e.

> *"In 1988, the Manufacturing Services Group consisted of 14 professionals, all with 10 to 15 years of operations experience, and had an operating budget of $1.8 million. Its staff included experts in facilities, automation, and environmental engineering, and in materials management, quality control, and management information systems...(It) used benchmarking and cross-referencing to improve production methods and had a bifurcated strategy for introducing the manufacturing improvements. In the case of new acquisitions, the group simply stepped in and worked with EVPs and their operating managers to improve plant efficiency and to transfer Cooper's manufacturing know-how and processes to the new division...In contrast...the group (never entered) an old Cooper's division unless thery were invited by division managers."*
>
> (Cooper Industries Corporate Strategy (A) Case p. 14)

Although the businesses do not necessarily interact or share with other businesses in the corporation they are subject to direct corporate intervention in strategic functions. Intervention might not be mandatory, but the focus and resources of such corporate functions will tend to facilitate a level of competence that is difficult for the operating businesses to maintain and hence would be self-defeating to ignore.

Inter-business: In this role the corporate level has staff and systems that actively develop and maintain inter-business processes. Business are no longer strategically stand-alone and, while not necessarily dependent on other businesses in terms of day-to-day operating, they are integral parts of a group system the overall capability of which is contingent on inter-business cooperation and shared learning. These common, group based, processes are often seen in terms of valuable trans-business capabilities or competences. The corporate focus on horizontal processes in an inter-business role differentiates it from the focus on vertical processes in the other two. Companies where this value function predominates are often described in terms of "matrix" or "horizontal"[18] organisational structures. A well known example of this on a global scale is Asea Brown Boveri (ABB).

> *"ABB Asea Brown Boveri is a global organization of staggering business diversity. Yet its organizing principles are stark in their simplicity. Along one dimension the company is a distributed global network. Executives around the world make decisions on product strategy and performance without regard for national borders. Along a second dimension, it is a collection of traditionally organized national*

[18] "Cross-functional teams" are a well established integrating mechanism in U-form companies. The equivalent in a multi-business context will be the N-form (New-form) context according to Hedlund (1994) wherein horizontal integration is the predominant organising dynamic. Somewhat confusingly N-form can also be a shorthand for "Network-form" in some works but the essential connation of the two terms is the same.

companies, each serving its home market as effectively as possible. ABB's ***global matrix*** *holds the two dimensions together."*
(Taylor, 1991: 93, emphasis added)

Within both 'functional' and 'inter-business' paradigms the business units cease to be autonomous in the conventional sense of stand-alone operation. They become strategically interdependent on one another or on a corporate function or activity they all share. The businesses are participants in or users of important strategic resources which they cannot *unilaterally* direct or control. Their delegated, stand-alone activities are fewer and more narrow and performance measurement is more ambiguous due to shared resources or activities.

2.5 M-form Structure and Strategy - a Contingency View.

It is difficult to conceive of a business without some degree of 'managerial' role of the corporate level. i.e. "All parents exert considerable stand-alone influence on their businesses" (Goold et al. 1994: 78) and

"All corporations intervene to some extent to change decisions made in their business units because of the need to overcome the agency problem of business units pursuing behavior in their own self interest."
(Collis, 1991c: 10)

However there are differences between companies that aim to achieve value predominately or exclusively in this manner compared with companies that aim to achieve value by substituting or augmenting business processes or functions and/or developing inter-business linkages. These differences are manifest in systems, staffing, processes etc. Paradoxically, while espousing the fact that the various corporate management strategies are not mutually exclusive and can co-exist, all of the authors mentioned in table 2.1 indicate the *different* philosophies, dominant logics, structures etc. needed for each approach. There is at least an inference that optimal performance is contingent upon a specific set of processes for each corporate role. Williamson's (1975) arguments for the optimal value of the M-form are contingent on specific organisation and Collis (1991c.: 7) points out that

> *"Corporate strategies which predominantly use one or other of these three roles to realize the value inherent in their resources should, according to contingency theory, align their structure, systems and procedures according to those roles*

In accord with this view, corporations do not need large corporate staffs if they are fulfilling a predominantly 'managerial' role whereas coordinating and integrating staff are needed if inter-business relationships are aimed to be a major source of value. In a similar way the structure of business manager incentives should vary, with group based incentives needed for 'inter-business' oriented corporations and stand-alone incentives appropriate for the more 'managerial' orientations.

As well as the view that organisational structure, processes etc. should be contingent on the corporate role, there is also the suggestion that the optimal corporate role is contingent on the degree of relatedness between the business units. Porter (1987) posits relatedness at some level of the value chain as a basis for his corporate strategies of sharing skills and transfer of skills. He defines unrelatedness, in a somewhat circular fashion, as "having no clear opportunity to transfer skills or share important activities". (p. 57). Similarly Collis (1991c:9) links relatedness and strategy,

> *"The importance of exploiting the resource interdependencies between business units in related product corporations, such as Kraft General Foods, explains, for example, why companies like these need more centralized coordination..."*

Hill (1994:301) indicates that

> *"Operationally, diversification to realize economies of scope requires the sharing of resources and/or transfer of skills between two or more otherwise distinct businesses".*

and that such diversification is typically referred to as "related diversification". To realise economies of scope (synergy) from relatedness, *cooperation* between businesses is required. This leads to increased centralisation of functions and systems (Mintzberg, 1983; Child, 1984) and an increase in integrating mechanisms between businesses (Lorsch and Allen, 1973, Luke, Begun and Pointer, 1989, Alexander, 1993). The performance ambiguities inherent in sharing facilities and functions are tackled by seeking more information on a broader, less financial, range of indicators (Hill and Pickering, 1986; Gupta and Govindarajan, 1986) and by business incentives based on group rather than individual performance (Lorsch and Allen, 1973; Gupta and Govinddarajan, 1986). This is consistent with the two corporate value roles of Functional and Inter-business discussed earlier. A value enhancing, cooperative form may be a sustainable advantage for a firm as its unique history and context make it idiosyncratic to the firm and thus more difficult to imitate (Hoskisson et al, 1993). Unrelated businesses have no opportunities for increased value from economies of scope and are argued to benefit from M-form membership due to the governance characteristics of that structure (Williamson, 1975). This includes the control and informational advantages of a firm ("hierarchy") over outside investors. Within such a framework the corporate office of the M-form takes on the role of informed investor and runs the businesses on a *competitive* basis as stand-alone entities who are rivals for capital which is allocated on a 'best-use' basis consistent with external capital markets. Performance incentives are based on unambiguous, financial outputs.

	Source of Economic Benefit	
	Economies of Scope (related businesses)	Governance (unrelated businesses)
Basic Structure:	Cooperative Multidivisional	Competitive Multidivisional
Operating and Business Level Strategic Decisions:	Some Centralisation of Critical Functions	Complete Decentralisation
Interbusiness Integrating Mechanisms:	Moderate to Extensive	Non-existent
Business Performance Appraisal:	Mix of Subjective and Objective Criteria	Primary Reliance on Objective Financial Criteria
Business Incentive Schemes:	Linked to Corporate Performance	Linked to Business Performance

Table 2.3 Comparing Cooperative and Competitive Structural Forms
(adapted from Hoskisson et al., 1993).

Table 2.3 summarises the strategy-structure-relatedness connection in M-form corporations and summarises some of the differences between the archetypal governance and scope oriented firms.

In a sense the governance derived, competitive M-form, the "pure" M-form as seen by Williamson (1975), can be argued to be the basic or "default" structure for modern, large multibusiness firm that are more than holding companies[19]. While overall strategy remains the province of the corporate centre, functions important to

[19] This is my sense of the current situation and not one that Williamson for example might suggest. "Default" is used to express a sense of inertia, preference or standard way of doing things. To move from a pure default mode entails effort.

competitive advantage and operational processes are decentralised to business control and the businesses operate without connection to each other. The performance of the business is judged completely on financial criteria and the incentives of the business managers are based on those financial outputs consistent with aligning the goals of the principal and agent[20] who, in this circumstance, are the corporate and business level respectively. The structure and its principle values and philosophies are simple, clear-cut and have a legitimacy based on decades of manifestation throughout the Western economies.

The cooperative structure and dynamics are attempts to move away from the "default" M-form in an effort to capture the trans-business economies of scope neglected by that structure. Thus functions deemed critical to strategic success and perceived as susceptible to scope economies may be totally centralised or at least subject to direct, functional intervention from the centre. The coordination and integration of processes across businesses mean that, to a greater or lesser extent, mechanisms to effect that integration need to be in place. Given an increased focus on processual *inputs* the measurement of performance and capability broadens to include non-financial measures (the "balanced scorecard") and more subjective behavioural criteria indicative of cooperation, communication and team endeavour. Finally, consistent with a more integrated view of the corporation, at least some components

[20] Consistent with the governance principles of the positivist branch of agency theory (Eisenhardt, 1989).

of the incentives of business managers are linked to the overall performance of the corporation.

In contrast to the optimism of multiple, coexistent corporate roles expressed by Porter (1987) and Goold et al (1994), Hill (1994) points out that the "radical differences" between these two types of M-form are such that

> *"...it may be difficult for diversified firms to simultaneously realize economic benefits from economies of scope and efficient governance... Competitive and cooperative organizations have different internal configurations with regard to centralization, integration, control practices and incentive schemes. As a result* ***the internal management philosophies of cooperative and competitive organisations are incompatible".*** (p. 312-313, emphasis added)

This means that cooperative and competitive philosophies are different strategies with different organisational and managerial arrangements. Thus if an M-form firm is comprised of a set of businesses some of which are related and others which are not, it is faced with an economic and organisational dilemma. While one resolution of this might be to focus on related or unrelated businesses and divest the others, another is through the creation of another organisational level wherein

> *"all related businesses are placed... and a pseudo-corporate office is installed...specifically to manage linkages among the business units. In this way coordination is removed as a corporate role."*
> (Collis, 1991c: 9)

This means that within large, diversified companies there are M-form groupings of related businesses which are run as quasi-corporations and that the appropriate organisational framework to optimise the potential value of these grouping is a 'cooperative' one.

These internal corporations have many names. In the academic/consulting literature they often qualify as SBUs and in practice they are increasingly known as divisions.

2.5.1 SBUs.

Strategic Business Unit (SBU) came into the strategic management lexicon after McKinsey and Co. recommended to General Electric (GE) in 1969 that GE reorganise into operational SBUs[21].

> *"The general characteristics of an SBU were defined as follows: a unique set of competitors, a unique business mission, a competitor in external markets (as opposed to internal supplier), the ability to accomplish integrated strategic planning, the ability to "call the shots" on the variables crucial to the success of the business."*
> (Aguilar and Hammermesh, 1981: 3)

These apparently simple, market based criteria were still problematic for GE as different Groups (collections of Divisions), Divisions (multi-functional single business units) and Departments (single function service units) all qualified as SBUs. Moreover, whilst 80% of the SBU designations were readily accepted by all, the remaining 20% "required considerable judgement" and were based on Fred Borch's "comfort index" with the particular business and the people running it (p.4). The organisation chart 9 years later (i.e. June 1, 1978) still had Groups, Divisions and Departments as SBUs (p.10).

Buzzell and Gale (1987) equate "Strategic Business Units, Strategic Business Segments, Product/Market Units or Planning/Control Units" (p.31-32) with "business unit" in their PIMs analysis and, like McKinsey and Co./GE, use such terms to cover

[21] Fred Borch, the MD of GE, points that the term was "stolen (by McKinsey's) from a study we made back in 1957." (Aguilar and Hammermesh, 1981:3)

division(s), product line(s), or other product centre(s) of a company" (p. 32) meeting similar market based criteria[22]. The reasoning behind their definition is

> *"that it represents the **smallest** subdivision of a company for which it would be sensible to develop a distinct, separate strategy."*
> (p. 32. emphasis in original)

Once again an SBU, which definition entails a significant element of "sensible" judgement, can be as narrow as a product line or as broad as a collection of semi-autonomous businesses. In a similar vein Collis (1991c) uses "business", "business unit", "division" and "SBU" interchangeably. The pragmatic use of "SBU" is reflected in modern research where the term is often not defined but is used interchangeably with the stand-alone profit centres under analysis (e.g. Gupta, 1987, Golden, 1992).

2.5.2 Divisions.

Initially a 'division' was a functionally organised business focused on one or a few of the major products of the company, i.e. it was the "lowest level multifunctional office" (Chandler, 1994:329). For example in General Motors fourteen divisions were initially proposed in 1921 with titles such as Chevrolet Division, Cadillac Division and Buick Division (Sloan, 1963). Consistent with this Hammermesh (1977), in his examination of divisional profit crises, uses 'division' in the sense of 'business unit' and writes about the multiple levels of general management which "separate divisional and corporate management" (p. 125). In their significant work on corporate-divisional

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[22] The PIMs criteria for a business unit being that it:
- produces and markets a well-defined set of related products and/or services;
- serves a clearly defined set of customers, in a reasonably self-contained geographic area; and
- competes with a well-defined set of competitors. (p. 32)

relationships Lorsch and Allen (1973) use 'division' in the same sense of 'business' with 'group' being a collection of business units ("divisions"). Similarly, Jemison is clear in his description of the role of the divisional general manager that he/she is the "business-level strategic manager in a corporate setting" (1985: 168).

Even in the early days, however, 'division' was not used in a rigorously specific sense. For example the General Motors Corporation organisational chart of January 3rd 1921 (Sloan, 1963:57) showed the Hyatt Bearings *Division*, the Jackson Steel Products *Division* and the Remy Electric *Division* contained within the Accessory *Division*. Continued growth brought ever more administrative difficulties for large diversified companies and by the 1970s more splitting and recombination was required. DuPont and many other companies pursued one of two solutions. They either formed integrated business units *within* divisions "which coordinated and controlled a single product or very closely related product lines" (Chandler, 1994: 329) or they joined sets of divisions into larger "group" offices. so that

> *"... whatever the names used, by the 1970s most large multi-business enterprises had three (not just two) levels of autonomous planning and administrative offices...The business unit normally operated through the functional U-form structure; the divisions, like the corporate office, operated through a version of the M-form structure with its own staff and senior executives responsible for profit, market share, and other measures of performance."*
>
> (Chandler op. cit: 329)

i.e. a 'division' became a *collection* of business units or "the highest-level office where senior line executives had profit responsibility" (Chandler, op. cit:. 329). Hill and Pickering's (1986) investigation of performance of divisionalised UK companies uses 'division' in this sense. So too does Bart (1993) in his examination of the control of new and existing products and Barton et al. (1992) in their study of investment decisions in large divisionalised companies. Goold et al (1994) discuss the sharing of "parenting" responsibilities between the corporate layer and the level below which is often called a "division" and

> *"typically has prime responsibility for stand-alone influence on the individual business units and for linkages within the division."*
> (p. 407)

In UK companies in particular, "division" as an M-form organisation of market related business is the common usage of the term..

e.g. GKN Automotive Driveline *Division*:

> *"..comprises companies worldwide manufacturing constant velocity joints and driveshafts, propeller shafts, viscous control units, and related companies producing transmission products and catalytic converter substrates".* (*GKN in Brief 1995*[23]: 11)

and Caradon Plumbing *Division*

> *"Includes Europe's largest manufacturer of radiators, the UK market leader in showers and leading manufacturers of bathrooms, boilers and drainage systems in the UK. The companies in this division have similar distribution and installer channels".*
> (1996 Annual Report: 2)

2.5.3 Divisional Strategy - a Dilemma

The M-form organisation evolved in response to managerial difficulties inherent in the complexities of growing and diversifying companies (Chandler, 1962). i.e. as an efficiency enhancing structure which reduced diseconomies of scope by formalising

[23] A GKN produced guide to the GKN group and its products and services worldwide.

horizontal (product, region etc.) and vertical (strategic vs operational responsibilities) task and role differentiation and focus. The "autonomy" that was consequently ceded to various units, however, changed from being a an organisational "tactic" to becoming a theoretically important property underpinning the "arms-length", governance-derived value of *diversified* multidivisional firms over a the same set of individually owned (by the shareholder) businesses (Williamson, 1975) . Hence "M-form" came to entail a *philosophy and culture* which institutionalised autonomous functioning of sub-units *as an end and value in itself.* A theme that has run throughout this chapter has been the dilemma or tension that, therefore, exists between this ideal of autonomy and efficiency-enhancing "splitting", and the holistic integration of knowledge and skill suggested by some to be the basis of the value of related businesses under one management (e.g. Teece, 1982). i.e. whereas the M-form decomposes complex processes and organisations into simpler management tasks and sub units, the know-how and learning processes theorised to create value from relatedness of business units is dependant on connection and conjunction.

This is a particular issue for divisions which, by design, are made up of related business units. Theory and research outlined in the foregoing review indicates that relatedness has the potential to underpin additional value (synergy) if it is appropriately exploited through *cooperative* processes, systems and structures. *But* the division is an off-spring of the M-form. It has feasibly been created purely in the interests of administrative efficiency. If this is the case then it is possible that the inherited competitive perspectives and patterns of the traditional M-form will still be manifest as divisional strategy despite the relatedness of the business units.

The following chapter expands further on this dilemma.

Chapter 3

DIVISIONAL STRATEGY - SCOPE ECONOMIES AND COOPERATION

> *"But before we get carried away with the heroic nature of choice, we should be sure what we mean by this...Are these values-in-tension really alternatives, one of which must be chopped off by the 'sword of decision'?*
>
> (Hampden-Turner, 1990: 8)

The first question this thesis addressed itself to was "What is 'divisional strategy' in theory?" (An answer to this, detailed below, is derived from the Chapter 2 review of literature and research on the multidivisional firm and gives emphasis to the creation of additional value through the exploitation of economies of scope embedded in the relatedness of the business units. This answer, however, leads to the question of how this theory is supported by practice and particularly in the views and practices of divisional managing directors.

3.1 Divisional Strategy

In discussing strategic management Hampden-Turner (1990) identifies eight "key dilemmas" of which the first is "functional coordination" which, following Lawrence and Lorsch (1967), is:

> *"Given the pressure for ever more differentiated functions to pursue their own criteria of specialized excellence, is it also possible to integrate these divisions of labour at equally high levels of coordination and balance?"* (p. 35)

This is a dilemma facing divisional management but at a higher level of choice than that of the business manager. The functions of a business unit are, *by definition*, interdependent. None of the functional specialities has stand-alone existence without the others. The survival of each, and of the whole business, is *contingent* on some degree of cooperation[1]. This is not necessarily so within divisions. Divisional business units are related but not necessarily interdependent, except perhaps in the weakest sense of "pooled interdependence" (Thompson, 1967) wherein the failure of one unit might endanger the financial viability of the division as a whole[2]. Thus, while the necessity for some form of cooperation only leaves the business manager with choices about *how* to manage linkages, divisional management has the more fundamental choice about *whether* to manage linkages at all. i.e. divisional management *chooses* the extent to which the businesses become dependent on facilities, expertise or functions outside of themselves.

One of these themes reviewed in Chapter 2 concerned the elusiveness of any consistent empirical demonstration of a positive relationship between relatedness and performance. Both for researchers and practitioners[3] it has seemed intuitively 'obvious' that synergy (variously referred to as economies of scope, the whole being greater than the sum of the parts, 2 + 2 + 5, and so on) is derived from relatedness (sameness or commonality),

i.e. *"Operationally, diversification to realize economies of scope requires the sharing of resources and/or transfer of skills between two or more otherwise distinct businesses. Authors in the management literature typically refer to such diversification as* ***related diversification...***

[1] Note that the trend to "outsourcing" does not negate this.

[2] Under typical circumstances even vertically integrated, inter-trading businesses within divisions could operate on a stand-alone basis by trading with outside firms. Indeed experience suggests that sister businesses would often *prefer* to trade in the open market and often do so if corporate policy allows it even if such outside trading is clearly to the detriment of the division/corporation as a whole.

[3] Ansoff (1965) is an example who represents a conjunction of both academic and practitioner having been general manager of the Lockheed Electronic Company (New Jersey).

By definition such diversification must occur in an area that has some commonality with the existing businesses of the firm whether in terms of manufacturing, marketing, R & D, or some other area".
(Hill, 1994: 301 - emphasis in original)

Following this line it has been suggested that, to realise the additional value inherent in relatedness, strategic management of such businesses needs to be grounded in perspectives and patterns of *cooperation* between the units (Hill, 1994). This despite the fact that such organisational cooperation entails the addition of costly mechanisms of linkage, integration and control; increased ambiguity of measurement and increased complexity and tensions in business - centre relationships[4]. i.e. the economic value-logic of relatedness acts as an imperative for cooperative philosophies, structures etc. despite the attendant organisational complexities.

3.2 Divisional Economic Value - Membership Benefits

The value-logic of divisions can be represented in an equation where, in parallel with the value logic of corporations, the division is designed to be worth more[5] than the sum of its stand-alone[6] operations.

To fulfil this divisions create synergy or *membership benefits* where:.

$$V_{div} > a_s + b_s + c_s$$

[4] Conversely the optimal orientation for unrelated businesses is proposed to be a *competitive* one where the businesses are managed at arms length as stand-alone entities with few, if any, ongoing inter-connections (Hill, 1994|). Costly integrating/linking mechanisms, including head office staff, need not be established; performance is business specific and easily measured as financial outputs; and the "decentralisation contract" (Goold et al., 1994) is more clearly delineated and less subject to ongoing haggle and conflict. In the purest sense of a competitive structure the businesses receive capital on a "best use" basis (Williamson, 1975) i.e. those that can make the best returns on the capital are first in line when it is allocated.

[5] The niceties of *equal* value or *relative value* (to other divisions) are ignored here but the logic is the same.

[6] In this case "stand-alone" can mean autonomous functioning inside or outside of the corporation.

with V_{div} = the value of the division

a_s, b_s, c_s, = the stand-alone value of the divisional business units a, b and c.

or $$V_{div} = a_s + b_s + c_s + M_{div}$$

where M_{div} = the net value of divisional membership.

Divisions are created by putting related businesses under one line of management with the expectation of gaining additional value or synergy *from that relatedness.* Membership value is then a (significant) function of business relatedness.

i.e. $$M_{div} = f\ (a,b,c)$$

3.2.1 Sources of Divisional Value (M_{div})

The economic rationale of the division is based on economies of scope inherent in the relatedness of its component businesses. The research on the performance-relatedness link has shown that relatedness *per* se is no guarantee of added value. Similarity on a number of dimensions does not necessarily ensure the achievement of economies of scope. The way that managers conceive and perceive relatedness, i.e. their mental maps or "dominant logics", and *manage* it have been argued to be key catalysts in the transformation of relatedness-as-similarity to relatedness-as-value or *exploitable relatedness* (Lemelin, 1982; Prahalad and Bettis, 1986; Nayyar, 1992; Markides and Williamson, 1994; Robins and Wiersema, 1995; Stimpert and Duhaime, 1997).

The corporate strategy literature has tended to focus on *how* the centre manages its group of businesses and the value added by the corporate level (e.g. Porter 1987; Goold et al.., 1994). In the previous chapter, three broad categories summarising such multi-business "value roles" were suggested: Managerial, Functional and Inter-business. The Managerial role incorporates the direct influence the centre has on business management or functions; the Functional role comprises management of functions, services or business activities at the centre and the Inter-business role represents central management of linkages between the business units. Inherent in these roles are sources of *membership benefits* that are being exploited i.e. the value gained from membership *from the perspective of the businesses.*

Membership categories are contingent on the exploitation of business relatedness but differ in terms of 1) the *direction* of interaction that underpins the value and 2) the degree to which the value originates from a *process or positional* characteristic.

1) *Direction:*

Membership benefits are logically derived from the interaction of the business and the divisional level (i.e. a vertical "synergy") or on interactions with the other businesses (i.e. horizontal "synergy"). While value from horizontal interactions may still require aggressive divisional (vertical) management for it to become manifest the *source* of the values lies in the relationships between the businesses.

2) *Process or Positional:*

Teece, Pisano and Shuen (1997) define managerial and organisational *processes* as

> *"the way things are done in the firm...its routines or patterns of current practice and learning".* (p. 518)

and *position* as

> *"current specific endowments of technology, intellectual property, complementary assets, customer base and its external relationships with suppliers and complementors."* (p 118).

While *process*-based value is more akin to a dynamic capability, based on ongoing, mutual learning, *position*-based value derives from specific endowments, characteristics, assets or attributes and is more fixed and tangible although (often) the current *outcome* of past processes. The boundary between these two value domains is blurred but still sufficient to support conceptual distinction.

Figure 3.1 illustrates the interactions of value source and direction of interaction and suggests four broad categories of membership benefits at the intersections. (The broken lines in the table indicate the overlap of the categories and the permeability of the boundaries between them.)

		Source of Value	
		Process	*Position*
Direction of Interaction	*Vertical*	**GUIDANCE**	**FACILITIES**
	Horizontal	**TEAM**	**GROUP**

Figure 3.1 A Matrix of Divisional Membership Benefits

Guidance:

Consistent with Managerial and some Functional roles of the divisional level this category of value is derived from the ongoing interactions of the businesses with divisional expertise. This expertise can be in the form of general management or it can be in the form of functional/process support . These membership benefits arise from the division *augmenting* the ongoing functions or capabilities of the businesses.

Guidance exploits vertically transmitted, knowledge-based economies of scope wherein the relatedness of the businesses enable the leverage of divisional level knowledge across the grouping.

An often cited example of *Guidance* in a corporate context is the Manufacturing Services Group of Cooper Industries[7] which, on an invited basis for existing businesses but on a 'no-choice' basis for newly acquired ones,

> *"...stepped in and worked with EVPs (Executive Vice Presidents) and their operating managers to improve plant efficiency and to transfer Cooper's manufacturing know-how and processes... at all stages of the manufacturing improvement process, the group relied heavily on the participation of local personnel, attempting to give them ownership of the project".* (p. 14)

Facilities:

In this category, consistent with a more stand-alone Functional role, the divisional level manages a function, service or facility *on behalf of* the business. The business is a user of the service with the divisional level replacing the business facility. This category reflects the dynamic of centralisation where the division is responsible for both the day-to-day efficiency of the facility and its strategic effectiveness and capability. While this category might include various non-strategic services, its major value-adding potential lies in facilities that are strategically fundamental to business success such as R & D, distribution, brand management etc.

As well as economies of scope, value in this category arises from utilisation and scale efficiencies as the relatedness of the several businesses enable them to make use of the

[7] *Cooper Industries Corporate Strategy (A).* Case 9-391-095 Harvard Business School.

same centralised service which they no longer have to develop or maintain on an individual basis.

An example of a *Facility* benefit from the corporate strategy literature is given by Porter (1987) who cites Proctor and Gamble which

> *"employs a common physical distribution system and sales force in both paper towels and disposable diapers."* (p. 56)

which lowers costs for both of these businesses.

Team:

Facilitated by the Inter-Business value role of divisional management, *Team* benefits are derived from ongoing interactions of the businesses *with each other*. This may involve the sharing of capital equipment but is more generally the sharing of knowledge and capabilities entailing mutual learning and development. These are the type of benefits gained from strategic alliances and partnerships between different companies (Hamel, Doz and Prahalad, 1989). They are also manifest in the so-called "horizontal" organisation within businesses (Ostroff and Smith, 1996) and "N-form" organisations between businesses in the same firm (Hedlund, 1994). The divisional level acts as a facilitator and driver of the necessary inter-business systems and processes. If carried far enough the *Team* orientation implies that the businesses become manifestations of an integrated set of capabilities wherein each is mutually dependant on the others for the integrity and development of strategic advantage. This category exploits horizontally transmitted, economies of scope in the form of firm specific learning and knowledge. The relatedness of the businesses enable them to benefit from a pan-divisional, mutually created and maintained capability common to each. This category captures many of the benefits proselytized by proponents of the "core competence" perspective. Hamel and Prahalad (1994) cite Sony as an example of a company

> *"...which has traditionally granted total autonomy to individual product development teams, has realized that more and more of its products must function as part of complex systems. It has therefore moved to restructure its audio, video, and computer groups for better coordination of new product development."* (p. 33).

Group:

This category describes the more passive benefits of membership that accrue to businesses in the divisions because they are part of a sizeable group able to exert power over suppliers or customers and/or part of a group with a well established reputation. Although the value must be actively exploited i.e. purchasing discounts must be negotiated and inter-business/inter-regional pricing discipline must be actively maintained, active creation of the value-producing characteristic is beyond the capability of the individual business. Being part of the (large) group is sufficient for the business to gain benefits.

Value for the individual business is derived from position and market power influences of the group as the relatedness of the businesses enable a pooling of their input requirements and/or a linking of their outputs in terms of volume, price, territory, etc.[8]

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[8] Reputation is a complex attribute which is defined here as being a *Group* benefit whereas it could be argued to be a *Facility*. Although the interaction between divisional reputation and divisional brand (a *Facility*) is significant, brand can be *managed* divisionally in a way that reputation cannot. i.e. it as a more tenuous attribute which emerges through ongoing transactions over time. As Kay (1993) points out *"In the long run, reputation can only be based on the provision of high-quality in repeated trials"*. (p. 93)

3.2.2 Managing Membership Benefits - Cooperation.

A dominant value-logic based on commonality or relatedness is insufficient to realise value. Following the dictum of structure following strategy, achieving the dormant value inherent in the underlying economics of relatedness is contingent on appropriate management processes and systems. Hill (1994), building on an early review and model of value linkages (Hoskisson, Hill and Kim, 1993), indicates that a 'cooperative' orientation is necessary for the optimisation of the value of relatedness (whereas unrelated businesses are best managed within a 'competitive' perspective). A cooperative orientation is reflected in philosophies, structures, behaviours and systems grounded in sharing, centre-business linkages, inter-business linkages and, the dominance of group goals over unit (sub-goal) optimisation. As divisions are groups of related businesses if follows that strategic management within divisions should be characterised by a cooperative perspective. Implicit in the categories of relatedness-based, membership benefits outlined above, are the cooperative mechanisms needed to realise them.

3.3 Divisional Strategy - Summary

Combining synergy, membership benefits and cooperative management gives an overall perspective of divisional strategy at a theoretical level as

a) the perception and creation of exploitable relatedness from common processes and capabilities of business units and *b) the 'cooperative' management of those processes and capabilities to*

c) create membership benefits such that the ongoing value of the division is greater than the sum of the stand-alone businesses.

3.4 Real-Life Divisional Strategy.

3.4.1 Divisions as Cooperatives

Deriving a theoretical perspective on divisional strategy is one thing but how is this perspective reflected in divisional practice? A researchable proposition that arises from this theory is that

> *"Divisions, (i.e. groups of related businesses within multidivisional firms) will be characterised by cooperative patterns and perspectives.*

Cooperativeness, however, presents a dilemma for the managers of divisions. The division exists as part of an M-form organisation and is structured itself on M-form lines. Historically and *by design* the *organisational* imperatives of the M-form are forces for splitting, autonomy and (business) individualism. However the theoretical (economic) imperatives for realising the potential added-value from relatedness-based economies of scope, require organisational forces for conjunction, integration and collectivism, i.e. cooperation.

3.4.2 The Cooperative Perspective

A cooperative perspective is manifest as an holistic pattern, texture or syndrome of attributes rather than as any one critical characteristics (Collis, 1991c; Hill, 1994). Several frameworks of organisational design variables have been established and used as templates for examining organisations. Probably the most well known of these is the McKinsey "Seven S's" of Strategy, Structure, Systems, Style, Superordinate Goals, Staff and Skills (Waterman, Peters and Phillips, 1980) while Collis (1991c) uses the set of Organisational Structure, Planning and Control systems, HRM and Culture and Style. In their paper on corporate strategy, Goold et al. (1994) use five sets of characteristics as lenses through which to understand the parenting behaviour of the corporate level: the Parents' Mental Maps; Parenting Structures, Systems and Processes; Functions, Central Services and Resources; People and Skills; and Decentralisation Contracts.

Drawing on these approaches there are several interacting facets of divisions in which logic and theory indicate that a cooperative (or otherwise) perspective will be manifest:

1) the mental maps or *managerial philosophies* of the divisional management and in particular the divisional managing director; 2) the degree to which *functions, services and resources* are supplied or controlled from the divisional level; and 3) existing *structures, systems and processes* that drive, facilitate and augment inter-business cooperation or a pan-divisional view i.e. *integrating mechanisms, measurement systems* and *rewards and incentives.*

1. *Managerial Philosophy.*

   Cooperation as a key tenet of divisional strategy will be reflected in the expressed views and behaviours of divisional managers who will espouse, promote and encourage teamwork, organisational sharing and inter-linkages at the level of divisional-business interaction and/or at the inter-business level. This will reflect a belief in the value of synergy to be gained from integrating aspects of business functioning. As so much of what happens in an organisation is dependent on the actions of the senior executive the views of the divisional managing director (DMD) will be a, if not *the*, critical influence. This is not only because his/her views will influence the views of other managers but also because they will have a significant bearing on the structures, systems etc. that are put in place.

2. *Divisional Functions, Services and Resources.*

The divisional level as a source of capabilities or functions is reflected in divisional staff operating functions on behalf of the businesses (i.e. centralisation) or augmenting business unit processes. A key resource, given the operational nature of the 'cooperative' framework, is often the industry specific experience of the divisional MD (Porter, 1987; Goold et al., 1994).

3. *Pan-Divisional Structures, Systems and Processes.*

Various aspects of structure, system and process characterising 'cooperative' orientations include:

A. *Integrating Mechanisms* of different kinds promoting pan divisional sharing and lateral communication. These can take various forms such as meetings; permanent or temporary task forces; staff relocations; permanent liaison roles at divisional level; etc. and aim to achieve the "tight coupling" needed to benefit from relatedness (Lawrence and Lorsch, 1967; Luke, Begun and Pointer, 1989; Alexander, 1993).

B. *Measurement Systems* that focus on broader and more subjective outcome measures than the financial numbers and on shared as well as individual business performance. A mix of objective and subjective criteria is required to audit the necessary processes as well as outputs important to business and divisional cooperative functioning (Gupta and Govindarajan, 1986; Collis, 1991c).

C. *Rewards and Incentives* that emphasise interbusiness cooperation and pan-divisional goals rather than the single minded pursuit of business excellence (Lorsch and Allen, 1973; Gupta and Govindarajan, 1986). Where pan-divisional *process capability* is a key strategic dynamic then group based rewards are likely to be implemented at the congruent process/functional levels of the business units.

3.4.3 Specific Questions

In pursuing the broader themes and propositions of divisional strategy detailed so far; the research that follows attempts to investigate and clarify the perspectives and perceived benefits of cooperativeness in divisions of related businesses in multidivisional firms. Using the categories of membership benefits and the dimensions of cooperative perspective detailed above to concentrate and structure the enquiry, the specific questions that frame the following empirical investigations are:

1. What are the views of DMDs on the membership benefits for divisional business units, the role of the divisional level and the businesses in achieving those benefits and, in particular, the extent to which inter-business or business-division cooperation is important.
2. What specific structures, processes, mechanisms etc. are planned or in place to encourage, facilitate or drive intra-divisional cooperation.

3. How are the views, roles etc. espoused by the DMD reflected at business level and in particular to what extent is the divisional commitment to cooperation supported and manifest?

The following chapters detail discussion and analysis of real world divisions in attempts to answer these questions.

Chapter 4

METHODOLOGY

> *"People who write about methodology often forget that it is a matter of strategy, not of morals."*
>
> (Homans, 1949: 330)

> *"Fieldwork is permeated with the conflict between what is theoretically desirable on the one hand and what is practically possible on the other. It is desirable to ensure representativeness in the sample, uniformity in interview procedures, adequate data collection across the range of topics to be explored, and so on. But the members of organizations block access to information, constrain the time allowed for interviews, lose your questionnaires, go on holiday, and join other organizations in the middle of your unfinished study. In the conflict between the desirable and the possible, the possible always wins."*
>
> (Buchanan, Boddy and McCalman, 1988)

In the centuries of research in the natural sciences empirical evidence of 'concrete' phenomena overcame, and continues to overcome, ignorance, mysticism and dogma. The confirmation of inducted theories by the replication of predicted effects through observation and experiment enabled the postulation, testing and promulgation of general 'laws' of science. Over those same centuries philosophers asserted and argued the nature of reality (ontology) and knowledge (epistemology). Whether a 'real' world existed that was independent of human perception or whether knowledge existed as facts separate from values were two major and interconnected strands of debate. Science and philosophy, as branches of intellectual endeavour, co-existed, with one (science) neatly contained within the empirical-positivist category of the other. Scientists created the basis for bridges, engines, drugs etc. without the need to surface their underpinning view of reality or knowledge.

The growth of the social 'sciences' has intertwined philosophy and research to a greater extent. The definition of social 'reality', the reflexive nature of human beings, the role of social scientists as observers of processes to which they themselves are subject, the influencing effects of values, belief systems and other cognitive frameworks are all examples of factors that have been argued to substantially adulterate the capacity of social scientists to know their chosen research world and make it knowable to others (May, 1993). The natural sciences are not immune to these potential sources of distortion and 'wrong' paradigms remain consensual 'reality' over long periods (Kuhn, 1970). However, the process of human beings studying themselves raises more complex questions than when they are studying non-human objects or systems. These issues are seen as being sufficiently important for it to be suggested to be "good medicine" for social science researchers to specify the philosophical underpinnings of their enquiry (Miles and Huberman, 1994).

This research is based on a view of knowledge and reality akin to that termed "transcendental realism" (Bhaskar, 1978; Miles and Huberman, 1994) and a combination of "non-positivism"[1] and "internal realism"[2] by Archer (1988). It is grounded in the following 'philosophical' premises:

1. Social phenomena exist in the objective world as well as in the minds of actors.
2. Actors are cognitively bounded (Simon, 1961) but not blind in knowing their social world.

[1] i.e. "Facts and values are intertwined and hard to disentangle; both are involved in scientific knowledge." (p. 273)

[2] i.e. "Reality-for-us is an intersubjective construction of the shared human cognitive apparatus." (p. 273)

3. 'Knowledge' is not necessarily congruent with behaviour (Argyris, 1992).
4. While the specific content of social systems may be diverse, discoverable regularities or constructs underlie outputs but these may be invisible to actors;
5. Knowledge can be improved by the interaction of actors in social systems with observers who know of, but are not part of, the particular system under study.

These assumptions operate at different levels of the research domain. 1 and 4 provide the philosophical basis for research aimed at discovery that transcends the idiosyncrasies of the specific organisation. 2 and 3, combined with the potential invisibility of underlying constructs (4) accentuate the problem of finding out about humans from humans *whatever the research methodology*. Finally assumption 5, with emphasis on the knowledgeable but uninvolved observer, offers a mechanism to pursue knowledge based on 1 and 4 while ameliorating (although not overcoming) these problems.

4.1 The Quantitative vs Qualitative Debate

Many of the substantive issues of these philosophical dilemmas have been polarised in the vigorous quantitative vs qualitative methodology debate (Bryman, 1988). At one extreme this discourse can be seen to be a clash between two opposed philosophies reflected in fundamentally different methodologies. At the other pole it is an argument reflecting different ways of looking at different aspects of the same phenomenon. Strategy researchers have been parties to this disagreement and some notable actors have become proponents of opposing views. While Camerer (1985:1), for example, believes that the "deductive use of mathematics and economic concepts it the best way to answer (and ask) corporate strategy questions," Mintzberg (1979) champions rich description and 'soft' data arguing strongly that "the field of organization theory has...paid dearly for the obsession with rigor in the choice of methodology." (p. 583). Harrigan (1983) prefers "hybrid" methodologies on the basis that the more "fine grained" approaches such as case studies are not generalisable. Yet Kirk and Miller (1986) suggest that "theoretical validity, unfortunately, is difficult to determine by methods other than qualitative research." (p. 25). Viewing the argument as simply the qualitative vs the quantitative 'school' is misleading. Within the qualitative domain alone Tesch (1990) identifies 27 types of qualitative research based on different research *purposes* while Wolcott (1992) define 23 types based on differing *methods*.

4.2 Positioning the Methodology.

This research is a qualitative study based on broad theoretical propositions rather than specific hypotheses (Yin, 1989). 'Qualitative' has proven a contentious term which has defied consensual definition but is instead associated with a number of identifying characteristics. Amongst these are non-numerical analysis, a focus on the nature as opposed to the amount of something and, perhaps primarily, interacting with people in their own setting, in their own language and on their own terms (Kirk and Miller, 1986; Bryman, 1988, Robson, 1993).

Whatever the state of the debate but there is little doubt that qualitative research has gained in stature as a paradigm. Formerly the "precursor and poor relation" of "real" research (Archer, 1988) it no longer needs prolonged justification as a primary approach (Wolcott, 1990). Authors are as prone now to be critical of the bias towards the quantitative approach with its over-emphasis on large sample, questionnaire surveys or its mining of secondary data bases. Snow and Thomas, (1994) for example argue that the current focus on this type of research may be resulting in a stagnant base of knowledge in strategic management.

Not only is qualitative methodology increasingly accepted as a robust source of knowledge it has also been argued to be the optimal approach to some issues i.e. it is not philosophical nuance that should drive methodology but the content and form of the research questions and the context of the researched phenomena (Miles and Huberman, 1994). Congruent with this line of thinking Snow and Thomas (1994) classified research into 6 categories by goal, (theory building or theory testing), and by purpose, (description, explanation or prediction). (Table 4.1)

	Description	Explanation	Prediction
Theory Building	1. Key question is 'what'. Identify key constructs. Usually observations and/or interviewing.	2. Key questions are 'how' and 'why'. Establish relationships among constructs and provide theoretical rationale for observed relationships. Usually observations and/or interviews.	3. Key questions are 'who, 'where' and 'when'. Examine boundary conditions of a theory. Usually observations, questionnaire surveys and interviews
Theory Testing	4. Focus is on developing and validating measures of key constructs. Usually questionnaire surveys and/or interviews.	5. Focus is on documenting relationships among variables through hypothesis testing. Usually large samples with questionnaire surveys or field simulations.	6. Focus is on testing competing theories of the same phenomenon through crucial experiments. No pattern of field work discernible due to the dearth of this type of study.

Table 4.1 Field Research Methods and Theory Development in Strategic Management
(adapted from Snow and Thomas, 1994)

They showed the relationship between the style of research and its generic position in terms of questions asked and theoretical position. The questions asked in the research in this thesis are explicitly of the 'what' and 'how' variety in the relatively unresearched (theory building) arena of divisional strategy. i.e. cells 1 and 2.

Yin (1989) adds the dimensions of the control required over behavioural events and the degree of focus on contemporary matters as two other factors to consider in the choice of research strategies between experiment, survey, archival analysis, history and case study. In his view, a lack of control over behavioural events and a focus on contemporary issues, linked with descriptive and/or explanatory oriented research questions, makes case studies the method of choice. This is particularly so where the "phenomenon under study is not readily distinguishable from its context." (Yin, 1993: 3). Divisional strategy has been specifically argued to be such a context dependent manifestation of interacting mindsets and organisational processes.

A combination of the above views oriented this research towards collecting qualitative data via interviews/observation within a case study context.

4.3 The Sample

4.3.1 Theoretical Issues

Sampling of cases for this research followed the theory of sampling associated with qualitative research in general. i.e. it was *purposive* rather than random, building on a logic of *replication* with a goal of generalising to theory rather than a logic of *statistics* with a goal of generalising to populations (Eisenhardt, 1989; Yin 1989; Miles and Huberman, 1994). According to Yin (1989), cases are not "sampling units" and as such it is a "fatal flaw" to conceive "statistical generalisation" rather than "analytic generalisation" from the results of case research (p. 38). Using *statistical* generalisations, inferences are made about populations on the basis of empirical data. Using *analytic* generalisations, inferences are made about a previously developed theory from empirical results. Cases are more like (multiple) experiments than a collection of data points. It is the replicability and robustness of the theoretical constructs that are assessed. To this end cases are chosen such that their à priori characteristics are germane to the investigation being undertaken.

4.3.2 Unit of analysis

A case, as a unit of analysis, can be an individual in a defined context, a role, a small group, an organisation, a community, a nation etc. (Miles and Huberman, 1994). The cases in this research are "typical" division in a multidivisional, diversified company where "typical" means "normal" or "average" (Miles and Huberman, op cit: 28) and exhibit characteristics consistent with the earlier definition of a division as

> *"a self contained, semi-autonomous, organisational unit within a diversified company. It has an M-form structure and comprises a group of related businesses which are functionally organised (U-form) and which directly interact with the customers, competitors, suppliers etc. of their particular product/market."*

To be "tight" a definition should include all the relevant entities whilst excluding all non-relevant entities. As such this is not a tight definition but it is arguably one which encompasses enough of the real world under study to act as a solid basis for initial theorising about that real world[3]. The main selection criteria within the definition are that divisions are 1) a semi-autonomous grouping of a diversified firm, 2) M-form in organisation and 3) are comprised of related businesses.

1. A *semi-autonomous grouping of a diversified firm*

The context of this enquiry is M-form which, as discussed in Chapter 2, dominates as the preferred form for large companies in western economies. The trend to further sub-divide large firms into groupings of businesses under separate management arose as a result of increased diversification and growth, resulting in what are being termed "divisions" in this thesis. i.e. internal quasi corporations without the investor etc. responsibilities of the corporation. The term "semi-autonomous"[4] designates a (divisional) management layer with significant devolved corporate authority and responsibility (e.g. capital approval, budgetary discretion, etc.) and even higher levels of discretion in managing operational (manufacturing, marketing etc.) matters.

2. *M-form in organisation*

This signifies that the division, itself a semi-autonomous "business", is made up of a number of semi-autonomous, functionally structured (i.e. U-form) business units. Each of these units is (usually) run by a management team . The team, led by a general manager/managing director is responsible for developing and delivering the product-

[3] A problem with much research relying on statistical finesse as a basis for findings is that fact that "tight" definitions of units under study reduces variance and enhances the probability of "significance." Unfortunately for practitioners the "noise" that is controlled or defined away often has more real world significance than the uncovered nuances. This of course has been the criticism of a generation of psychology research.

[4] This is a difficult term to operationalise precisely as it carries connotations that, in practice, understate the stand-alone responsibility/authority of divisional managing directors.

market strategies of the business and achieving targeted level of budgeted performance. Normally operating on an annual budget cycle, such businesses are monitored, usually on a monthly basis, by the divisional level.

3. *Comprised of related businesses.*

Whilst it has been argued earlier that divisions as described are generally made up of related businesses it is still specified as an à priori criterion for inclusion in the study. Specifically, to examine the proposition that divisions of related businesses are cooperatives, relatedness here is specified as relatedness at the level of product/market and process congruence. i.e. businesses producing/marketing similar products to similar end-users through similar distribution channels under similar strategic assumptions (i.e. positioning, critical success factors etc.) and using similar operational processes. Note that "similar" in this study does not preclude "same"; in fact the more "sameness" that exists between the businesses the more "related" they are. Such divisions are often characterised by a name that signifies the nature of the product-relatedness of their business units. e.g. "Whitegoods Division"; "Explosives Division", Aircraft Components Division" are examples from my own experience. While this product/market similarity is the norm basis for a divisions, this set of criteria specifically excludes "divisions" that are groupings purely on a geographic basis (e.g. the "UK Division) unless the businesses contained are also related as above. This is the most critical of the criteria as it defines divisions with business similarities (relatedness) that, from a theoretical perspective at least, would seem to be most likely to exhibit cooperative interaction to gain the benefits of synergies (economies of scope).

4.4 Overall Structure and Perspective.

This is cross-sectional research aimed at further development of a theoretical perspective of divisions through two stages. The design is diagramatically illustrated in Figure 4.1 and comprised two stages:

4.4.1 Stage 1

This stage took a 'horizontal' perspective and comprised semi-structured interviews with divisional level managers from 12 typical divisions. It aimed to investigate, through comparative replication, how the dilemma of horizontal (relatedness) value and vertical (M-form) organisation was reflected in real world divisional functioning.

4.4.2 Stage 2

To deepen understanding of divisional strategy a more in-depth comparative investigation, again through semi-structured interviews was undertaken of two divisions which demonstrated distinctly different approaches to divisional strategy. Divisional, business and functional managers were included as informants to help understand how major divisional dynamics were manifest at subordinate levels of the organisation. i.e. a 'vertical' perspective.

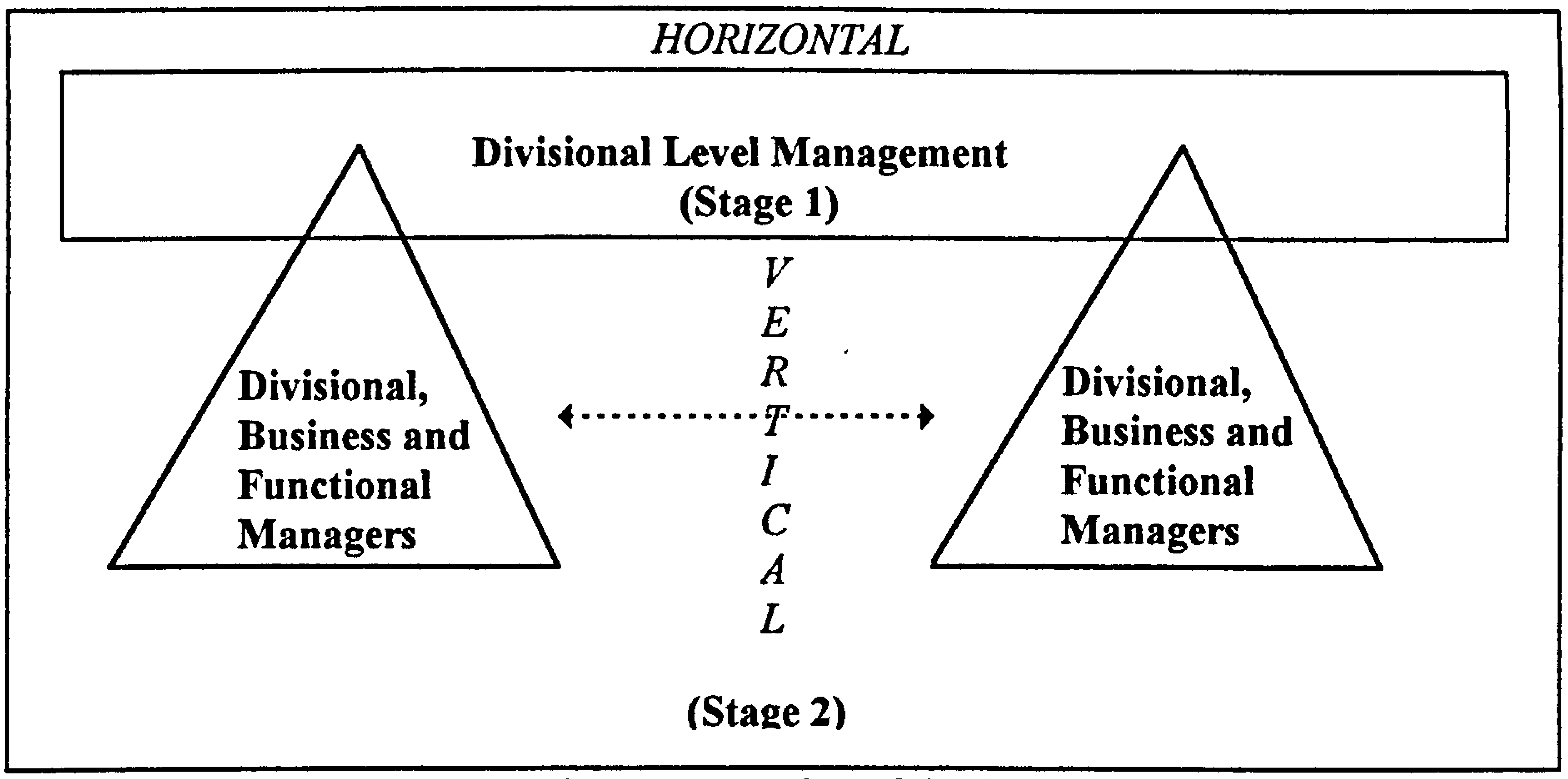

Figure 4.1 Schematic Representation of the Overall Research Design

4.5 Access

Access, or more accurately, the *lack* of company access is a significant problem for management researchers. The proliferation of management studies at undergraduate and postgraduate levels has led to an exponential increase in the number of research "projects" seeking management participation. From the perspective of the firm, the final year project of an undergraduate, accompanied by the introductory letter on university headed paper, is indistinguishable from higher level initiatives. Added to these activities is the increasing level of research-oriented approaches from consultants and government agencies.

One of the consequences of this is an increase in those companies refusing, as a matter of policy, to participate in research and an increase, as a matter of practice, in non-response to questionnaire surveys. Low response rate has become a major problem for authors seeking to make population generalisations from random samples. Snow and Thomas (1994) suggest that "for a properly constituted random sample" response rates of 55% are low enough to raise questions about external validity. Figures much lower than this are common in recently published research. As an example Stimpert and Duhaime's (1997) overall return rate was 19% which reduced to 12% if their target informants were the only ones counted[5]. The difficulties of access are compounded when the target informants are senior managers. My own experience confirmed this problem.

'Cold calling' the divisional heads of in large multidivisional companies quickly proved to be an exercise in futility. The first difficulty was getting past the executive's personal assistant (PA) or secretary, part of whose role is to 'protect' her[6] boss from just such intrusions on his[7] valuable time. If I managed to speak to the divisional head they proved unwilling to donate an hour or so of their time. The introductory letter (Appendix A) proved a moot tactic also as it was too easy to scribble "say no nicely[8]" in the margin and leave it to the PA to deflect the phone call. Having occupied such a role (divisional head) I was not completely surprised at the difficulty of "getting in" (Buchanan et al., 1988). Only 'important' people e.g. customers, more senior

[5] The common defence that such return rates are consistent with other published studies is a rationalisation that still begs the question of theoretical validity. i.e. a sample, by definition, is an inexact representation of a population. Statistical techniques based on random selection compensate for this inexactness. When the actual level of return represents a small, self selected, *sample of the sample* then some heroic assumptions must be made to make the increased inexactness trivial. It seems easier to support a logical argument that the 20% or less of those that respond are specifically non-representative i.e. in fact different in some way to the other (representative) 80+%.

[6] The use of 'her' in this case is an empirical reflection that all of these roles contacted were filled by females.

[7] All the divisional heads who were written to were male.

[8] One PA told me that this is what her boss had written on the letter.

managers, politically important outsiders etc. get to see senior managers through their own direct efforts.

Given these barriers to entry I resorted to a 'relationship' model of gaining access. For those familiar with Japanese business practices it is congruent with the introduction that is essential before contact is granted with potential customers/partners etc. in that country. In theoretical sampling terms, it is akin to the "snowball or chain" type of sampling which "identifies cases of interest from people who know people who know what cases are information rich." (Miles and Huberman, 1994: 28). Contacting five consultants I asked them for 'personal' introductions to managers of divisions meeting the criteria for relatedness as specified early (Section 4.3) . These consultants, sending my introductory letter and adding supportive and encouraging comments (e.g. Appendix B), generated a list of initial contacts from twenty-one divisions from fifteen different companies as well as six corporate level managers in multidivisional firms. i.e. a total of twenty-seven introductions. From this total a final group of seventeen divisions from thirteen companies agreed to participate in the research. Of these, three did not eventually take part due to the consistent lack of availability of the senior executive-interviewee[9] and two were discarded (post-interview) as not being related *divisions* but rather functionally structured business units. Finally then twelve typical divisions from ten different companies allowed access for investigation.

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[9] Typically the interviews with senior divisional people were arranged a month to 6 weeks ahead of time. In the event of last minute postponements the next interview was again made for 4-6 weeks hence. By the fifth postponement 30-40 weeks can pass from the time the initial appointment was made.

4.6 Informants.

4.6.1 Organisational Titles and Levels

To reduce confusion in an already confused area I have chosen to harmonise titles and categorisation where different titles or names describe similar positions. As such:

Corporate level refers to the highest level of executive management in the firm and incorporates the chief executive officer (CEO) and all the executives reporting to him.

Divisional level is the organisational level incorporating all the executives reporting to and including the head of the division.

Divisional Managing Director (DMD) denotes the manager in charge of the division. The title of this position varies between, and even within companies but it is often some variant of DMD e.g. Managing Director - Plastics Division, Divisional Managing Director - Plastics etc. In some companies the DMD is part of the corporate level.

Business Managers are managers in charge of businesses or business units reporting to the DMD. Again titles vary between and within companies and include 'General Manager' and 'Managing Director.'

Divisional Functional Heads denotes managers reporting to the DMD responsible for divisional functions or processes. These positions are often known as Divisional Directors e.g. Divisional Manufacturing Director.

Business Functional Heads denotes the heads of business functions who report to the Business Manager. In the UK these positions are often known as 'Directors[10].' e.g. Sales and Marketing Director.

4.6.2 Stage 1 Informants

As a comparative (case) description of the division, both in terms of "collective mind" (Weick, and Roberts, 1993) and organisational behaviour, was to be developed from the information provided by *one* divisional level manager it was highly preferable that that manager was the Divisional Managing Director (DMD). This follows a common practice and belief in strategic management research that "top managers have the best vantage point for viewing the entire organisational system." (Snow and Hrebiniak, 1980: 320). In practice the DMDs were not always available. Of the twelve divisional level managers finally interviewed, eight of them were DMDs, while the others comprised a divisional finance director, a business manager, a human resources director and a manufacturing services director. Each was interviewed as an informant on general divisional practices rather than their on their own functional domain..

4.6.3 Stage 2 Informants

Two divisions were chosen for this phase.

From Division F2, the DMD, the deputy, DMD, the divisional Business Development Manager and twelve business managers were interviewed. (total fourteen) (Final case in Chapter 6)

[10] To one from a different (Australian) business culture the proliferation of the 'Director' title in UK businesses is a bemusing phenomenon.

From Division J, the DMD, four divisional functional heads, four business managers and twenty-one business level functional managers were interviewed. (total of thirty). (Final case in Chapter 5).

4.7 Data Collection

Annual reports, other internal company documents and external company reports (journals, newspapers, etc.) were all used as a source of information to both give background, general descriptive data and market/industry context.

The prime data for the research came from semi-structured interviews with company executives. The specific content of the interview was dependant on the level of executive being interviewed but the principles underpinning the style of interview remained the same.

4.7.1 The Interviewer-as-Instrument

Most interview-based research is silent on the issue of the interviewer(s) and as such implicitly suggests interviewing as a non-problematic component. This is not so on at least two levels; familiarity with the field and familiarity with the interview process.

4.7.1.1 *Familiarity with the Field.*

The history of social research contains many examples of the difficulties researcher have in interpreting findings when investigators are insufficiently sensitive to the organisational or cultural context within which observed phenomena are embedded (Kirk and Miller, 1986). In anthropology for example Freeman (1983) attacked Mead's (1928) classical Samoan studies as being inaccurate due to her position as an expatriate with no knowledge of Samoan language or prior familiarity with Samoan culture and society. Thus the "teasing" of teenage girls possibly gave rise to a thesis of adolescent free love[11].

While cultural incompatibilities may be more likely in anthropological studies they provide an extreme example of similar problems facing researchers in the management field. To at least enable 'common-sense checking' the researcher needs to have appropriate background in the management area under research (Archer, 1988). This background should be sufficient for him/he to have credence as a knowledgeable co-conversant without the need for translation or explanation.

A free flowing 'conversation' cannot take place without a common language and shared understanding of context. As the researcher is seeking understanding of, often tacit, constructs underlying content, it is preferable that such content should be as non-problematic for him/her as for the informant. The necessity to explain or translate 'everyday' language puts the informant into a teaching and hence simplifying role instead of the role of co-discussant with one of equal knowledge but from a different sphere. i.e. an 'outsider' who has 'insider' characteristics. As an "insider" the researcher has sufficient credibility to ask questions demanding meaningful rather than glib answers as it is likely that he/she will know the difference. From the perspective of the researcher an appropriate background enables him/her to feel confident and comfortable or 'at home' on the research site and thus free from the distractions of being in an 'alien' place.

[11] Kirk and Miller (1986) point out that the contrast between Mead, as a young woman talking with adolescent girls, and Freeman as a high-ranking adult talking with male parents, raises the possibility that both sets of findings have validity as "different investigators observing different parts of the same Samoan scene" (p. 46).

Whyte (1984) refers to the need for "intimate, habitual, intuitive familiarity with things" (p. 282) while Miles and Huberman (1994) list the following as "markers" of a "good qualitative-researcher as instrument":

- *"some familiarity with the phenomenon and the setting under study*
- *strong conceptual interests*
- *a multidisciplinary approach, as opposed to a narrow grounding or focus in a single discipline*
- *good "investigative" skills, including doggedness, the ability to draw people out, and the ability to ward off premature closure",*(p. 38)

and conclude that on balance

> *"a knowledgeable practitioner with conceptual interests and more than just one disciplinary perspective is often a better research "instrument" in a qualitative study".* (p. 38)

The somewhat convoluted professional, educational and business experience of the researcher in this study (i.e. from clinical psychologist to industrial relations manager to business manager to divisional managing director to academic researcher) seems an ideal fit with this description and with the phenomenon and context under investigation. This is not to lay claims to superior research or research process but to a serendipitously suitable background.

4.7.1.2 *Familiarity with the Process.*

Even the most structured of questionnaire style interviews require basic interviewing skills if the appropriate information and degree of information is to be elicited. The more unstructured the interview, however, the broader is the skill and experience level required and the more the information gleaned is dependent on the interviewer as much as the interview schedule or guide (Fielding, 1993; May, 1993; Robson, 1993). The judicious use of *probes* (interventions to encourage the informant to expand further), and *prompts*, (close ended enquires for specific facts) are a particular facet of less structured interviews. How and when to question, stay silent, summarise, encourage, confront inconsistencies, use non-verbal cues etc. are skills that only develop with training and practice. "The use of probes is something of an art-form and difficult to transmit to the novice interviewer" (Robson, op.cit. p. 234). Where underlying constructs, mental maps etc. are the domain of interest, as well as content, then active 'clinical' skills are necessary particularly when such constructs are *out of articulable range* of the informant.

Again the clinical background of the researcher and wide experience over a variety of psychological interview contexts has provided many years of the necessary training and practice.

4.7.2 The Interviews

Texts often suggest three styles of interview, the structured or standardised, the semi-structured or semi-standardised and the unstructured, non-standardised or focus interview (e.g. Fielding, 1993). The underlying dimensions of this continuum have been variously described as quantitative/qualitative, (May, 1993); formal/informal and directive/non-directive (Robson, 1993); close-ended/open-ended (Whyte, 1982) and interviewee-as-respondent/interviewee-as-informant (Powney and Watts, 1987). The typical tripartite division tends to hide the fact that both the structure and nature of interviews fall along continua and are more idiosyncratic to particular research than is generally acknowledged.

> *"Interviewing is like marriage: everybody knows what it is, an awful lot of people do it, and yet behind each closed front door there is a world of secrets."* (Oakley, 1988: 31)

Following Lofland (1971) the interviews in this research are "guided conversations" that fall towards the unstructured end of the continua in style but nevertheless are constructed to pursue a pre-established agenda and set of topics driven by the research questions. While becoming less "open-ended" with lower level (functional) managers they were still oriented to pursue Lofland's objective of the non-standardised (qualitative) format which is

> *"to find out what kinds of things are happening rather than to determine the frequency of predetermined kinds of things that the researcher believes can happen."* (1971: 76)

The interviews aimed to elicit, in the language of the informant, the shared divisional constructs of divisional roles, functions and strategies. As such, each interview started from a different point dependent on the initial responses of the informant. For example one manager who was presenting his strategic review to the main board on the following day had a voluminous set of presentation slides on his desk when I arrived. Following the ritualistic pleasantries and the arrival of coffee he proceeded to take me through the detailed presentation while I prompted the conversation beyond the specifics of his strategic plan. Another informant arranged a tour of a factory on the site before expounding at length on his view of divisional strategy while illustrating points on his large whiteboard. At another extreme I was led into the DMD's office in relative silence, given coffee, fixed with an enquiring stare and asked, in a not unfriendly tone, "Well, what can I do for you?"

At the lower organisational levels in Stage 2 the interviews followed a more standard format dictated by the interview and interview guide. In these cases (unlike with the initial DMDs) the interviews had been arranged through a higher authority and I suspect that such 'authority' became vested in the researcher who was seen to be there to 'ask questions'. In the case of the DMDs the power relationship was clearly in the other direction!

Three interview guides were used (Appendices C, D and E) which were based on the same principles but move from a more to a less freely discursive orientation with lower level managers. The guides are divided into sections of focus with each section addressing a major thematic question. A series of probes and prompt indicators are on the guides as an aide-memoir to the researcher to be used if the interviewee did not 'spontaneously' address the matter at hand and as a way of opening up new areas. These probes sometimes address the same issue in a different way, but are included to enable a best fit with the conversational flow. The guides in the appendices represent the final product of the organic growth of such instruments that is a feature of open ended, case based enquiry (Miles and Huberman, 1994).

4.7.2.1 *Divisional Level Interviews (Stage 1 and 2)*

The length of interview varied from 15 minutes (over a hectic 2.5 hour visit) to over 2 hours. The major themes pursued were the value of the division over the sum of the businesses and the management of the division to achieve that value. Included were questions about the role of the corporate level in divisional value creation. Informants were encouraged to contextualise their current view of the division in its (and their) history (Appendix C). A pointed aspect of this level of perspective was the value added by the divisional level itself i.e. "what do you and your fellow divisional managers do to add value?"

4.7.2.2 *Business and Functional Level Interviews (Stage 2)*

These interviews tended to be shorter than the divisional level on average due to being more constrained in focus but still averaged about an hour. Whilst the issues of divisional value-added (membership benefits) and the organisational mechanisms involved were still the major guiding themes the perspective was changed to asking "how does divisional membership benefit *your* business?" (Business Managers - Appendix D) and "how does being part of the division help *you* in your role as it pertains to competitive advantage of the business?" (Functional Manager - Appendix E). Also *disadvantages* of being part of the division were discussed.

4.8 Data and Analysis

4.8.1 Data and Write-up

Data for this research is derived predominantly from the interviews described above all of which were taped[12] and transcribed by the researcher[13]. The transcriptions, plus

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[12] Two interviews were not recorded due to technical failure in one case and trying to follow a harried divisional manager through the building and interview at the same time in the other. Taping has several advantages over note-taking particularly in a setting where the 'naturalness' of the conversation is deemed important (Gilbert, 1993; May, 1993). In particular taping allows more ground to be covered than is possible with note taking. Perhaps even more critically taping allows a faithful reproduction of the interview and guards against (but does not eliminate) the interviewer noting what he is biased towards hearing. All interviewees seemed comfortable with being taped although I was asked on several occasions for reassurance of confidentiality when the interviewee

other data on the division/company from internal and external reports then became the basis for divisional descriptions and analysis. The case descriptions are made up of two interacting components of the interview:

1. *"Factual" Content* Unless self contradiction or other negative evidence emerged then what the interviewee stated as a potentially verifiable *fact* was accepted as such. e.g. "we have a meeting each month with all of the divisional people", "business managers are paid on the basis of the financial results of their business only", etc. These 'facts' of organisational structure, process and systems build up to give an overall pattern of behaviour which can then be set against the theoretical patterns being tested.

2. *Interpreted Content.* When interviewees were stating underpinning divisional constructs (e.g. "teamwork", "morale") then behavioural evidence of consistency with these mindsets was sought before they were accepted or used as a strong statement in the case. i.e. "can you give me a couple of examples that have happened recently?"

i.e. whereas verifiable behaviours were accepted as stated, less visible organisational characteristics were probed.

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seemed to think he had been a little too frank. On one occasion I was asked to turn the recorder off while the respondent told me of his views on one particular aspect of the divisional/corporate relationship.

[13] "Fully" here means that the content was reproduced but vocal mannerisms (e.g. "you know") and speech fillers e.g. umm, ahh. were left out. Despite this and a reasonable level of typing skills transcription was as onerous as has been noted (May, 1993) and the rule of thumb of 7-8 hrs of transcription per one hour of tape was about right.

Each case is made up of a brief description of the parent company as all divisions operative within a corporate context. After a short introduction an overall analysis in the form of a divisional benefits matrix and an organisational orientation table is presented followed by description of the division written, as far as sensible, through the words of the informant(s) but supplemented by my own summaries as well as input from internal documents. Although written to emphasise areas of focus I have attempted to maintain the flow of the specific discussion and to not disguise the complexity of divisional management as experienced by divisional staff. This complexity is sometimes reflected in apparently self contradictory statements by informants. e.g. without apparent awareness of the contradictions a DMD will speak of the value of sharing and cooperation in the division and yet maintain that a BM's ongoing career is contingent on him/her "hitting the numbers" in his/her own business. Finally an overview of the case is presented and in some instances a postscript of events of interest that occurred after the interviews.

4.8.2 Analysis

The data from the cases was analysed into themes and patterns under two broad categories;

1) *Membership benefits* i.e. the value to the businesses of belonging to the division from the stated and inferred view of the DMD or his substitute and for two of the cases from the interviews with other business and functional managers.

2) *Perspective and patterns* i.e. the philosophies, processes, systems, structures in place and the degree to which these reflect and/or facilitate cooperativeness within the

division. The specific areas of focus are those organisational dimensions detailed in Chapter 3.

4.8.2.1 *Analysis - Membership Benefits*

The presence or absence of the following identified values/benefits are used to categorise the espoused presence, and at an interpretative level, the degree of actual divisional value.

Guidance: Questions sought to gain data to indicate the extent to which direct inputs from divisional staff to existing functions/processes in the businesses are seen to add value. The DMD is included in divisional staff and it was expected that all of the occupants of these positions would see themselves as adding value in some way but how they saw themselves as doing this was of interest both in terms of direct guidance and also in terms of the facilitation of the other membership benefits outlined below. The benefits conferred by other divisional people are also a potential divisional value source.

Facilities: Data was sought here on the value-adding activities that the divisional level carries out on behalf of (i.e. instead of) the businesses. This captures those functions that are centralised whether they be administrative services e.g. legal staff, tax office or processes more strategically central e.g. purchasing, distribution. It is important to differentiate here between those activities that are membership benefits for the businesses in for example reducing costs or enhancing revenue (e.g. brand management) and those activities that 'merely' facilitate divisional administration or control such as audit or report collation services. The costs of these centralised overheads are often allocated to businesses and if the services provided can be obtained at the same or lower costs on an out-sourcing basis then little if any value is added.

Group: In this category was place those expressions of value that derived from a passive membership of a bigger, more powerful entity or one with a "good" reputation. e.g. in general larger organisations might attract more able managers and staff who see more opportunities for advancement; have more power with respect to suppliers, government agencies, customers, etc. have access to more funds and thus be able to back more investment which can, in turn be important to other significant players etc. The key element that differentiates this category from the others is that it is a *property* of the grouping rather than an activity or process that the businesses engage in between themselves or with the divisional level. Some properties e.g. reputation, may be the intangible results of many years of product-market interactions. Managers sometimes speak of "critical" mass to indicate a supposed break-point wherein size becomes a valuable property per se.

Team: In this last component of membership benefits is data indicating value from interactions of the businesses with each other. This interaction can be a the level of physical sharing (e.g. cross business teams; inter-business systems; shared technology; shared capital etc.) or at the more intangible level of sharing knowledge, competencies, learning etc.

While the data is classified into these categories it is important to note that this classification is based on either what is espoused by the management or inferred by the researcher from the responses of the management. There is no measurement of the actual value of the activities/properties so classified; the data merely reflects the *claiming/inference of value*.

4.8.2.2 *Analysis - Perspective and Patterns of Cooperation*

The organisational dimensions to be used as an analytic framework are expanded in Table 4.2 below. For each pattern or theme the type of responses/findings classified as indicating a 'cooperative' orientation is shown. Also, under the heading, 'non-cooperative' are the types of responses classified as more indicative of a stand-alone orientation wherein the divisional management acts predominantly as a controller, "information buffer and condenser" (Collis, 1991c: 10) and devolved representative of the corporate centre.

Dimension	Cooperative indicators	Non-cooperative indicators
Managerial Philosophy:	The DMD will express positive values/orientations towards sharing, interaction and cooperation between the businesses. The emphasis is on the whole being more than the set of its component businesses. The business GM is viewed as the nominated steward of part of the division with ongoing responsibilities to the rest. Inter-business trading will be seen as an important sharing mechanism for the development of competences/skills. Where vertical integration does exist internal trading will generally be compulsory.	The businesses are viewed as self-contained, stand-alone entities with primary responsibility for their own profitability and managed at arms length accordingly. Cooperation is incidental or crisis driven as the whole is the sum of the parts.. The business GM is seen as the delegated "owner" of the business to be left alone as long as budgets are met. Inter-business trading will be a commercial relationship crystallised by "transfer" pricing. Businesses may be allowed to take the "commercial" decision to trade in the open market instead.
Divisional Functions, Services and Resources:	There will be staff at divisional level (other than the DMD) with responsibility for strategic (i.e. not just control) inputs to business plans and performance. These inputs ("on-call" or compulsory) may augment or replace existing business processes.	There will be few staff at divisional level and what there are will be in financial/control positions. There may be the provision of incidental services generally of a "non-strategic" nature. Businesses may be given the "right" to go "outside" for these services.
Pan-Divisional Processes: Integrating Systems	Inter-business task forces; sharing key people; liaison roles at divisional level, standardised operational systems; divisional wide training in standardised skills/knowledge etc. are examples of ongoing integrative activities in cooperative divisions. These occur at levels other than the GM.	Ad-hoc, crisis-driven project teams may be in evidence but the norm will be for a *purposive* separation of businesses and a lack of any integrating devices. In general, monthly divisional "board" meetings and annual "strategy" conferences will be the sole, structural, inter-connections generally between business GMs.
Measurement Systems	A focus on broad subjective and objective measures and group based goals. A "balanced scorecard" emphasising process inputs and outputs as well as financial parameters	A focus on business specific financial outputs unless these are unsatisfactory in which case a crisis intervention mode will bring attention to other operating parameters but still within the individual business.
Rewards and Incentives	GMs' incentives are linked to divisional performance.	GMs' incentives are based on the profit performance of their own business. Any divisional component will be small with more a flavour of "profit sharing" than incentive.

Table 4.2 Classification of Cooperative and Non-cooperative Patterns and Themes

The overall classification of a division as a "cooperative" organisation is not contingent on all of the above indicators being noted but more on the basis of sufficient of them being present to constitute a "syndrome" of cooperativeness[14]. In particular it is insufficient that a DMD espouses a view of cooperation if he/she does not indicate the presence of significant structures/processes/systems to *enable* cooperation within the division.

[14] Inevitably the classification of divisions involves a degree of judgement by the researcher but the basis for such judgements are presented in the cases for others to evaluate.

Chapter 5

COOPERATIVE DIVISIONS

> *"There is no reason for Divisional Office to be here unless we are pan-European. In my view administering and controlling is not enough."*
>
> (Human Resource Director - Division G)

The divisions in the study are powerful organisations that can stand alone as medium to large independent companies (Table 5.1). Their turnovers range from £80mil to £4100mil and employee numbers from 1100 to 6600 with the scope of their operations being world-wide in some cases and limited to the UK in others. Customers include large industrial purchasers, wholesale and retail distributors and consumers. Other than a personal assistant (PA) other functional and process personnel reporting to the Divisional Managing Director (DMD) vary between divisions. While the DMD-Division D1, for example has a part-time financial controller as his only other direct report his company colleague, the DMD-Division D2 had four other functional reports but eschews a finance director. Size and scope offers little guidance in terms of divisional structure with some large, international divisions having fewer divisional staff than small UK based ones. The DMDs themselves are all males, aged in their mid-40s or older who have risen through the ranks of business management often in the company they are now with.

The twelve divisions can be categorised into two broad types. The first category is consistent with the division as an expression of an integrated business, exploiting capability-linked, economies of scope between the individual units or between the

Division	T/O[1]	Empl[2]	Units	Major Distribution Channels	Locations	Divisional staff
A Farming agricultural commodities.	£180m	1900	3	Wholesalers	Europe[3], US	Finance, Training Advisor
B Manufacturing building products.	£500m	6500	3	Wholesalers; OEMs[4]; speciality retailers,	Europe, US	Operations Controller
C Provision of water-supply based services.	£110m	3000	6	Industrial users	UK	Finance, HR.
D1 Manufacturing capital equipment for retail stores	£80m	1100	6	Industrial users	UK	Finance (part time)
D2 Manufacturing automotive components.	£130m	2000	4	OEMs	Europe	CAD, Commercial, Facilities, Operations
E Vehicle sales and service.	£800m	3500	4	Direct consumer sales	UK	Finance, Operations
F1 Manufacturing child-care durables.	£100m	1100	8	Speciality and mass retailers	Europe, US, Australasia	Finance, Technical
F2 Vehicle sales, servicing and leasing.	£600m	2300	3	Direct consumer sales	UK	Finance, Deputy DMD, Business Development,
G Manufacturing vehicles.	£4100m	6600	24	Franchised dealerships;	Europe	Finance, HR, R & D, Manufacturing, Business Administration, Service and Parts, Product Directors (3)
H Distribution of branded alcoholic drinks.	£860m	2700	6	Speciality and mass retailers	Europe	Finance, Systems, Personnel., Business Development, Sales Development,
I Manufacturing pharmaceuticals.	£3200m	7300	5	Industrial users; speciality retailers	Europe	Finance, Manufacturing, Systems, Technical, Supply, Purchasing,
J Manufacturing automotive components.	£160m	1100	4	OEMs	UK	Finance, Systems, HR, Kaizen

Table 5.1 Divisional Descriptive Characteristics.

[1] Turnover
[2] Employees
[3] Includes UK
[4] Original Equipment Manufacturers.

units and divisional level expertise. i.e. An emphasis on divisional value from conjoint activity. This category is referred to as the 'cooperative' division and is the focus of this chapter.

The second type is consistent with the division being a set of stand-alone businesses which are under one management for reasons of administrative efficiency and ease of general management control. i.e. An emphasis on divisional value from separate business activity. The businesses are not managed in the classically "competitive" way (Hill, 1994) as divisional managers are not arms length but are actively, operationally interventionist and are not *just* in place to correct poor performance or remove under-performing management. These are labelled 'non-cooperative' to reflect the purposively stand-alone, separated nature of the businesses and the limited nature of their interactions. This category is the focus of the next chapter.

5.1 The Cooperative Division

The five divisions described in this chapter display a 'cooperative' orientation in terms of divisional management, organisational structures, processes, systems and mindsets. Typically these divisions exhibit the following broad similarities which differentiate them from the non-cooperative category.

1. The primary source of divisional value is seen to derived from the common capabilities and processes that underlie the disparate product outputs of the businesses. While the uniqueness of the market activities of the businesses are left to the business to manage, the underlying capabilities are aggressively managed at

divisional level. Divisional control tends to be systematically (i.e. not just fire-fighting) oriented to less objective behavioural inputs (e.g. processes, requisite skills, people development) associated with these capabilities as well as the traditional M-form output measures.

2. The benefits of divisional membership are primarily derived from functional and process *guidance* from the divisional level experts and the *team* benefits of interaction and sharing between the businesses. These divisions reflect organisational attempts to harness conjoint learning between the businesses and/or between the businesses and the divisional level. In some case strategic functions are removed from the businesses and become a primary *facility* benefit (carried out on behalf of the businesses rather than in conjunction with them). Secondary benefits arise from the centralisation of service based *facilities* such as computing or training/personnel and *group* value such as the purchasing of common inputs.
3. Strategic management of the cooperative division is oriented towards the division as a whole. Whilst the business managers still have authority and responsibility for their individual businesses, this is established within a context of the business being a component of the division wherein responsibilities for specific divisional goals and active participation in pan-divisional processes are as important. The divisional team view the division as one business of which the business managers have stewardship of an integral part.

4. Organisational structure reflects the integration of the business units each other or with the divisional level with divisional staff having responsibility and authority for processes and/or functions that are strategically important for business success. The Divisional Managing Director (DMD) is a prime driver of inter-business processes and pan-divisionalism as well as being actively interventionist at the business unit level. The administrative duties of monitoring outputs and intervening when these outputs are unsatisfactory is not neglected but is not seen as the primary role of the position. Performance bonuses tend to linked to divisional as well as business unit performance.

5.2 The Cases

The first four cases are based on interviews with one divisional level executive and the fifth comprises discussions with other divisional staff, the business managers of units and members of their management team who are in charge of functional areas in the business.

5.3 Division D2 - Manufacturing Automotive Components

> *"It's structured that way because it is process related...certain products use the processes that we know...if I was going to focus on where we should put our real value added activity it's in the process".*

The parent[1] company is a broadly based engineering group with four divisions operating from over thirty locations throughout Europe. The company has grown by acquisition and employs 5000 people generating a turnover of £400mil. The route to

[1] Unless otherwise noted all figures and quotes for all parent companies in the research are from their 1997 Annual Report.

being world class is stated to be the provision of *"innovative solutions"* to customers' problems and through *"focus(ing) more tightly on the group's core engineering competences which offer the most attractive returns in global markets."* The company is seen as one that has promised much but delivered little,

e.g. *"(Company) has been a company in recovery for as long as any investor can care to remember...much of (Company's) work will be to change its culture to work as a coherent group - rather than disparate companies - over the medium term".*

(*Financial Times,* November, 1997)

Employing 2000 people Division D2 generated 1996 revenues of £130m from businesses with operations throughout Western Europe. Throughout 1995-1996 the division had undergone a period of rationalisation by selling off *"non-core"* businesses.

> *"We initially started with a focus on having three businesses which were sort of counter cyclical, you know all the good words you get out of the books...you've got to have three legs of a stool haven't you? We quickly came to the conclusion that you can only be specialist in one field."*

The division now comprises four businesses which manufacture and market automotive components from ten manufacturing locations in what is a global, capital intensive, mature and increasingly concentrated industry. The businesses sell to car manufacturers who are also part of a global, mature, capital intensive, concentrated industry that is additionally characterised by over-capacity and intense rivalry. Customers are engaged in an ongoing process of rationalising suppliers, *"when they design a model they only want to talk to ten people about dividing up the bits* *between them"*, and are highly demanding in terms of service, just in time (JIT) delivery, quality and real price reductions. The customer cooperate with their suppliers to develop cost improvements as a driver of price reductions, i.e. *"cost down-price down"*.

The DMD has been with the company for four years having spent a considerable part of his earlier career working in the automobile industry. Reporting to him are the four Business Managers (BMs), a Commercial Director, who has helped develop the division to its current form, and four other *"specialists in certain areas that are available for loan to individual companies that need specialist information"*.

One is a Computer Aided Design (CAD) expert, another a press and press work specialist, a third is an expert in facilities engineering and factory layouts while the fourth is an ex-MD of one of the businesses who is available for more general input. As well as specialist process inputs to the businesses and manufacturing locations, this cadre of divisional staff serves as a bank of available resource to deal with crises in the business units.

> *"Where we've had a problem with a company we've been able to put one of these guys in to actually go and run the company. So, business goes off; fire the BM; put one of these guys in; go and find an BM... interim management."*

Whilst a useful stop-gap during crises, these specialists are primarily in place *"to bring expertise and knowledge and train the people"* and as such are significant components of *"the value added bit that we think we bring"*.

Unlike his counterpart in Division D1 (described in Chapter 6) the DMD has no finance staff, preferring that function to be carried out on his behalf by the corporate finance group.

5.3.1 Membership Benefits

The matrix of benefits is set out within the general matrix detailed in Chapter 3 i.e.:

		Source of Value	
		Process	*Position*
Direction of Interaction	*Vertical*	**GUIDANCE**	**FACILITIES**
	Horizontal	**TEAM**	**GROUP**

Guidance: • General management support and advice from the DMD and another divisional General Manager including future orientation. • CAD, Press and Engineering support and development.	*Facilities*: • Replacement BMs for under-performing units. • (Planned) centralisation of sales and design functions.
Team: • Capacity coordination and sharing..	*Group*: • Discount on steel purchases. • Order winning from the credibility of being part of a larger group.

As well as the standard general management inputs the businesses benefit from the *guidance* of divisional experts in strategic processes. These experts work with their functional counterparts in the business units. By linking the capacity planning of common equipment each business gains from available capacity in other units when it needs it but also from the potential utilisation of its own spare capacity in quiet times. Further *facility* benefits are planned in the development of one integrated sales teams and fewer design centres. In the longer term this implies significantly increased business inter-dependence. The *group* value from common purchasing has only recently been realised.

5.3.2 Perspective and Pattern

Divisional Philosophy	• The division needs to be an integrated whole within which the businesses carry out a divisionally specified role. • The businesses are components of the division and should be integrated as such. • A prime source of value comes from the process capability of the businesses which are similar (related) and so can be pan-divisionally linked and improved.
Divisional Functions	• Several strategic process support executives are in place at divisional level.
Pan-divisional dynamics	
Integration	• Structured linkages are limited to a monthly meeting of BMs at which a divisional agenda is formulated and forwarded.
Measurement	• A variety of financial and non-financial measures of business performance are in place. • The division is measured by means of the sum of the individual businesses. i.e. no integrated divisional measures are currently used.
Performance incentives	• 50% of the performance bonus of the BMs is linked to divisional profit performance and 50% to the profit performance of their business. The management team of the BM have 25% of their performance bonus linked to the divisional results.

This division can be seen to be in transition from the M-form practice and philosophy of separate units towards attempting to establish processes integration and linkage.

The functional staff at divisional level, the change to divisionally oriented performance bonuses and the espoused divisional "agenda" are initial moves towards a structure and philosophy of cooperation to exploit common functions, processes and capital equipment underpinning the disparate product outputs of the businesses.

5.3.3 Description

The Divisional Managing Director (DMD) was interviewed at his office on one of the business sites in Birmingham. From customers, competitors and other global industry sources the divisional level imposes a number of financial and non-financial benchmarks as operational performance hurdles for the businesses. *"Utilisation of space, parts per million quality, utilisation of labour number of suggestions per factory and so on".* As such the Division is *"sort of half way between totally process and some product as well"* in its current strategic orientation. Expertise in process rather than specific product is seen to underpin the ability to offer *"packages"* rather than individual parts. This bundling enhances the value-added of the offering and has significant logistic and internal efficiency benefits for customers. The perceived value of such bundling, however, is not unanimous amongst the customers. *"They like in the UK, they like it in Europe but the Americans don't like it one little bit".* The (larger) American customers prefer the specialisation and volume benefits of individual component supply.

Future orientation from the divisional level is seen to be an essential input to the businesses because the people in the operating units are *"too busy looking at what* *they are doing today* to view the global scene as well as divisional level managers who are able go *"get out a bit more on global basis and visit America, visit Japan, visit Brazil"*. The view that the operating BMs have neither the time nor the global exposure to develop an appropriate future orientation is not shared by them. *"Some very lively debate"* ensues *"when they think they know where we should be going"*. An example of informal pressure to widen business horizons was when the DMD became concerned at the lack of any European (as opposed to UK) based orders for one of the businesses. At a monthly meeting in front of all the divisional team he challenged the BM to gain a European order and *"put a bottle of champagne on it"*. The European order duly arrived and the bottle of champagne claimed. "*It was light hearted, joking, but it focused his mind....that's why I use the word 'direction'.*" A recently conducted internal survey has shown capacity imbalances across the business units. *"Some areas are working overtime because they have a lack of capacity in a particular area and others have got machines sitting idle"*. A new role for the divisional centre will be centred on capacity coordination across the factories to maximise utilisation and minimise costs. Another membership benefit accrues from the size of the division both from the additional central resources the division can support and from a market place perspective.

> *"Size per se is an advantage. Critical mass in this business is crucial. We're pulling in work now purely because of our size, no other reason. The individual companies would not have got it."*

An individual business that left the divisional 'fold' would *"take a full order book which would run for three or four years"* but would be unlikely to gain new long term business due to a lack of credible resource relative to the size of its potential customers. Centralising the price negotiation of steel enabled the Commercial Director to *"save about ten times his salary"* with cost reduction based on total volume discounts that no individual business could obtain on its own.

The division also adds through *"growing the people that will take over"* and giving direction in development of the process needed for the future.

> *"Our job is to get the engineers, get people trained and get the knowledge of those processes so that in ten years time we're here and we have been winning orders on the capability of doing that. That's what I mean by direction."*

The DMD is purposively moving towards a more integrated division as opposed to a collection of stand-alone units. This is partly in response to market demands and partly *"because having been at the other end of the business I know what's required"*. In the proposed divisional structure there will be a reduced number of quoting centres, more centralised design functions and increased amalgamation of businesses into larger, more functionally organised units. Such an holistic view is in contradiction of historical (and current) functioning and perspectives. *"There's still a culture around here that wants individual operating units with their own P and Ls, it's outdated"*.

The next step *"breaks the links on the commercial front which starts it all."* Currently each of the businesses has separate sales people calling on the same customers. The businesses use the argument that with 2 or even 3 quotes for the same work then the chances of one of the divisional units winning the order is increased. *"'If you make us one we shall automatically lose two opportunities'"*. The duplicated, wasted effort and the fact that *"we should be able to decide where it's cheapest to make it and pick that one anyway"* has a compelling logic for the DMD which is yet to be fully endorsed by his BMs. At a more subtle level the prevention of multi-quoting removes the potential of competition between the business units. *"Competition's with the outside world not within."* The organisational and cultural changes needed to bring about a more integrated approach cannot happen *"without a certain amount of pain in some areas"* and at times *"will have to be imposed and we take the consequences"*.

To encourage a broader divisional perspective the bonus elements of the BMs has been changed from being totally related to individual business performance to being 50% related to divisional performance. The management level below the BM have 25% of their bonus related to divisional performance. Currently bonuses are related to financial performance only but *"the next step I believe should be to take a proportion that's linked to management task"*. Annual financial performance is seen to be a short term measure whereas the *"ahead looking has to come from management tasks"*. Rewards based on inputs rather than outputs will always involve *"a level of greyness."* A manager will *"always think he's done more than you do, but it's the principle that counts, the fact that you've focused his mind."*

Other than a monthly divisional meeting there are no formal inter-linkages between the businesses and little exchange of staff. Internal movements are rare because *"while you're a bit tight on people you're causing yourself another problem"* if people are moved around. A new monthly forum has been established between the *"big"* BMs and some of the divisional staff to discuss future divisional direction. One of the purposes of this operating committee is achieve commitment to an agreed divisional agenda through encouraging input and participation by operating business heads. After the joint decision, it is expected that 'cabinet' solidarity will be forthcoming even from dissenters. *"You can say your piece but then if you find you can't accept this and go along with it then you resign. Because that's the way the game's played".*

The divisional results are reported as a set of separate company figures. *"They go in as separate companies which I don't agree with. They should go in altogether, we'll never get them altogether unless they go in all together."*

One of the problems arising from this is the time spent explaining the negative variance from budget of individual companies when others are ahead of budget and the division as a whole is achieving it's targets. *"...you've got a balancing act going on haven't you and isn't that your job, to determine the balancing act?"*

5.3.4 Summary

Division D2 is in a state of flux from being a collection of autonomous, 'competitive' units to an amalgam of 'cooperative' partners. The relatedness of the businesses is seen to be most exploitable at the level of process capability and so divisional functions are in place to help with process improvement. Further systems and procedures are being introduced to promote more pan-divisional orientation and behaviour.

Tension exists between the desire of the BMs for the businesses to remain stand-alone and the actions and proposals of the DMD. This tension is such that the DMD has to "impose" his ideas and "take the consequences" of unhappy operational managers. i.e. behaviour is being imposed first - hearts and minds must follow (or leave).

5.4 Division G - Manufacturing Vehicles

> *"We have some very competent people but major issue is getting them comfortable with cross-border minds. I don't just mean countries when I say 'cross-border' I'm talking of functions, I'm talking of businesses... being willing and able to throw your thoughts across."*
>
> (Human Resource Director)

The parent company is an international firm of 91,000 employees with a turnover of £27,000m from 3 business sectors in four regional divisions. The corporate philosophy is espoused as *"supplying products of the highest efficiency yet at a reasonable price."* (Company Handbook). Globalisation has been a company goal since its inception and it now manufactures in 36 countries and maintains sales outlets in many more in an industry of *"borderless mega-competition."* In 1996 the company achieved record sales and operating income through its operating strategies of *"competitive and innovative technologies"* and *"product development suited to* *the characteristics of each individual market."* Despite awareness of local needs the company states its intention to *"promote not only self-reliance"* in the four regional operations but *also "intracompany product complementation worldwide."*

> *"We have focused our attention on quickening our response to changes in the global business environment while promoting the autonomy of our four major regional operations."*
> (President's Message)

Division G is one of the four regional divisions. It employs 6600 people and generated 1996 revenues of £4100m from 24 businesses across Europe. Selling through 2000 distributors in mature, concentrated markets the businesses compete by differentiating their products through brand image, and product features underpinned by technical (engineering) excellence. *"We market ourselves on an 'advanced' concept...we are ahead...we have something more to offer."*

Three product categories are manufactured and marketed by the businesses. Despite apparent dissimilarity at a product market level. (i.e. functions-benefits, customers, competitors etc.) the businesses are related through the same technological capability in that motors that are part of each of the product categories i.e. a 'classical'[2] core competence. This is not without its drawbacks as

> *"there are new themes we've got to push forward, but there is this solid base of excellence of a product driven item as our priority for customer service and support...at the same time we are trying to lever ourselves more towards a marketing oriented company, we have to do that."*

Divisional staff are numerous and organised in a complex *"matrix arrangement"*. The Business Managers (BMs) report to the Divisional Managing Director (DMD)

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[2] 'Classical' in the sense of core competence as proposed by Prahalad and Hamel (1990).

who also assumes functional oversight of Marketing and Sales. He also has a deputy DMD in charge of Research and Development and a deputy DMD in charge of Engineering and Manufacturing. The DMD and his deputies form an executive team. Also reporting to the DMD are Product Directors of the three major product groups as well as the Directors of Business Administration, Finance, Human Resources and Service and Parts.

> *"... we have a Business Manager of Germany and he's responsible for car sales, power equipment motor cycle sales. So he has a dotted line relationship with the directors of each of those product functions to make sure he is coordinating the goals and directions of each of them."*

5.4.1 Membership Benefits

Guidance: • General management support and input including future orientation. • Engineering and Manufacturing support and development. • Human resource development	*Facilities*: • R & D • Distribution arrangements and cost allocation • Pricing • Brand Management
Team: • Capability enhancement from transferring knowledge and skills • Sharing of product knowledge and skills.	*Group*: • Reputation

This is a division which has a value perspective dominated by adding value over that of the stand-alone businesses. Aggressive *guidance* in key strategic functions is supplemented by enforcing *team* benefits embodied in human capital (trans-location) and pan-divisional integration of common capabilities and products (matrix). In addition, among other *facility* benefits, the division takes the issue of pricing as its responsibility to optimise divisional returns and not allow local marketing and currency issues to take precedence.

5.4.2 Perspective and Pattern

Divisional Philosophy	• The division is an integrated whole with the business units as components of that whole under the stewardship of the BM. • The prime source of value resides in the pan-divisional capabilities of which each businesses is an expression.
Divisional Functions	• Many strategic process support executives are at divisional level.
Pan-divisional dynamics	
Integration	• An extensive horizontal matrix organisation with staff responsible for pan-divisional products and processes. • A system of staff trans-location as well as ad hoc trans-business taskforces for particular issues. • A Divisional newsletter reinforces an integrated view. • Pan-divisional "requirements" promulgated to the BMs
Measurement	• Businesses are controlled through financial measures. • A variety of behavioural and organisational activities are required of the BMs • The division is measured as the sum of the individual businesses.
Performance incentives	• The performance bonus of BMs is based entirely on the profitability of their business.

Many organisational features of this division are aimed at promoting and maintaining an integrated, pan-divisional orientation from its component businesses. The matrix structure (horizontal processes overseen from outside the business) is almost the antithesis of the M-form philosophy. Across selected areas it organisationally joins together what the traditional M-form has disconnected. It thus takes away the strategic and operational autonomy of the BMs and leaves them accountable for, but not necessarily in control of, important parts of their business. This is not a trivial matter and the need for a new form of business thinking is brought out more fully in the description below.

5.4.3 Description

The Divisional Human Resources Director (HRD) was interviewed in his office at the divisional headquarters. He has been with the company since 1989 when he joined the division as it was undergoing a change in organisational perspective. In the history of Division G the *"big move"* to such a complex divisional structure has been relatively recent. The first business established was a sales and service activity in one European country in 1962. From there the division evolved until, in the mid 1980's, a collection of *"individual fiefdoms"* existed in various countries across Europe. Some of these business including the manufacturing of *"relatively routine"* products. In the mid 1980's the establishment of a major manufacturing facility of *"core products"*, allied to the vision of Europe post-1992, caused the need to look at marketing, logistics and manufacturing *"in a much more pan-European way."* Some major customers were becoming pan-European in their purchasing and this seemed a precursor of all large customers doing the same. Previously happy to have *"national local activity"* the company established a European Divisional Office in 1990 with the specific role of coordinating current actions within Europe and looking for *"maximum customer service capability."*

Every six months all the BMs, and other divisional level staff, attend a 2 day group meeting with the DMD and his deputies to review overall results, look at major operational issues and review 3 year strategic horizons. While profit performance remains the major control measure of the businesses there are also a variety of non financial requirements which are discusses at the meeting. This is the only formal divisional meeting between the heads of the businesses although the 6 monthly European Works Council meetings, attended by the BM and an elected member of the workforce, acts as another structured contact. The BMs, however, have *"a very good network among themselves."*

The divisional level is proactively influential in the businesses,

> *"...we have a three times a year employee magazine in seven languages which gives information about pan-European direction, business activities etc. Each location generally has a formal structure of a monthly meeting for all people at the location for review of the past month and major issues for the coming month and any pan-European issues impacting on that location. We also* ***require*** *a weekly meeting of the local president and his managers."* (emphasis added)

Focusing on the development of pan-European efficiency and capability the Divisional Office has attempted to influence through consensus seeking rather than *"diktat...a gentle balance... supporting rather than driving"*. Developing a sense of future needs from the business and its customers, it has seen its role as supporting the businesses in meeting those requirements and the associated three year goals. The various functions of the Divisional Office take the responsibility for developing business capability where it is perceived to be lacking. Relying on self-initiated business inter-relating is seen as insufficient as a process to achieve this.

> *"We may find that in Germany they are lacking in certain (people) capabilities which we might have elsewhere in Europe. In that case we look at cross border fertilisation. We either establish some sort of project group which brings that capability to Germany or we will do a longer term assignment to Germany where somebody goes over for 2 to 3 years and does that role for somebody in Germany to follow up. We might coordinate that need amongst 2 or 3 locations of they're lacking in that capability."*

While there is still a degree of *"relative defensiveness"* and *"this is my kingdom"* from some of the individual businesses the adjustment to a matrix style of management continues. *"Increasingly people are realising that although they are P and L responsible, more and more of what they do is driven by matrix."* Pricing for example, is geared to cross country currency issues, and various costs that are borne by the business such as distribution charges, are controlled from an overall divisional perspective rather than that of the individual business. In some cases individual business performance is purposely sub-optimised relative to its stand-alone potential.

> *"Once it was about making enough profit in the business, now it's about pan-European success.* ***We can afford to take a little less profit in one country in order to develop sales in another."***
> (emphasis added)

In a similar vein a single European currency will entail a careful look at required profits from various regions with a view to shifting profit where necessary. i.e. whereas the individual businesses presently make profits (and losses) from currency movements this too will become a pan-divisional matter that will influence business performance outside of the control, and perhaps contrary to the instincts and perceived self-interest, of the business manager.

The need for *"lateral cross-border minds"* in the broadest sense is seen to be a challenge that may be beyond some of the division's *"most loyal, hardworking and long serving citizens"*. The switch from *"one man one boss"* to *"one man and many bosses"* and the need for people to *"think, plan, act and decide a lot more on their own"* and yet *"to take into account many contexts"* has brought requirements for new forms of business thinking and management which some *"very competent"* senior people are ill equipped to meet. In some cases the problems are motivational and philosophical rather than behavioural. The willingness of people formerly focused in one product area, to learn from something that has been achieved in a traditionally separate product area is a necessary re-orientation i.e. the development of an appropriate pan-divisional *"mind set"*.

Despite the need for a divisional perspective from local managers there are issues where the choice of *"driving"* or *"supporting"* by Divisional Office is far from clear cut. At the level of product for example, there continues to be *"constant debate about European image verses local image, the modification of a product from a basic core to what each national activity requires"*. While seen by the Divisional Office to be an issue that is best handled centrally to take advantage of a broader information base, local marketing managers have their own strong motives for retaining control.

Notwithstanding the divisional focus on lateral processes and linkages the performance incentive systems for BMs are still geared entirely to the performance of their stand-alone business. This paradox is recognised at divisional level where the incentive system for business management is currently under examination. The short term aim is to bring reward in line with overall divisional philosophy and hence *"encourage lateral thinking and get people more willing to be active and interested outside their local domain"*[3]. The practical difficulties of rearranging managerial pay systems are significant however. Similarly the practice of the division reporting to corporate as a set of individual business (country) results continues.

Despite the commitment to a cooperative, pan-divisional perspective the value-added by divisional interventions is not manifestly clear.

> *"What does Divisional Office bring to the game?*
> *Well I think the jury's still out on that after seven years."*

5.4.4 Summary

The division exhibits a strongly integrating orientation as it attempts to optimise total organisational value, even at the expense of an individual business. It maintains a focus on underlying, shared competences as the key to competitive success. Both of these factors are consistent with the division as a cooperative enterprise exploiting non-tradeable, firm-specific knowledge as economies of scope for several business units (Teece, 1982; Hill, 1994).

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[3] At a dinner 12 months after the interview the HRD informed me that the BMs now have 30% of their total remuneration linked to divisional results.

What is also evident however is that achieving and maintaining such an orientation is a battle against the preferences of the businesses. Cooperation does not appear to be a self-evidently, mutually beneficial dynamic - it need to be enforced through hierarchy. This general paradox/dilemma will be taken up later.

5.5 Division H - Distribution of Branded Alcoholic Drinks

> *"If somebody uses that expression in this business, 'he's not a team player', that individual has a big, big problem with our culture because everything is about 'hey, we're all in this together'."*

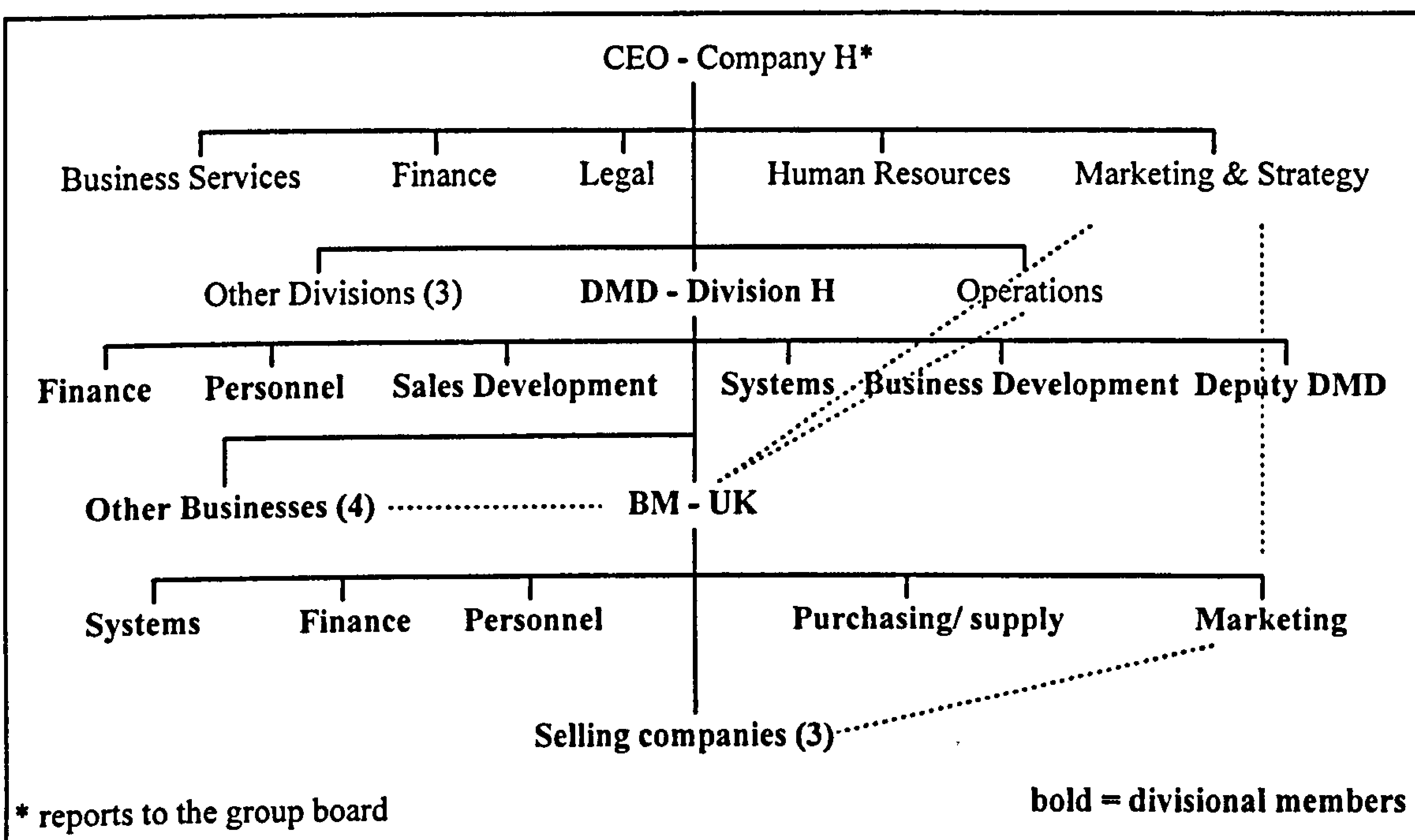

Figure 5.1 Organisational Chart - Division H

The parent group is a global conglomerate made up of two major food and one drinks company with a combined turnover of £9000mil and employing 64000 people. The group is *"is grasping the concept of shareholder value with the zeal of a religious convert"* (*Financial Times*, December, 1996) to lift its return on capital which is perceived as mediocre by the City. The drinks company, of which Division H is a part, has a turnover of £3500mil from four regionally based divisions employing 11000 people. The company adheres to four strategic themes throughout its divisions; *"building existing brands through continued investment; developing new brands; strengthening its presence in new and emerging markets and growing through relevant add-on acquisitions and alliances"*. It has been created out *"a hodge podge of acquired companies and brews"*. (*Financial Times,* December 1996) Division H is made up of six *"national marketing companies"* or country based businesses which have a combined turnover of £860mil and staff of 2700. The Divisional Managing Director (DMD) has Directors of Finance, Personnel, Sales Development, Systems and Business Development reporting to him as well as a Deputy DMD and the five BMs. The deputy DMD acts as the head of an aggregated business made up of several of the smaller (sales) countries as well as Eurasia. (Figure 5.1). The UK business constitutes the original core of the company and is the second largest business in the company in terms of sales. Because of its importance in the overall portfolio its annual strategic plan is presented directly to the Executive Committee of the parent group. The BM of the UK company (informant) joined the company 5 years ago in his current role. As BM he co-ordinates activities within his business and between the business and the divisional and corporate functions. His major role is

> *"about setting direction, defining the targets and measuring performance against the plan. Are we on track? Are we on track? Are we on track?"*

He has Directors of Marketing, Systems, Finance, Personnel and Purchasing/Supply giving functional and service support to the managers of his three *"selling companies"*. Selling through a variety of distributors the business competes through product differentiation based primarily on brand development and promotion, *"we are always doing things on the back of a brand".*

While the overall market is mature, the product segments are volatile. The industry is concentrated with the UK company having an increasingly strong position against a few other major players.

> *"Over four years now we are growing share and pulling away. The distributive competition are weak and in disarray. They've given up their field sales forces, they've turned in on themselves and are cutting costs. They're in a downward spiral."*

The most significant competitive threat comes from customers' own label product which is making market gains on the basis of price. The major strategic challenge for the UK business is to maintain future sales and margin growth at past levels.

5.5.1 Membership Benefits

<table>
<tr><td>Guidance:
• General management support.
• Human resource support
• Sales support and development.
• Marketing support (C)</td><td>Facilities:
• Manufacturing (C)
• Brands management (C)
• Training</td></tr>
<tr><td>Team:
Capability enhancement from transferring knowledge and skills (embodied in people).</td><td>Group:
• Price maintenance</td></tr>
</table>

This is a complex division where some of the benefits derive from the company (C) level, some from the divisional level and some from inter-business relationships i.e.

the divisions themselves are an expression of the company's quest to optimise value through integrated activities and processes. In all benefit categories there is at least one major process aimed to enhance the value of the stand-alone businesses. Whether this value is greater than the allocated costs may be a moot point in the eyes of business managers (see description below) but begging the question of such measurement is typical of other divisions working within integrated value paradigms.

5.5.2 Perspective and Pattern

"...basically it all seems very straight forward to me but it's not really."

Divisional Philosophy	• The division is an integrated whole wherein the businesses are operational expressions of the divisional strategy. • The prime source of value resides in the pan-divisional brand capabilities
Divisional Functions	• Many strategic process support executives are at divisional and group level.
Pan-divisional dynamics	
Integration	• An extensively inter-linked organisation with staff responsible for pan-divisional product positioning, pricing and brand management. • Ongoing requirements for inter-business and inter-divisional staff transfer.
Measurement	• Businesses (BMs) are controlled through various financial and non-financial measures. • A variety of behavioural and organisational activities are required of the BMs. i.e. inputs are also the subject of divisional influence. • The division is measured as the sum of the individual businesses.
Performance incentives	• A complex system of performance bonuses are in place for the BMs which includes business performance but is quantitative loaded towards divisional and longer term (3 year) company performance

The organisational structures, processes and systems of this division are manifestly integrative. It is a complex hybrid of M-form and functional separation. e.g. manufacturing is a separate function and brand management is managed centrally while local product/market activities (sales, promotion, customer relations, etc.) are the responsibility of the businesses. A complex system of behavioural and financial output measures reflect the *systematic* intervention of the divisional level, and multi-component performance bonuses orient BMs to divisional (and company) performance over that of their individual business. This is an unusually integrated organisation which is indeed difficult to understand from the outside however simple it appears to the BM - informant.

5.5.3 Description

The business manager (BM) of the UK business was interviewed at his business headquarters in Essex. He was presenting his strategic plan to the parent company Board on the next day and took me through his voluminous set of slides during our lengthy conversation. There are *"two sets of 'partners'* the businesses have outside of their own divisional structure, one set is the marketing people as and the other is the manufacturing operations controlled by a separate Corporate Director. This latter partnership addresses *"cost of goods, lead times on replenishment, quality of goods"*. The group level Marketing and Strategy Director has overall responsibility for brands throughout the group. He oversees a number of *"Brand Directors"* with responsibility for the established *"global"* brands and the smaller *"promise"* brands.

The Brand Director

> *"is responsible for defining a global strategy for the brand. So that will be its positioning statement. He will make sure that any advertising campaigns, whether he generates them within his team, or in any of the national marketing companies, is consistent with brand strategy."*

The teams involved with particular brands are *"beginning to be made quite small"* so that *"covering the world"* are groups of fifteen to eighteen people at group level for each of the major brands. Thus while the divisions (and businesses) have stewardship of the brands they do not have ownership. This is an important pan-divisional issue because there are differences in product and brand positioning from country to country. One particular brand, for example, is deliberately priced too high for the market in the UK in order to support its premium position in Spain where it has a larger market share. This 'sacrifice' in the UK is reflective of brand marketing, management and strategy as an interactive process between the corporate level, the divisions and the businesses.

The BM meets with his fellow BMs regularly, as he does with the brand teams, to pursue mutual *"strategic imperatives"*. The selling companies within the business are in constant meeting and review with the group marketing people.

> *"So we're always attacking cost of goods, lead time and quality through these (operational) people. We're always looking at strategy, advertising and communication with these (marketing) people. Anything I present to him (DMD) or him (Group CEO) or to the parent company can only be presented on the understanding the these (marketing) people have signed it off. So one of our core cultures as a consequence is **partnership, teamwork.**"*
> (emphasis added)

The various levels of support, partnership and teamwork do not come without cost or question however, *"our overheads are coming down but the central overhead allocation goes up...which really pisses me off as you can imagine".*

The Division is heavily committed to training and people development as a strategic process *"that leads to a* ***shared responsibility*** *for delivering results"* (emphasis added). For the past five years an average of over £1000 per employee per year has been spent on training.

> *"We've had initiatives on selling, trade marketing, category management... we've put together some visions and principles teamwork, partnership, open communication, freedom to experiment, people with skills, recognition of the importance of people, developing this culture of shared responsibility."*

There is an ongoing focus on *"developing world class people"* within a formal framework of management development. A measure is taken, every year, of the extent to which managerial and senior functional roles can be covered by existing people. BMs are measured on the extent to which they have internal cover for all senior jobs. While the divisional structure has remained the same, and this constancy is seen to be important, *"one of the reasons we put down to our success is the stability of our structure"*, people are constantly being moved between businesses. The UK BM sees himself as one of the *"long service people"* in his business having been there for five years. This movement of people is a purposive part of organisational development.

> *"I also get measured on the number of people I export. So I am not allowed to say, and sometimes I feel like saying, 'I need him for another year', that's not an option I get."*

The *"synergistic benefits"* of cost savings through common delivery systems, invoice and credit systems, etc. add value to the selling companies within the business. Also *"new ideas, new people moving across from the different businesses"* are seen to be important benefits of belonging to the Division which would be lost to any part of the organisation that operated on a stand-alone basis.

The bonus system for managers is a complex amalgam of measures, organisational levels and time span. Split between typical financial indices as well as *"personal objectives"*, the bonus of the UK BM is weighted to reflect business performance, divisional performance and company performance. Whereas the business and divisional components are annual measures the company factor is based on a rolling three year figure and is leveraged such that *"you can earn potentially 165% of your annual salary each year"*. This multi-level, multi-focus, multi-time frame bonus system is common across the group,

> *"...this rolling three years is every year over the past three years and that is huge. Everybody in the company is being measured on the same measure. So when you start looking at this structure here with these partnership arrangements and 'what's the bottom line position for the company?', then everybody's very keen to track it because it's big. It's big cash."*

5.5.4 Summary

This is a complex, cooperative divisional structure based on shared accountabilities both at a horizontal level (i.e. between businesses) and a vertical level (division-business, corporate-division and corporate-business). Although a complicated interweaving of process, structure and function, the mix is an internally consistent reflection of a strong orientation towards integrated functioning and a pan-divisional perspective. An emphasis on shared accountability and teamwork is bolstered by the requirement for multi-level strategic inputs and an incentive system loaded towards group results. Although the market is where the competitive battles take place the capability of the division in handling its major competitive weapon (i.e. brands) is the edge it has over rivals and one that is driven by shared knowledge and learning. While the cost burden of division/corporate was raised as a bone of contention by the BM-informant there was not the sense of a thwarted quest for business autonomy or the business *verses* the division that is apparent in other cooperative divisions. Factors that may play a part include the long term nature of the culture of integration and the relative newness of the BM-informant. Perhaps, however, the opportunity to earn an annual bonus of *165% of salary* based on total company performance plays some part in encouraging a more wholehearted commitment to cooperation.

5.6 Division I - Manufacturing Pharmaceuticals

Information in this case is relatively sparse with the paucity of data being a function of some real-life problems of interview-based research.[4] Rather than discard it as

[4] This was an already rescheduled appointment with a 7 week "lead-time". Arriving just prior to the scheduled interview time I waited in the reception area for 45 minutes before being shown to the informant's office. Having introduced himself he then left (in a harried state) to continue dealing with the international crisis of the day. Returning some 20 minutes later he suggested we go and have lunch and that I leave my recorder etc. in his office. At lunch in the canteen we spoke briefly and generally (having been joined by others not relevant to the research) before returning to his office where once again he was immediately forced to leave. He returned and we engaged in further brief and interrupted discourse during which he provided organisational charts etc. before regretfully announcing that he had to attend an important meeting for the rest of the afternoon. He also suggested he was envious of my 'academic' life free from the stress of management - I believe he was sincere! In the 3.0 hrs I spent on site I had managed approximately 20 minutes of fragmented 'interviewing'.

"incomplete" however it is retained as it does demonstrate some of the issues in the development of a cooperative division particularly the battle with the businesses.

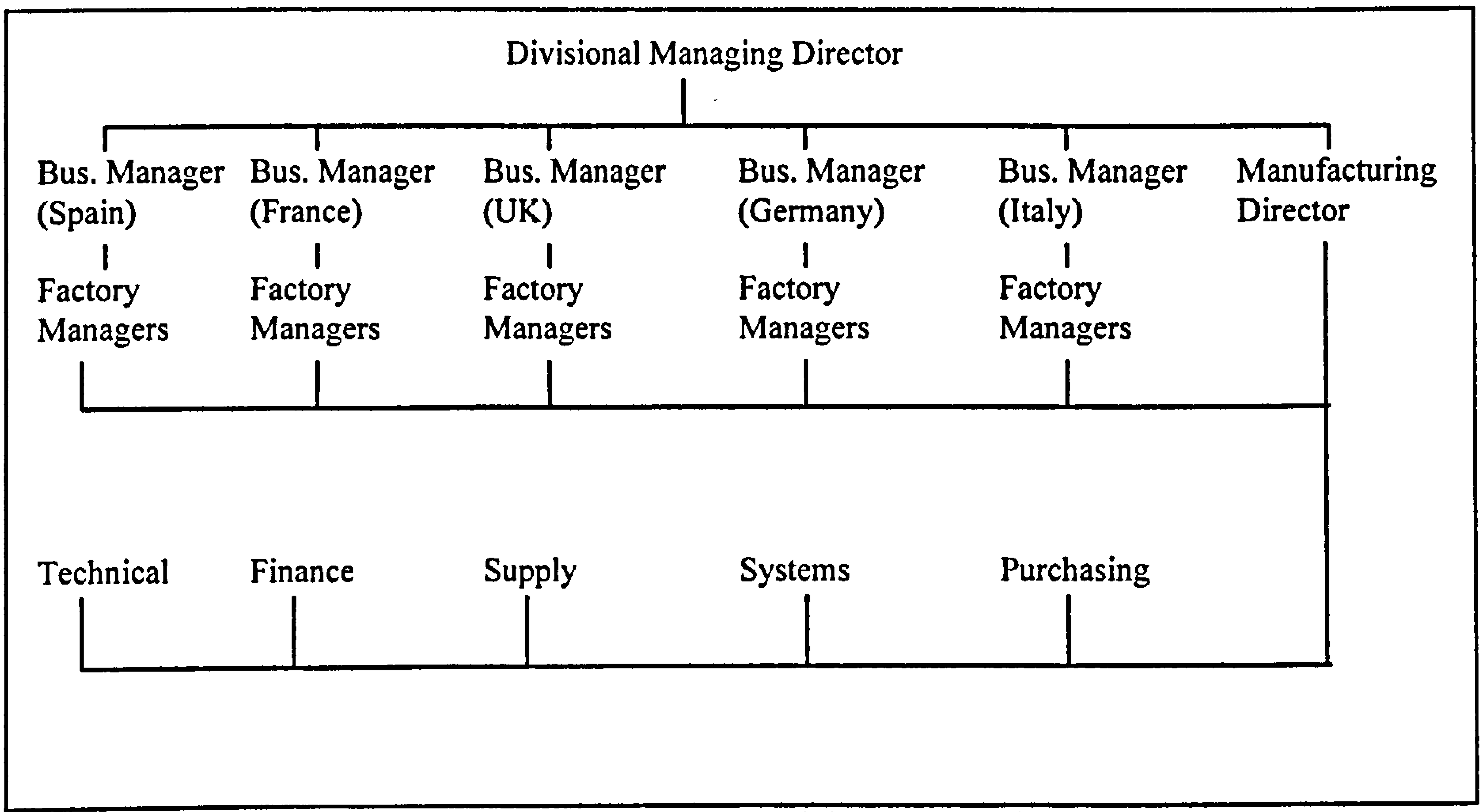

Figure 5.2. Organisational Chart - Division I (simplified)

Division J is part of international company (turnover £4800mil) that belongs to an international health care group with 60,000 employees and a turnover of £8,500mil. Operating in 145 countries the group has continued a programme of divestment of non-core businesses to focus on its five major product segments. Company J develops, manufactures and globally markets a wide range of ethical pharmaceuticals New product development is a key strategic focus with its ability *to "discover and commercialize"* new products being considerably strengthened *by "the largest annual research and development expenditure*" in its history. With

1996 revenues of £3200m from 7300 employees Division J is the Europe division and comprises 5 country based businesses and 11 manufacturing facilities.

5.6.1 Membership Benefits (for the manufacturing "division").

Guidance: • Management advice and assistance • Various technical and functional inputs.	*Facilities*: • Purchasing
Team: • New product release capability. • Cost reductions through capacity sharing.	*Group*: • None ascertained

What was a set of stand-alone factories have become geographically separate sites of the same manufacturing/supply capability. The country based businesses enjoy reduced costs and enhanced product release capability perhaps at the expense of the flexibility to meet last minute changes in customer mix or volume requirements.

5.6.2 Perspective and Pattern

Divisional Philosophy	• Operations are pan-divisional capabilities rather than business-level functions.
Divisional Functions	• Significant numbers of support functions and personnel are in place to maintain the integrity and development of the operations .
Pan-divisional Dynamics	
Integration	• An extensively inter-linked organisation with staff responsible inter-business (factory) communication and activities. • Ongoing and frequent meetings between factory managers.
Measurement	• Manufacturing is measured as a divisional activity with the individual factory measurements a component of this.
Performance incentives	• Factory managers are rewarded on the performance achievements of their own factories.

The focus on pan-unit processes and the systems and structures that develop and maintain interactive dynamics is clear. Again, consistent with other cooperative orientations in the study, inter-units cooperation has to be aggressively managed against autonomy-seeking business managers. In a sense the 'default' organisational state seems to be towards stand-alone functioning.

5.6.3. Description

The Manufacturing Director was interviewed at divisional HQ. A major process in developing pan-divisional cooperation has been the inter-linking of the manufacturing capability of the businesses. The factories had once been under the control of the relevant business(country) manager (BM) but, for the past seven years, have been under the direct management of the Manufacturing Director while retaining links to the country-businesses. The move to separate the factories from business control had been vehemently resisted by the BMs and even seven years later remained a smouldering issue with some.

When the factories were country based they had, due to the influence of the BM, focused their attention on that particular country and produced the array of products required. While other BMs could place orders these tended to be viewed as lower priority than the demands of the 'home' business. While the current Manufacturing Director had not been the incumbent when the initial integration of the factories into a manufacturing 'division' had been made, he has been in the position of managing the ongoing process of integration of 11 formerly separate operations. This has not been an easy process as the BMs as a group viewed "manufacturing" as a necessary but constantly problematic part of their value chain activities which they believed they needed to directly control. In initial monthly meetings the manufacturing head felt that he spent all his time defending specific charges of poor quality, poor delivery and generally poor performance. (By implication many of these problems were deemed resolvable by shifting the factories back under business control).

Despite these early difficulties he sees several, significant gains from combining the plants into one structure and believes that some of the BMs had now conceded as much. The most obvious benefit has been the significant cost savings enabled by a combined approach to capacity utilisation. One plant can now focus on a narrower range of products most suited to its technology and reap the benefits of scale and learning effects associated with reduced variety. At the same time this has enabled a more aggregated approach to demand management with consequent improvements in delivery and customer service. As well as these clear economic and service gains the Manufacturing Director attests strongly to the benefits of *"shared learning"*. The factories are now focusing on world class manufacturing rather than on responding to business-specific product demands and particularly to last minute changes in schedules and product mix. They are now able to interact with each other and develop ideas and processes within a group context that was not feasible in the earlier organisation.

A significant number of staff (e.g. Planning, Production, Technology Transfer, Technical, Supply Directors) support the Manufacturing Director in what he described as a *"matrix"* organisation. (Figure 5.2). While trying to avoid *"micro-managing"* specific factories he sees his divisional role in terms of setting overall frameworks and *"conducting the orchestra"* or *"traffic management."* Developing operational and improvement targets and plans with his managers he monitors performance through real time measurement systems which he describes as *a "core competence"* of his division. He aggressively manages the linkages between the plants through group and one-on-one meetings with factory managers.

One of the major problems that had been a constant feature of the division has been its inability to manage new product launches. New products had, inevitably, missed their launch dates and, once launched, had been routinely bedevilled by shortages of supply and costly, crisis management of product allocation. Despite many interactional causes, the bulk of the blame had been laid squarely at the door of *"manufacturing"* as the *"last ones with the ball"*. In response to this problem the Manufacturing Director had made *"new product release"* a *"divisional responsibility and priority."* A team has been created at divisional level dedicated to a pan-divisional improvement in this critical activity. Through detailed analysis of past and ongoing problems and the integration of a variety of processes the problems has been resolved such that a level of divisional skill had evolved (over repeated launches) that had turned a manifest weakness into a valuable *"divisional level capability"*.

5.6.4 Summary

Division J has become a 'cooperative' organisation with manufacturing and product launch as key process-dependant linkages. 'Cooperation' at this level, and now at the level of the manufacturing 'division', has required aggressive management and a fulsome complement of dedicated staff. The pull to return to individual business orientation is an ongoing pressure from BMs which is seemingly little reduced by the apparent success of group-based organisation.

5.7 Inside a Cooperative Division:

Division J - Manufacturing Automotive Components

> *"Because we have* ***shared learning*** *we are considerably bigger as a division than we would be as four individual businesses."*
>
> *"The thing I think I've got working very, very well in the organisation is a real level of* ***teamwork*** *amongst the senior people. I've managed to get rid of the turf wars..."*
>
> (Divisional Managing Director - emphasis added)

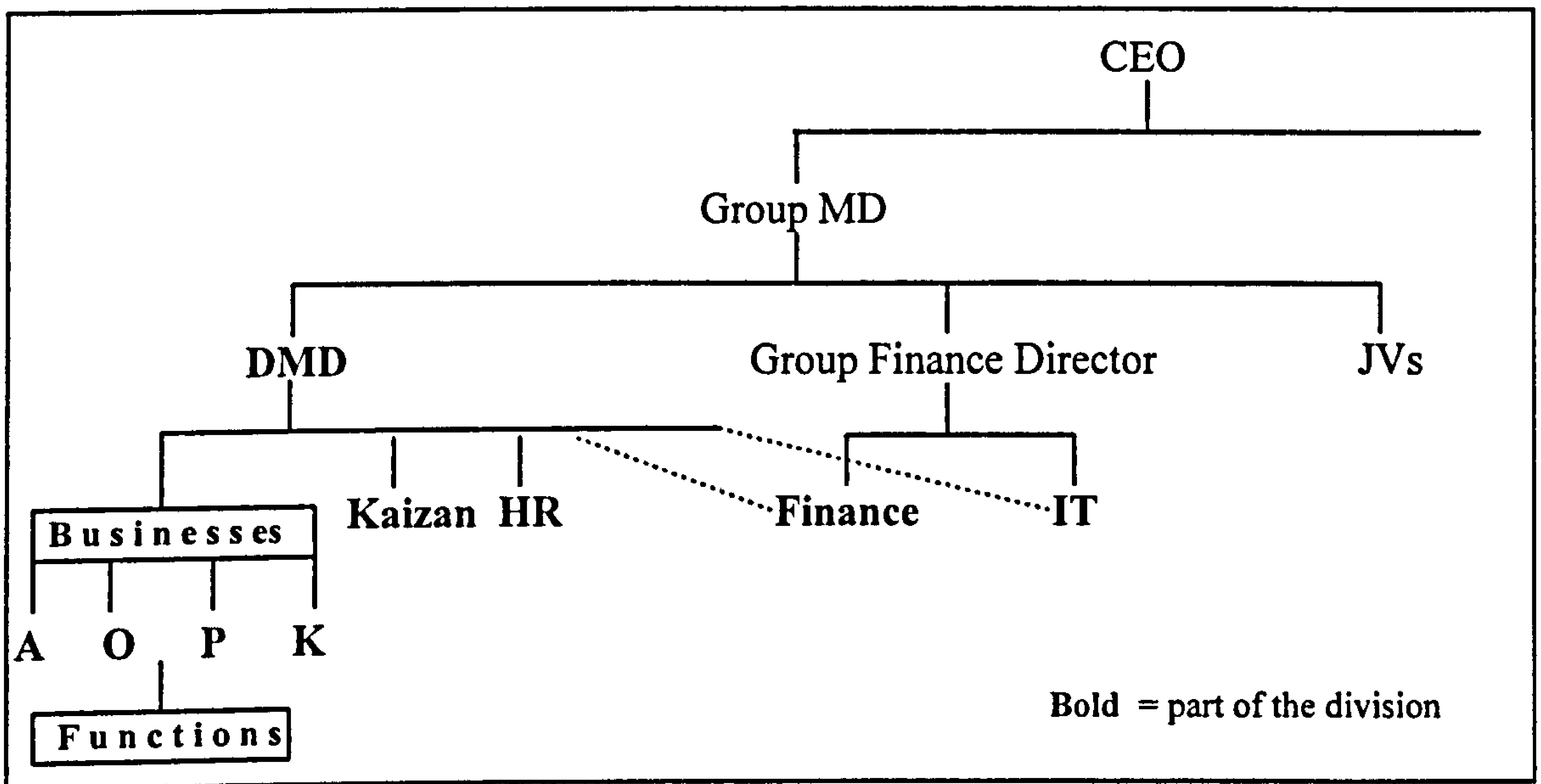

Figure 5.3 Organisational Chart - Division J

The parent of the division is a non-listed UK company of 3600 employees generating £1000m sales from five divisions. It is committed to education and learning throughout the organisation in order to *"develop, train and inspire by spreading world class principles throughout the organisation"* on the premise that *"humanware, not mechanical hardware, is the wealth-creating foundation of the future."* With record profits and sales announced for 1996 the company is pursuing a strategy of growth through diversification with the formation of four new international joint ventures. The company sees itself as committed *to the "long term"* view. *"Short-term, narrow minded strategies geared solely to profit and shareholder returns cannot provide sustainable answers."*

> *"Our Stakeholder philosophy goes to the heart of our company mission. It is underpinned by our values and led on a daily basis by our people".* (Chief Executive's Comments)

Division J employs 1100 people and generates £160mil of revenue from sales in the UK. The division receives significant training and education support from the corporate centre.[5] Not only are the educational facilities and staff available at corporate head office but the corporate philosophy of training and educating all its employees is one which the divisions have no choice but to actively endorse and implement.

The division is made up of four stand-alone business which operate in the capital intensive, mature, increasingly concentrated industry supplying different automotive components to car companies which themselves operate in an industry with similar characteristics but burdened also by global over-capacity. Continuous cost, quality and service improvement are generic customer demands but long term competitive advantage is based on *"manufacturing excellence, process innovation and product innovation."*

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[5] The level of commitment of the company to internal education and training is such that it is held, in texts and the press, to be an archetypal "learning organisation".

5.7.1 Membership Benefits

Guidance: • General management support and advice from the DMD including future orientation. • IT Guidance and Support • Kaizen Team	*Facilities*: • Computing • Training and development
Team: • Pan-divisional production process. • Business based pan-divisional resource (e.g. BM as quality expert) • Best practice sharing and other knowledge transfer.	*Group*: • Order-winning benefits of being in a larger group. (i.e. with capital back-up)

The major benefits of divisional membership lie in the *team* (horizontal) based exchange of various aspects of knowledge and learning and the direct *guidance* from general management, IT specialists and the kaizen divisional team. As well as these sources of divisional value there are organisational learning benefits from the division as the vehicle for the corporate training and development *facility*.

5.7.2 Perspective and Pattern

Divisional Philosophy	• The businesses are divisional *components*, not stand-alone entities. • The BM has the responsibility and authority to manage local product/market issues but only within the context of pan-divisional processes. • The prime source of competitive advantage business units lies in their common operational process capability which can be pan-divisionally linked and improved.
Divisional Functions	• A kaizen function is in place with ongoing operational accountability for the kaizen operations in the business. • Divisional HR oversees training which in this division is viewed as a strategic essential. • Divisional IT staff interact with the IT functions in the businesses.
Pan-divisional dynamics Integration	• The DMD actively operates as a business-integrating influence. • The Divisional Production System (DPS) is a formalised and standardised system of operating processes. • BMs have standing pan-divisional responsibilities. • Ad hoc task forces of BMs and others are formed to deal with pan-divisional issues. • Where necessary people are transferred between businesses to facilitate capability transfer. • The operational monthly meeting is one specifically dedicated to knowledge transfer. (note: business control meetings are business specific and separate events)
Measurement	• A large variety of financial and non-financial measures of business performance are in place. • Both input (behavioural) and output (performance) requirements are in place. • The division is measured by means of the sum of the individual businesses. i.e. no integrated divisional measures are currently used.
Performance incentives	• 40% of the performance incentives of the BMs are linked to divisional measures. • Measures are both financial and non-financial

The organisational systems and processes support and drive inter-business transactions and are significantly 'cooperative' in nature. As well as the number and variety of pan-divisional influences a notable feature of this division compared with others is the way it differentiates between the business control meetings (profit and loss analysis etc.) and operational improvement meetings. Whilst these latter are group meetings of the BMs and sometimes some of their functional staff, the control meetings involve only representatives of the business unit concerned.

5.7.3. Description - The DMD

The interview with the Divisional Managing Director (DMD) took place in his office following an extensive site tour. The divisional organisation consists of the DMD and, reporting to him, the four Business Managers (BM), a Human Resources Manager (HR) and a Kaizen Manager. The division is part of a group, the head of which reports to the corporate level of the company. At group level, reporting to the Group MD , is a Finance Director. Two of his subordinates, the Divisional Controller and the IT Director provide direct services are under 'dotted line' control of the DMD. (Figure 5.7) While the division is made up of the existing operating businesses, a series of four joint ventures (JVs) are being established under the direct control of the Group MD who is *"looking at the acquisitions and the ten year future strategies."* These JVs are currently at the project development stage. Once they are fully operational it is planned that they will become part of the operating division.

The DMD has been with the company for 9 years and in his current role for nearly four, having headed one of the operating businesses previously. When promoted to take responsibility for the division he believed that the first thing he should do was *"to read up on what do divisional managing directors do"* and found *"absolutely nothing, anywhere"*. After that he went to talk to others in similar positions and found a polarisation of orientation.

> *"They are either extremely strategic and have no idea what's going on in the business or they're trying to run the business on a hands-on basis... so I have forged out my own little way."*

As a BM when he first joined the company he had little or no contact with other divisional businesses. Even in the case of a business that was located nearby, the other BM and he *"never met each other...other than his name I did not know who he was."* In contrast to this, on a visit to *"the best ten companies in Japan, the Hondas, the Toyotas, the Kawasakis"*, he was struck by the fact that all of these companies *"had a way of doing things."* He compared this to English companies where different business units in the same company have different policies and practices dependant on *"what the guy in charge wants them to be"* even where the businesses are in the same industry. Thus, when he became the DMD, he *"tried to pull it together"* based around the key strategic process underpinning the long term success of the division.

> *"The bedrock is manufacturing excellence and what I did for the first two years, and am still in the process of doing to an extent, is build manufacturing excellence across the division"*. (emphasis added)

Through consensus with his senior managers, a framework of consistent polices and practices was developed and put in place across all the business units. The policies, once in place, are not a matter of choice for the BMs although some flexibility of expression is allowed at local level, i.e. "*a philosophy and way of doing things within which there is lots of room*". So for example uniforms will be worn but style and colour is a local issue, and "*how they use the kaizen department is up to the BM, but **kaizen department they will have***" (emphasis added). This acknowledgement of local nuance is to avoid the perceived dangers of the policy structure becoming like those of the Japanese, "*tight and structured and claustrophobic... you can't breathe without being authorised.*"

Once the division was operating in a "*consistent way*" it became important to have systems that could identify, codify and spread "*best practice*" between the business units.

> "*For example one operation is by far the best at inventory management. They have touched stockturns of fifty...from a divisional perspective, brilliant! Now what we do is get into that particular business, understand how they do their material control and **we then standardise that across all the other businesses.***" (emphasis added)

Standardisation of operational systems and processes is seen as a key requirement for inter-business and pan-divisional learning. In pursuit of such standardisation the DMD and his BMs have conjointly developed the Divisional Production System. (DPS)

> "*This is a benchmarking system for every factory and it's in great detail. There are some 150 areas of manufacturing excellence within it. The businesses chose their own half a dozen critical* areas *they wish to improve*

during the year, the real critical factors within the business, I then expect the business unit to develop a plan of how to improve in that area."

Inherent in the DPS is not only a comprehensive set of benchmarks but also prescribed systems of operation incorporating such factors as *"single piece flow where it is humanly possible, team leaders with off-line support, kaizen departments."*

An important divisional input into the DPS is the newly appointed Kaizen Director *"a real expert we've hired from Toyota."* At the same level of seniority as the BMs he, and his team of four, have specific expertise in the key process of *"manufacturing excellence"*. Overviewing all the kaizen functions (kaizen managers report to the manufacturing managers of the businesses) they give *"help and advice"* as well as acting as extra resource to help the businesses achieve their annual kaizen plans. The kaizen plans are expected to try and *"push the boundaries"* both in terms of available knowledge and resource. At a more strategic level the divisional kaizen team is expected to help the business achieve its DPS goals for the year. Most of the time the businesses will need additional help. *"I don't want to call in outside consultants so I have my own people"*. The team also works on long term issues,

> *"so if there's a shortage from a supplier I would not expect the divisional people to even know about it. If, though, as a result of continued shortages, it is apparent that this particular supplier needs to understand JIT[6], single piece flow etceteras, that might be a six month or two year programme and that the divisional people would work with."*

[6] Just in Time.

Underpinning all the processes leading to manufacturing excellence *"if you were really looking for a core competency"* is the *"way we treat people"*. Training[7], equality of treatment, (no directors canteens or car parks for example) fair share in rewards, and empowerment are ongoing features of the culture of the division and the company.

> *"You have got to be supplying customers that are going to be there in the long term. You have to have suppliers that are good at what they do... you've got to have the right strategies but without people you haven't got anything."*

The businesses are all linked by email and video conferencing as well as sharing the same brand name. The DMD attempts to foster team work and a unified culture at all levels. If a business is performing well in a particular area and it is decided to spread this best practice *"we will choose a champion"* who may be the BM but usually is *"somebody lower in the organisation who is actually doing the work."* The *"champion"* is then seconded into other units. An example of this at a lower level is a female team leader who is *"brilliant at engendering enough enthusiasm to make quality circles work"* and is currently spending 3 or 4 months is the other businesses to share her knowledge and skills. In a similar way if it is apparent that in a particular area *"none of the businesses is doing particularly well"* a business is chosen to pilot the needed improvement and the designated champion oversees the piloting and then spreads the knowledge.

[7] There is a mandatory requirement for each employee to undergo a minimum of 5 days work related training per annum. The division/company is obliged to provide the training but the employee is obliged to proactively arrange it. The training requirement form part of each employee's annual assessment.

Although the relevant senior people are encouraged to develop such approaches *"without it being formalised,"* most change is still initiated from *"top down."* Weekly operating reports from the business or a monthly benchmarking report will indicate either a needed improvement or a sustained, individual out-performance which suggests potential benefit for others. As well as individual performance meetings, the BMs meet monthly with all the other members of the divisional team as a Divisional Operating Committee (DOC). At this meeting, often attended by key functional personnel from the businesses, strategic and operating directional issues are discussed and shared.

All business unit numbers are available to each of the BMs in the hope that this *"engenders enthusiasm for them to want to improve their own business."* Performance indicators are used to drive desire for improvement rather than fear of non-performance.

> *"I don't do this BTR stuff of 'look at these ****ing numbers what do you think you're doing? If he can do it why can't you?' I think that in the long term people then become defensive."*

To further encourage a broad, pan-divisional perspective the performance incentives of the BMs are based on a mixture of financial and non -financial measures with a 40% weighting based on divisional performance. Below the BM level all performance incentives relate to the business unit of the manager only. Despite the internal drive for a pan-divisional perspective the divisional results are reported to corporate and explained as a set of individual business units.

A pan-divisional approach is not without its dilemmas or problems. Sometimes, for example, it is a difficult decision as to whether to let a business go with it's own performance *"and try and drag up the others later"* or to insist on sharing which tends to slow down the high performer. The decision needs to be taken at divisional level because *"the star always wants to steam ahead, they never want to slow down for the others"*. At such times *"we take the divisional responsibility of saying 'no'."* (emphasis added).

As well as driving a divisional *"way"* the divisional level has other value-adding roles. In the past the DMD has acted in a *"stand-in"* capacity to run one of the business units because *"it was in the crap to be honest."* Using his business management knowledge and skills he was able to put the business in shape prior to a new BM taking over. In his current divisional role the DMD has time to think about longer term strategic issues as *"the BMs are almost totally focused on operations."* Currently he is examining the divisional characteristics that are needed for sustained success in the long term. On a more industry specific matter, the long term trend to *"full system support...supplying solutions"* rather than single components is one which has implications for the business units and which needs to be proactively managed. The BMs *"haven't got enough time or even width of responsibility to develop those kinds of strategies"*.

5.7.4 Description - Divisional Staff

> *"So the divisional strategy is to pull them all together and look at one common method of improvement."*
>
> (Kaizen Director)

> *"There is a paradox here. We expect them to operate as separate businesses and yet we say you've go to act as a division as well...if the BM is focused on one year budgets how will we ever get that sort of long term thinking? I find that difficult to reconcile."*
>
> (IT Director - emphasis added)

The four divisional staff have functional or process responsibility across the division and all hold regular group and individual meetings with their business counterparts. Thus, as explained by the divisional HR Director, the HR, Finance, Systems and Kaizen managers in the businesses *"work for other masters"* as well as the BM.. The Kaizen Director has been a recent appointment and joined the division bringing kaizen experience from previous employment. He has joined because it was recognised within the division that, in terms of continuous improvement, the businesses

> *"were OK individually but there's nobody pulling them together and trying to move forward with a single strategy of how they will implement the philosophy of kaizen throughout the organisation. At the coal face they're all making improvements but they're all going off in completely different direction."*
>
> (Kaizen Director - emphasis added)

The businesses were not sharing their learning sufficiently with the result that there were differing levels of expertise between them. While *"pockets of excellence"* might be of benefit to the individual business, *"integrating different approaches"* is good for all. The Kaizen Director has been overseeing the development and promulgation of the Divisional Production System (DPS) as a major integrating mechanism for shared learning. The brainchild of the DMD, the DPS is a pan-divisional manufacturing process orientation which is

> *"...a single philosophy, a single approach which everybody is aware of...and regardless of what meetings or what discussion you're having at any level of the organisation, if there's conflict you always come back to the principle of DPS."*
>
> (Kaizen Director - emphasis added)

The original DPS manual was written by the BMs who had codified, in various areas, best operational practice. A major input of the Kaizen Director has been in editing and re-writing the manual which originally *"looked like it had been written by four or five different people with different levels of understanding"*. Now that this task is complete there is a need to prioritise the tasks or *"cherry pick among the elements."* While standardisation across all the businesses is seen as the first major step, developing a common understanding of the term "standardisation" is an essential pre-requisite.

> *"This term is used in all the sites with different levels of understanding and meaning dependent on who you're talking to and at what level of the organisation."*

The need to standardise processes and systems across the businesses to promote sharing and learning is a theme that is endorsed by the other divisional staff.

> *"We are now moving towards a higher degree of consistency and standardisation across the business units ...to take best practice in any one business and replicate that in the others."*
>
> (HR Director - emphasis added)

> *"...the advantage of me being here is that I can see everything that's being developed and put the best into each business, So you get a lot of synergy out of it."*
>
> (Financial Controller - emphasis added)

But linked to this commitment to pan-divisional processes is a strong sense of having to fight the business's desire for specific customisation,

> *"...it must be human nature or something, to want control. I'm not sure there is always a good business rationale for all this tweaking and wanting things different. Sometimes it's just because they (BMs) feel better, more comfortable with something they own or they suggested."*
>
> (IT Director)

> *"...we developed a policy on absence control but each of the businesses treated it differently, from total indifference to local changes. So there are four different policies and practices and measurement in absence control."*
>
> (HR Director)

> *"...because we're looking for things where they need to make further improvements this is an area of conflict. "How dare you come in here and suggest improvement, I've already got my own people working on that and they're doing a superb job." So there is a bit of resistance."*
>
> (Kaizen Director)

As the HR Director explained the businesses had become *"feudal kingdoms"* in the past where the BMs had enjoyed *"almost total freedom to implement policy and procedures within their businesses"*. Consequently he was sure that they resented the degree of standardisation and the requirement to adapt their systems to the decreed "best practice" *"particularly if it's not invented here."* The newest business, K, acquired two years previously, *"(is) desperately trying not to change and we're* ***dragging them kicking and screaming into a divisional structure."*** (emphasis added). The sense of separateness of K is also exacerbated by the distance between it and the other businesses, *"it's so far away it might as well be in a different country."* (Kaizen Manager). This 'distance' is 150 miles.

The tension between the divisional requirement and business-specific focus is an ongoing dynamic which is recognised as needing continual management,

> *"It's a classic case of autonomy verses control. I'm treading a very thin line in terms of **trying to provide cohesion, common direction and control of IT for the whole of the division** and allowing the business units to have enough control so that they develop strategies relevant to their business."* (IT Director - emphasis added)

> *"We are not saying you must go in this direction. We are saying - this is a group standard but if you can demonstrate that it is not going to work for you then you can deviate and do your own thing. **The easy option is to go their own way.** We're trying to make them think more deeply about it before they do so."*
> (Financial Controller - emphasis added))

Without proactive and forceful divisional management the sharing of knowledge and learning would not occur even between the functional managers in the businesses.

> *"...formerly they (kaizen managers) did not meet together, did not share, **because no one drove it**".*
> (Kaizen Director - emphasis added)

Despite this, the value of shared learning, *"the cross fertilisation of ideas"* (HR Director) is seen as a significant divisional benefit for each of the businesses. In the eyes of the divisional staff the BMs, however, did not place sufficient value on such sharing. As well as being *"very competitive with each other"* (Kaizen Director) the BMs were not seen to promote inter-business linkages below their level without being specifically directed to do so. *"...you have to question the degree of interaction between the businesses at the lower levels....very little"*.(IT Director)

5.7.5 Description - Business Managers

There are four business comprising the division. Business O was the first unit from which Business P, originally a satellite manufacturing site, evolved and still purchases some components from Business O. Business A was acquired four years ago and Business K is the most recent addition having been part of the division for two years. For all the businesses, cost quality and service delivery are seen as the bedrock competitive requirements.

> *"...a high quality service in terms of parts per million quality and in terms of delivery. Price is also very important and becoming more so. It's always been very important but there was a spell where they (customers) wanted other things as well but they are swinging back to being very, very price driven."*
>
> (BM - Business P)

The *"manufacturing system"* is the major process that enables the businesses to meet these strategic requirements better than competition.

> *"...this is your intellectual property that people can't see by walking around. This is your competitive advantage, how the factory is put together and how it links."*
>
> (BM - Business A)

The BMs were unanimous in espousing the value of shared knowledge within the division as augmenting their competitive advantage and being the major benefit of divisional membership. Unlike the view of their competitiveness espoused by the Kaizen Director the BMs viewed their relationships as mutually cooperative and supportive without *"the competitive element"*. The DMD was seen to have significant skills at *"facilitating open meetings"* (BM - Business O) and had selected a group of BMs *"of similar age, different backgrounds but automatically a degree of synergy in personality".*(BM - Business O)

Even the BM - Business K, the newest member, whose initial evaluation of divisional membership was lukewarm *"I don't think it brings anything to the business other than the company name,"* felt compelled to acknowledge the benefits of inter-business learning.

> *"**If you want to get a one plus one equals three then you have to share learning and knowledge** so you don't have to reinvent the wheel every time. So being part of the division from that point of view has to be a good thing. It should drive us to be better on a quantum leap rather than an incremental basis which we can do on our own."* (emphasis added)

Despite espousing the value of shared learning the BMs do not spend very much time at sites other than their own. The major enabling mechanism of pan-divisional learning is the monthly DMC. *"We formally transfer learning in all areas at the DMC, (which)* ***adds a prescriptive element where necessary.****"* (BM - Business A - emphasis added). The integrating function of this monthly meeting has grown as the businesses have moved from autonomous functioning to operating in more pan-divisional ways. Initially, even though the DMC took place monthly, the BM - Business A, for example, was *"totally autonomous, had a totally free hand."* As standardisation of operating procedures became seen as a pre-requisite for pan-divisional improvement, the DMC, under the auspices of the DMD, became a more uniting force.

> *"A lot of networking would occur without the DMC but there is a need for someone to say -* ***these are the things we can do and will do.****"*
> (BM - Business A - emphasis added)

While accepted as an essential framework, the standardisation required by the DPS carries some disadvantages at local business level in that it *"can stifle innovation"* if not *"managed correctly"* and *"reduce the flexibility"* of the business in responding to specific market requirements. (BM - Business O). Outside the processes and systems required under DPS the businesses are being given increasing authority in other areas. e.g. the sales and engineering functions for Businesses O, A and P had been divisional but are now being devolved to those businesses. The functions with a divisional representation are primarily under business rather than divisional control. There is an ambivalent attitude of the BMs towards the divisional staff. Whereas the Kaizen Director is seen to offer a valuable service by bringing a *"wealth of practical knowledge"* (BM - Business K), the central Finance, IT and HR roles are regarded more as control functions. *"(HR) keeps me on track...(Finance) does nothing for me at all."* The value of a formal divisional structure is questioned if the role of the BMs continues to broaden.

> *"I don't think you need a formal divisional structure once you've mastered the interactional side of things. You can move away to a virtual organisation... Moving forward I think* ***that managers will have to become divisional in their way of thinking and be able to separate that from just being operational."***
> (BM - Business O - emphasis added)

5.7.6 Description - Functional Managers

> *"...the principle of having DPS as a standardised system* ***was imposed at that (divisional) level."***
> (Manufacturing Manager - Business P- emphasis added)

Below the level of the BMs there is a dichotomy of views about the existence of shared learning. Those functional managers with a divisional manager have a positive perspective.

> *"The HR meetings are quite good at sharing things, how we go forward as a business."*
>
> (HR Manager - Business O)

> *"The knowledge level across the four companies I believe increases and allows us to go **up the learning curve much quicker than if you're an isolated company."***
>
> (Kaizen Manager - Business P-emphasis added)

> *"We have a monthly meeting which is proving useful. We're learning from each other's audits and making things common across the businesses."*
>
> (Financial Controller[8] - Business K)

But there is little evidence of structured interaction and sharing between business functions which lack a divisional level representative.

> *"I think there's very little sharing of knowledge and experience and best practice. I think it's quite effective at BM level but it's almost non-existent at my level of management...I think we should be sharing right down to team leader, visiting other sites, seeing how they control scrap and quality. Seeing ideas in practice is very helpful."*
>
> (Manufacturing Manager - Business O)

> *"Since I've been here I've found it very strange that I don't talk to my counterparts in the other businesses. It seems to be frowned upon. There's a competitive edge between each of the businesses and the one time I took time out to go to O and meet my counterpart there **it was not well received here."***
>
> (Engineering Manager - Business K - emphasis added)

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[8] This person has only been in the role for ten months in a business which is the most recent addition to the divisional portfolio.

The Supplier Development Manager for Business O had formerly filled a divisional Supply Manager role. Due to a move to decentralise the function by *"BMs who very much wanted to look after their own purchasing"* this is now a business function without any divisional overview. As a consequence *"economies of scale and synergies that have to be brought together"* are being eroded. Purchasing is now viewed as a reactive role without any *"strategic direction."* The value of being part of the division had been that *"one could learn from another...but it got lost"*. This sense of a potential loss of strategic guidance is shared by Purchasing Managers at business level. *"We're almost now into fire fighting..."* (Logistics Manager - Business O). Whereas the day-to-day requirements of the business can dominate the local perspective a *"divisional guy"* can *"force"* a longer term view to be taken and drive the benefits of *"shared learning"*. A problem foreseen by complete localisation of the function lies in moving from a specialist to a non-specialist overview.

> *"In our team we've got a divisional purchasing guy with at lot of experience and four purchasing managers. Suddenly the team is going to be the BM who hasn't got the experience in purchasing and one purchasing manager."* (Purchasing Manager - Business P)

Although there is an ongoing Purchasing Committee which currently meets regularly and at which pan-divisional duties (e.g. volume purchasing of common inputs) are shared, there is a feeling that this will erode over time without focused divisional oversight. In other functions this has been the history when efforts have been made to meet and regularly interchange views without a divisional guide.

"I've met all the quality managers and we did get together at the beginning of the year to set up what we called a 'monthly quality meeting'. We had one of those (laughs)."
(Quality Manager - Business K)

"...we used to have quarterly meetings and PMC[9] managers would get together. People changed their roles and like all these things it just stopped, it just faded off."
(PMC Manager - Business P)

In these non-divisionally supported functions the concept of shared knowledge and learning is strongly supported, *"there's got to be benefits in sharing best practice ideas."* (Manufacturing Manager - Business O). However, few managers had made the self-initiated effort to generate interaction with their functional counterparts except on an ad hoc, problem solving basis, *"I have been to other plants and it has helped but it has been on a needs driven basis"*. (Manuf. Manager - Business P). Various reasons are given for this lack of contact including the pressure of local workload, the perceived lack of receptivity of other businesses, the belief that such interchange is not supported within the business, and the social difficulty of telephoning a *"complete stranger and saying 'how do you do this?."* (HR Manager - Business K). Despite this general view, some individuals use other businesses as *"role models"* and take staff to view a *"centre of excellence and say 'we can be like this."* (Manufacturing Manager - Business K)[10]

The sharing of personnel among the businesses does happen but is not a common occurrence. One woman, who has particular skills in quality circle management has

[9] Production Material Control.
[10] It is perhaps not a coincidence that this individual was a recent appointment (three months) from a Japanese company wherein cross functional and cross business teams were the norm.

spent time in other business units developing the necessary skills in team leaders. The primary sharing of people is through the BMs acting as pan-divisional trainers and champions in particular skills or processes.

> *"(BM) from (Business A) will come and teach 'world class production systems' here for example and (BM - Business O) has just developed a course on 'problem solving', he's actually training the managers to deliver that course to the workforce."*
>
> (HR Manager - Business P)

Amongst the functional managers, being part of the company is seen as an advantage of divisional membership. The company culture of employee care, particularly as reflected in ongoing training and education, is a highly valued divisional attribute as was the company size and reputation.

> *"...training and people orientation of the company are a major plus."*
>
> (Quality Manager - Business O)

> *"The help is that the company has a tremendous PR out there in the marketplace."*
>
> (Sales and Marketing Manager - Company K)

> *"...the company has deep pockets."*
>
> (Engineering Manager - Business K)

5.7.7 The Joint Ventures - a Looming Paradox

The growth strategy of the division is through the formation of joint ventures. There are four of these currently in their infancy with project teams working with divisional staff to develop the terms and conditions that will apply to each. The management of these ventures will be between two co-Business Managers, one from each joint venture partner. When they are in full operational mode it is intended to bring these ventures under direct divisional control. Already a number of problems have been foreseen and experienced with these new entities by the HR Director who is working closely with them..

In the context of the shared learning being at the heart of the divisional strategy, it is highly problematic that the joint venture partners will become part of the culture. Some are specifically opposed to sharing knowledge particularly where that knowledge might be made available to other partners.

> *"They are all fairly jealous of their industry knowledge and the Japanese managing directors are particularly keen that you don't divulge anything between the companies."*
>
> (HR Director)

This contradiction of divisional culture may force a different structural arrangement whereby for the joint ventures

> *"...there may be no divisional structure at all. It may just be autonomous businesses straight into some loose top management structure."*
>
> (HR Director)

The autonomy and separateness of the joint ventures is currently being emphasised in two ways. One is an informal assertion of independence by the British Project Leaders who are to become the co-BM of the JVs. Despite being *"invited"* to the DMC, they have maintained a *"patchy attendance level up to date"* with some declining to attend at all and others attending on an occasional basis. The other more formal issue is that employees of the joint ventures will be employed by the joint venture and not by the company/division.

"We have a whole tranche of people who are currently employed by the company, the family. We are just about to issue the first contracts of employment where they will no longer be part of the company pension scheme, they will be employed by the joint venture. You're part of the family but not part of the in-crowd. There's going to be a lot of problems."

(HR Director)

These problems, whilst operations and employee focused at this early phase, are the seeds of strategic problems in the future. The opposition to knowledge transfer, the implied independence of the BMs and the stand-alone contracts of the employees are all precursors of operating independence and as such are the antithesis of the current espoused and enacted divisional rationale. The final outcome is seen by some to be inevitable.

"It looks to me that the division is becoming a small holding company with a multitude of standalone business units."

(HR Director)

"...informal discussions and chats with the senior executives...led me to understand the move towards stand-alone operations."

(IT Director)

5.7.8 Summary

At divisional, business management and functional levels the process based view of competitive advantage, underpinned by dynamics of learning/knowledge, is a consistent perspective. So too is the divisional benefit from the acknowledged value of inter-business cooperation and sharing. The structures and processes of sharing are fostered by the DMD in his role as integrator, coach, chairman with the drivers of shared knowledge and learning being the DMD himself and the systems (e.g. DPS) put in place by him, the divisional staff and the BMs.

However, it is clear from the comments of many divisional members that they see shared learning and cooperation as requiring continuous, active management to overcome organisational inertia and the ongoing quest for autonomy of BMs. Below the level of the BMs, the strength of inter-business linkages, other than customer-suppler issues, tend to reflect the degree of external (divisional) management of that linkage. i.e. where there is no divisional management there are no ongoing linkages despite the espoused value of such linkages by the functional managers. Without external structuring and support, cooperative initiatives by individual functional managers are spasmodic, problem-driven contacts with ongoing relationships stymied by the primacy of internal focus, inertia and organisational antipathy. The transition of purchasing from a centrally coordinated to a locally focused operation epitomises the degeneration of the sharing ethos when external management is removed.

The BMs espouse the value of shared learning and pan-divisional cooperation but continually seek to add to their degree of autonomous functioning. Their ambivalent attitudes towards inter-business linkage is interpreted as antipathy by some of their functional managers who feel actively discouraged from making contact with other businesses. The seeking of autonomy is seen by divisional functional managers as an ongoing dynamic which pan-divisional initiatives must constantly overcome.

The incoming JVs will be a major test of the longer term viability of the cooperativeness of this division as some of the joint venture partners are actively opposed to sharing information with other business units not directly involved in the partnership.

5.8 Overview of the Cooperative Division

The cooperative divisions in this chapter share a number of characteristics reflecting the general perspective that the added-value from divisional membership lies in linking or enhancing the *common* capabilities and processes of its set of businesses. The division is viewed as a whole with business units being interacting components of that whole i.e. autonomy is a secondary mechanism rather than a primary guiding force. Divisional level staff are responsible for strategic processes or functions either as direct inputs to separate businesses or as inputs to processes that connect all the units.

While benefits of membership include the general management *guidance* of the DMD this is not viewed as the key divisional value. More benefit is gained from the *guidance* from divisional level functional/process expertise and the direct sharing of knowledge, skills, processes and the interactions between the business units (i.e. *team* based benefits).

5.8.1 Tensions and Trade-Offs

It is apparent through all the interviews that a major role of the DMD, and one that was evident in his discussions rather than specifically articulated by him, lies in managing the dynamic tensions and trade-offs inherent in the cooperative management of separate businesses. Although most clearly manifest in the autonomy-seeking behaviour of the BMs it also comes through in divisional decisions which sub-optimise unit performance in the interest of the divisional "good".

e.g. *"..the star always wants to steam ahead, they never want to slow down for the others...we take the divisional responsibility of saying no."*
(DMD - Division J)

"We can afford to take a little less profit in one country in order to develop sales in another." (HRD - Division G)

While divisional policies apparently offer guidelines in practice there are no set rules or standards for resolving such tensions nor for directing the trade-offs to be made.

e.g. *"We developed a **policy** on absence control but each of the businesses treated it differently....so there are four different policies and practices and measurement in absence control."* (HRD Division J - emphasis added)

On a case-by-case, issue-by-issue basis trade-offs are contingent on the situation, the business involved, the time etc. and hence are dealt with as a *dynamic process* of divisional/business dialogue, negotiation and, sometimes, fiat or what might be described as *push, persuasion and plea.* It is the strategic intent (Hamel and Prahalad, 1989) or dominant logic (Prahalad and Bettis, 1986) of the divisional level that offer the prime "policy" guidelines. What is clear is the business managers' desire for increased autonomy is an implacable force needing constant management.

e.g. *It must be human nature or something, to want control. I'm not sure there is always a good business rationale for all this tweaking and wanting things different."*
(IT Director - Division J)

Chapter 8 explores this issue of autonomy seeking BMs further.

5.8.2 Is It Worth It?

Managing cooperation increases the complexity of the division (Division H is a particularly apt example) and entails non-trivial costs of hierarchy. The "battle" between businesses and division over autonomy is also a "cost" distracting the attention of managers from more competitively focused activities. While there is some *research* evidence (Davis, Robinson, Pearce and Park, 1992; Hoskisson, Hill and Kim, 1993) suggesting the performance advantages of cooperative multidivisional there is no measurement available to the managers in these divisions to indicate the value of cooperation over a more hands-off approach. Nor was it feasible for this researcher to gain even an intuitive sense of a positive *causal* relationship between cooperation and performance. Divisional commitment to cooperation is founded in belief and intuitive logic rather than operating or financial data. The measurement issue is an important theoretical and practical problem and one that is again taken up in Chapter 7 where the nature of value and membership benefits for cooperative and competitive divisions is examined in more depth and in Chapter 8 where the costs vs gains argument is revisited.

Chapter 6

NON-COOPERATIVE DIVISIONS

> *"As long as the man who's running the business is a good all-round 'chap', good all-round performer I don't see that you can add value to that. I feel our job at the centre is merely to put in place the correct person to run that business and don't get involved anymore and just make sure we monitor his financial activity."*
>
> (DMD - Division F2)

This chapter details the seven divisions displaying a 'non-cooperative' orientation. The descriptor "non-cooperative" is used because these divisions are not organised with the *competitive* orientation suggested by Hill (1994) and Williamson (1975) as the model for M-form management of constituent businesses (non-related businesses in Hill's case). In particular:

1. They are not managed at "arms-length" by a distant divisional office that intervenes only to replace poor performing managers. Although this latter role is certainly performed by all divisional management (including those of cooperative divisions) the DMDs of non-cooperative divisions are actively operationally interventionist.
2. Capital is not allocated to businesses on a "best-use" basis as the divisional level is not the final arbiter of capital allocation; the corporate level is. Typically capital requirements are developed for all businesses in the annual budget round dependant on the perceived need of that business and within the context of the corporate capital limits. Divisions battle with each other for their share of the capital cake.

6.1 The Non-Cooperative Division

Typically these divisions exhibit the following broad similarities which differentiate them from the cooperative category described in the previous chapter.

1. The primary source of divisional value is seen to lie in the autonomous product-market activities of the individual business units and optimising the stand-alone businesses is the major focus of the division. Control tends to be against budgeted financial targets with intervention on a "by exception" basis. i.e. as long as the business in "hitting the numbers" its autonomy is respected. In contrast with cooperative divisions the internal functioning of the businesses i.e. behavioural control (Collis, 1991c) is predominantly left to the businesses.
2. The benefits of divisional membership are primarily derived from general management *guidance* from the Divisional Managing Director (DMD). Secondary benefits in the form of cost savings arise from the centralisation of service based *facilities* such as computing or training/personnel and *group* value from the coordinated purchasing of common inputs and market based collaboration over customers, territories and pricing.
3. Strategic management of the non-cooperative division predominantly reflects the imperatives and philosophies of pure M-form organisation. i.e. Stand-alone, semi-autonomous business units with clear responsibilities and authority for the profitability vested in the business manager (BM) whose accountability to

divisional performance is wholly discharged through his/her stewardship of that business unit.

4. Organisational structure reflects the autonomy of the business units with no strategic functional or process support staff at divisional level. While it is common for a finance person to be a divisional level staff, this is in controlling/reporting capacity in line with the more administrative orientation of the divisional role. The DMD is the prime (only) source of support and is actively interventionist with his BMs. i.e. he is not "hands-off."

6.2 The Cases

The first six cases are based on interviews with one divisional executive and the seventh on discussions with the divisional managing director, other divisional staff and the business managers of units. This last case gives a sense of the tensions and dilemmas at other levels of the division.

6.3 Division A - Agricultural Commodities

> *"It is a question of being in touch with the businesses but not interfering and having a handle on the tiller which enable you to adjust this way and adjust that way without people actually understanding that you've really done it. It's like conducting an orchestra, it can actually play without the conductor, but sometimes the percussion has to be geed up and the strings have to be quietened down."* (DMD)

The parent company of the division is a multinational employing 22,000 employees and generating revenues of £4400m and operating profit of £122.4m from 6 product divisions in Europe, US and Asia. The company has been oriented towards becoming "*more focused on its core businesses*" through divesting 15 "*non-core*" businesses over 1994-1996 and acquiring increased positions in its 3 core areas. In 1997 it entered the third year of its four year, business efficiency programme aimed *to "refocus the business and improve returns to shareholders."* The company espouses a commitment to corporate sponsored management training through its internal management development centre and senior management programmes with a major European business school.

Its medium term performance has not been regarded favourably

> *"Gearing is astronomical ...and interest cover is just over 3 times, leaving little margin for further error....So far the bears have been spot on in ignoring endless promises of jam tomorrow."*
> (*Financial Times*, September, 1997)

This followed on from cautious responses to a major merger in 1996.

> *"The downside is a stretched balance sheet following the deal. Given its shares' 8 per cent dividend yield, (Company A) must be loath to issue new shares and predicts 'comfortable' interest cover of four times by the end of 1997. But any failure to achieve integration benefits on time, or a rise in interest rates, could leave shareholders filing for divorce."*
> (*Financial Times*, September, 1996)

Division A employs 1900 people with revenues of £180m. It is made up of three businesses which develop, grow and market, agricultural commodities through operations in UK, Europe and US. One develops and farms and markets salmon, another does the same with horticultural seeds and the final one is a sugar business. The three Business Managers (BMs) report to the DMD along with the Finance Director (FD) and a Personnel/Training Advisor. Competing primarily on price, the businesses sell through distributors in a mixture of mature and growth markets dominated by large players. Efficient *"farming"* is the key business process but genetic engineering is also significant in this business, "a*n understanding of plant and animal genetics runs through all the businesses.* "

6.3.1 Membership Benefits:

Guidance: • Varied inputs from the DMD to the individual BMs. Much of this input is general in nature but includes taking a longer term view and cross-pollinating relevant knowledge from business to business.	*Facilities*: • Training advice/support
Team: • A temporary supervisory link between the genetics department of one business and the inexperienced geneticist of another. • Informal sharing between BMs based on "friendship."	*Group*: • None

The primary value for the businesses of belonging to the division resides in the guidance given by the DMD. The staff link of genetics departments is specifically a temporary supervisory connection and the "sharing" between BMs does not constitute a divisionally specific process. The *facilities* benefits are strategically non-material and of the type that might well be bought in by stand-alone businesses.

6.3.2 Perspective and Pattern

Divisional Philosophy	• The division is a collection of stand-alone businesses that operate autonomously within a negotiated framework of required returns, capital expenditure, employment policies etc. • "Friendship" between the businesses is encouraged in dealing with common external problems and similar operational processes but these are subordinate issues to business-specific product/market dynamics. • Divisional value stems from the individual businesses and the value-added by the divisional level is the control and guidance of the DMD.
Divisional Functions	• No strategic functional or process support staff or facilities are in place at divisional level.
Pan-divisional dynamics	
Integration	• Structured linkages are limited to a monthly meeting of BMs where common external factors are discussed. The DMD is the most active "integrating mechanism" but his role is more that of guide/mentor/coach to individual BMs than an active guardian of pan-divisional dynamics.
Measurement	• Formal divisional control is based on the financial outputs of the individual businesses which also comprise the divisional performance measures at the corporate level. The DMD operates as a non-structured guidance and feedback system based on more behavioural/input parameters.
Performance incentives	• 20% of the performance bonuses of the BMs is linked to the overall divisional profit performance and 80% to their own business profits.

In intent and manifestation this division shows many classical M-form characteristics with the sharing between businesses limited to cross-pollination by the DMD. The actively involved DMD corrupts a completely stand-alone orientation but the businesses are truly stand-alone *from each other*.

6.3.3 Description

The staff, structures and systems of the division are long standing and no operational services or support are provided from the divisional or corporate level other than 'on-call' assistance from the Personnel/Training Adviser and the financial/accounting overview from the FD. The DMD, who was interviewed in the boardroom of the company headquarters in London has spent 15 years in *"the personnel function"* and a further 21 years in line management with the company and had been persuaded by the company CEO to postpone his age-related retirement until the end of 1997 because of his experience and stature within the company and industry.[1] Over his extended work life he had developed *"a very clear way"* on how to run his collection of businesses.

> *"We really do run them as **separate businesses with separate strategies, separate policies** and so on... we give people maximum freedom of activity within a clearly defined and mutually discussed and mutually accepted framework...people get their hands chopped off at best if they go outside that framework...*
> *I think that's the way to run a division."* (emphasis added)

Each business is required to have its own strategy and plans which end in a financial plan with a commentary for the annual budget. The DMD *"translates the understanding of the company's strategy into guidelines"* for the businesses. This means that the targets and objectives of each business are the result of negotiations between the BM, representing the business. and the DMD in his role as corporate overseer.

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[1] This reason for non-retirement was given to me by the CEO of the company through whom I had arranged the interview.

> *"their budget is my budget, it's my budget because my bonus depends on it and it's their budget because their performance and their future depends on it as well."*

The developed budgets and strategies of the businesses are presented to the Board with explanation from the DMD. *"If I'm paid to do anything it's to understand the businesses for which I am responsible."* Monthly meetings of the BMs are held for discussion of *"things that are common to all the businesses"*, such as currency issues or Common Agricultural Policy changes, and to fulfil the more subtle need *"for people to feel that they belong to something greater than themselves."* The meeting is specifically *not* to *"interfere with each other's business"* because

> *"there's nothing more ridiculous than someone running a beef company having a say on capital expenditure in another company which he doesn't know anything about."*

Paradoxically, in the light of this statement, the DMD sees the businesses as being similar in a number of ways which makes it sensible to have them in the same division. They are related in terms of.

> *"trade(ing) in the same countries...market knowledge... genetics based... long time scales...technically based...highly skilled people from PhDs down...management style."*

and it is these similarities that underpin his divisional perspective..

> *"When people ask me what I've been doing, I've been running a mini-conglomerate.* ***That is a division comprising a number of discrete businesses but with a good deal of synergy between them...(but)...there's*** *no single reason why they're all together. It's a whole string of reasons that lead to common markets, similar products, similar ideas, similar people that hang naturally together."* (emphasis added)

Despite these stated similarities and the espoused synergy between the businesses the structure and systems of the division are consistent with the management of a set of stand-alone units. There are no structured mechanisms for lateral sharing between the businesses other than the monthly meeting of BMs (which specifically does not discuss internal business issues). A temporary link has been recently established as one of the businesses has started its own genetics department and has employed a young, recently qualified geneticist. During the initial developmental phase his work is being directed by the experienced genetics director of another business. The medium term aim is for the new genetics department to be independent however. The perceived added-value of belonging to the division comes from sharing knowledge and a *"common understanding of problems ."* If the businesses were stand-alone or owned by separate companies there would be no *"cross-fertilisation, no reference points, nothing ."* Cross fertilisation happens because divisional membership leads to meetings of BMs who are *"all pretty good friends."* When this is not enough to promote sufficient sharing then *"on occasion I make it happen."* By this the DMD means that by spending at least two days a month with each business he acts as a catalyst and facilitator of inter-business communications as well as being a source of knowledge in different ways for each business.

> *"Maybe one MD's a numbers man, not good with HR but good commercially so maybe I make a contribution there. In some business where I've worked overseas and travelled the world I've probably got a perspective that an engineering division of a salmon farmer in Scotland couldn't possibly have in that business. That is helpful if they're talking about developing their export strategy. "*

Maintaining rapport with the BM and his team *"without in any way interfering"* is seen to be an important skill in maintaining positive relationships with the businesses. The dilemma of business autonomy and the right of the divisional level to intervene is constantly being managed. A totally hands-off relationship, using only the monthly business reports as the information and control mechanism is inadequate as a mechanism of divisional influence. *"You can control through the numbers but you cannot **influence** through the numbers."* (emphasis added).

A particular danger of a "hands-off" division lies the potential for the development of barriers between the businesses and between the divisional level and the businesses. "*Baronies*" are an inevitable consequence of stand-alone businesses not actively controlled by the divisional level,

> *."..you have to aggressively manage it otherwise it becomes anarchy... I've seen enough to know that you can let people have their head too much...people have the maximum freedom for initiative and action but, in the greater divisional interest for which I happen to be responsible, I simply am ruthless if anybody steps out of line."*

80% of the performance incentives of the BMs is based on their business results and 20% on the performance of the division. The BMs have questioned the relevance of this divisional component but have been told that

> *"you're part of a bigger thing chum and* ***you're partly paid to cooperate*** *and take an interest outside of your own business.* ***But essentially you are there to be judged on the success or otherwise of your business****."*
> (emphasis added)

The divisional results are reported to the corporate level as a set of business results which are consolidated into a divisional number. Due to a specific problem this year in the salmon business, caused by currency movements and product dumping by a competitor subsidised by its national government, the DMD is having to handle the anxiety of the company CEO and Board over the long term future of the business.

> *"My view is that you can only take the long term. On the other hand if you're a group chief executive and have to explain a big profit hit you get fairly belligerent...the stockmarket doesn't like it and the rest of it."*

By the "*long term*" view he was referring to the fact that his business had a demonstrable cost advantage over its subsidised competitor and when political/legislative forces finally ensured a "*level playing field*" i.e. free of government subsidy, then this cost advantage would ensure high profitability. On the other hand the *current* losses were such that shareholders would be very unhappy *now,* thus giving the company CEO a difficult problem. This reassurance role is two-way one; on one hand convincing the corporate board of the strategic sense of long term commitment to the business, and on the other supporting a BM who finds himself running an under-performing business, the competitive advantage of which (lower unit costs) is being off-set by (illegal?) government subsidies about which he can do nothing..

The value added by the divisional level is difficult to measure or estimate, *"I couldn't attribute whether I've had 50% or 10% or 5% influence."* The potential value of divisional membership also varies over business and time,

> *"it's a process that differs according to each business and according to the state of development of a company and its circumstances...the whole thing is a dynamic evolving thing and you can only judge things as they are at the time."*

6.3.4 Summary

This division is not a 'cooperative' enterprise as is suggested to be the most appropriate organisational orientation to exploit the value of relatedness (e.g. Hill, 1994). The perception of relatedness is dominated by market and industry features rather than congruent capabilities[2] which is again, according to some authors, not conducive to synergy between the businesses (e.g. Markides and Williamson, 1994). The dilemma of the strategic management of multi-business units is reflected in the DMD's attempts to run "separate businesses" whilst "encouraging" cooperation and his confidence in the "synergy" between the businesses coexisting with his bemusement at the idea of one business having input into the capital requirements of another due to *lack of appropriate knowledge.* The place of shared knowledge and cooperation is strongly espoused but at the same time there are no structural sharing and integrating mechanisms to facilitate the interaction that is essential for such organisational learning (Teece et al., 1997). Nor are there any direct functional or process inputs from the divisional level to the process/functional areas of the businesses. The only guidance is from the DMD, a 36 year veteran of company and industry, to the individual BMs.

In theoretical terms the value of inter-business, scope economies gained through integration and interconnection of non-tradeable knowledge and learning is espoused;

[2] Even under strong prompting genetics was seen by the DMD as a common business technology but not a pan-divisional "core competence." i.e. each businesses has a genetics departments in the same way a manufacturing business has a factory but there was no perceived gain from linking these departments in an ongoing interactional way nor of having divisional level genetics staff.

but the value of specialisation and focus of the M-form organisation dominates in practice. Overall it is difficult to make a logical case for this group of related businesses being any more valuable as a divisional set than as a group of stand-alone units.

6.3.5 Postscript

It was mentioned above that the salmon business in the division was performing poorly at least partly due to competition from 'dumped' overseas product and the appreciation of the pound. This problem continued and, along with shortfalls in other parts of the corporation, led to two profit warnings in less than three months in late 1997 and the consequent dismissal of the CEO in early 1998. Another profit warning followed in mid 1998. Paradoxically the share price rose after an initial fall to reflect the *break-up* value placed on the firm by analysts who believed that disposals or demergers would be the results of an announced strategic review. The strategic review concluded that there was *little merit in having the three businesses in Division A under one management* and at least one of them (the salmon business) was a prime candidate for disposal.

i.e. The strategic review could see no M_{div} in Division A.

6.4 Division B[3]- Manufacturing Building Products

> *"Our goal is to develop our businesses to achieve market leadership in their markets and to benefit from economies of scale...The Group is now managed through a more streamlined organisational structure with significantly fewer operating businesses...reflects the increasing integration of certain companies within larger operating businesses."*
>
> (CEO's Review)

The parent company of Division B employs over 21,500 people in operations in Europe and the US with a total turnover of over £2100m from thirty companies organised into five product divisions. In 1996 the company announced the disposal of eighteen UK and European businesses which were *"outside our mainstream activities"* and as such *"significantly"* increased the focus on *"fewer but larger businesses."* Improved profits in 1996 were *"substantially driven by the cost reduction programmes"* initiated in 1995. These programmes, in concert with other continuous improvement activities are aimed at benefiting from *"economies of scale"* and *"international best practice."* The CEO noted in the 1997 annual report that *"All our businesses are committed to increasing productivity through process improvement designed to reduce manufacturing costs."*

The company in 1996 developed a *"more streamlined organisation structure"* reflecting not only the major disposals but also *"the increasing integration of certain companies within larger operating businesses."* The long term training programme of the company continued despite difficult times and reaped observable

[3] Technology failure (the tape recorder did not record) means that this case is reconstructed from notes, memory and supplied documents and so lacks some of the more illuminating quotes that are present in other cases. Quotes here are comments I wrote down during the interview in order to probe later.

benefits in *"cost reduction and improved quality and service."* Savings will result *in "increased operational gearing"* allowing the handling of additional volumes through *"increased manufacturing effectiveness."*

Employing 6500 people Division B generated 1996 revenues of £560m from three country based businesses in the UK, Germany and North America. The businesses design, manufacture and market building products under a range of brands. They sell to consumers through retail outlets and to industrial users through both direct sales and wholesale distributors. Operating in mature but fragmented industries where the *"backyarder"*[4] is a force, the businesses need to be cost competitive but at the same time differentiate themselves on the basis of service to industrial users and brand to consumers. Regional markets tend to be highly idiosyncratic. The division is in *"recovery mode"* following significant losses in its North American business in 1995.

6.4.1 Membership Benefits

Guidance: • DMD inputs on rationalising business facilities, turnaround processes, crisis management and the longer term view.	*Facilities*: • None
Team: • None	*Group*: • A move towards amalgamating the buying power of the UK and German businesses.

[4] i.e. the small owner/manager business with few staff and limited overheads operating in a limited, local market.

The primary value for the businesses of belonging to the division resides in the *guidance* given by the DMD particularly in the rationalisation of separate facilities and with his assistance in dealing with the profit problems that are besetting the UK and US businesses. Much of what the DMD identifies as value-adding in his role (see below) seems classically 'administrative' or loss preventative in nature.

6.4.2 Perspective and Pattern

Divisional Philosophy	• The division is a collection of stand-alone' nationally based businesses that operate autonomously from each other. • Divisional value stems from the individual businesses and the value-added by the divisional level is the control and guidance of the DMD.
Divisional Functions	• An Operations Director is in place at divisional level but his input is more control related than developmental.
Pan-divisional dynamics	
Integration	• No structured interactions exist between the businesses. Telecommunication links are administrative informational channels only. i.e. they are not reflective of integrated learning/knowledge sharing. • While no inter-business processes are in existence the history of the division is one of amalgamation of businesses as a basis for cost savings.
Measurement	• Divisional control is based on the financial outputs of the individual businesses which also comprise the divisional performance measures at the corporate level. • No group based measures are in place.
Performance incentives	• The performance bonuses of the BMs are entirely based on the profits of their particular business unit.

This is a classical M-form division in terms self-contained, semi-autonomous, non-interacting businesses. This classic structure, however, is corrupted by the presence of an aggressively interventionist DMD. There is no process or functional support at the divisional level although the corporate level (see below) has direct functional inputs to the businesses.

6.4.3 Description

The DMD was interviewed in his office at the company's headquarters in Surrey. Described as *"control freaks"* by the DMD, the corporate level provides a significant degree of operational Summary and service to the businesses. Human Resources, Systems, Training, Operations and Marketing as well as Corporate Finance functions have ongoing direct influence within a *"matrix-style"* orientation. Via sophisticated IT systems, the corporate centre directly measures and controls the financial, operating and marketing aspects of the businesses, bypassing the divisional level. This has been the management style of the company over a long period. i.e. *"finance and strategy"* are controlled at the corporate centre.

The DMD has been in his role for three years having formerly been in charge of the corporate training function where he managed a *"core skills"* training programme (e.g. manufacturing innovation, human resources) for all employees. As well as the three Business Managers (BMs) his divisional staff comprises an Operations Director which is a *"control position"* overviewing purchasing, IT and manufacturing performance. The DMD relies on corporate input for finance/accounting support. The businesses are organisationally stand-alone in all necessary business functions.

The divisional level *"formulates and executes strategy and measures and controls the progress of the businesses against targets."* In one sense the divisional level exists to *"deploy corporate strategy"* in managing the business units in a way that is consistent with corporate requirements. This often puts the DMD in the position of the *"meat in the sandwich"* between the corporate level and the businesses who argue for even more autonomy. The divisional level also works with the individual business to develop a *"vision...a guiding principle or overview"* within which future performance targets and benchmarks can be established and current performance evaluated and controlled. A final way that the divisional level aims to add value is in attempting to *"develop and foster synergy between the businesses."*

Two forms of synergy are recognised; *"hard"* synergy which is equated with measurable activities such as plant relocation or the centralisation of purchasing, and *"soft"* synergy which is *"the synergy that is talked about but can't be budgeted for."* 'Hard' synergy is linked to *"economies of scale and size"* and is manifest in measurable financial benefits such as cost savings and productivity improvements while *"soft"* synergy was *"difficult to measure and define."*

Seeking 'hard' synergy had become synonymous with reorganisation and restructuring separate businesses into single units. The current UK business had originally been two separate businesses. These had been amalgamated under a new BM. One of the original BMs fought this development and was transferred within the company. With a new BM in his position and an amenable one in the other, the new head of the one amalgamated business has since centralised purchasing, quality, marketing and product development and achieved 'hard' synergy through the resultant reduction in staff. The former BMs now have only sales and the factories under their direct control and this is likely to change and the benefits from the centralisation and rationalisation of manufacturing is being evaluated. The creation of one large functionally organised business in the place of two has been deemed a success in the UK with significant cost savings being realised. This amalgamation has been a reflection of the corporate wide policy of achieving cost reductions through rationalisation.

Attempting to gain the same savings in the North American businesses has proven to be a *"disaster"* and a precursor to large losses. By creating a Vice President (Operations) and a Vice President (Sales) and centralising functions from two formerly separate businesses the Division made immediate gains in terms of *"economies of scale"* as they had in the UK. The market however, is different in America and losses emanated from several unexpected consequences. *"Speed of execution"*, a critical requirement of industrial customers in the US, was lost in the more broadly oriented sales team. To gain 'trade' orders, sales representatives must visit sites and call in product specifications over the telephone to quickly get a quote in place. This means that sales staff must be dedicated to this sector but 'amalgamation' removed this necessary commitment. Brand focus has also lost as account managers are now responsible for two differently positioned brands at opposite ends of the price and image spectrum and are sold through different distribution systems. Each account manager is tending to treat their new product/brand in the same way as they had dealt with their old one. More subtly *"a loss of entrepreneurial spirit"* seems to have resulted from the amalgamation of the two sales forces. The operational integration also presented problems as senior people, now further removed from the manufacturing *"coal face"*, are losing sight of problems in individual factories which have now developed into major issues whereas formerly they would have been *"cut off at source."*

These problems with the American businesses have not dampened the divisional orientation towards business amalgamation. Currently the DMD is putting the case to his UK and German operations for the centralisation of the purchasing of common inputs. Typical of most manufactured products the bulk of the cost is made up by purchased parts and there is significant commonality of raw material use between the two businesses. The German BM is strongly resisting this move. Also being contemplated, although not planned at this stage, is the creation of a BM (Europe) to sit over both the UK and German businesses with the thought of having one functionally organised European business in the longer term.

The current strategic imperatives for the division are centred around profit improvements in the businesses with the major mechanism being organisational restructuring. At this point the DMD believes the divisional level adds value because he is helping the relatively new BMs to effect the necessary turnarounds and deal with operating crises when they arise. He sees the size of the division per se as having some benefits in enabling it to attract and retain good people. After the turnarounds and reorganisations are completed, however, he is not sure about the extent of benefits from divisional membership nor of the degree of added value of the divisional level.

The businesses, although inter-connected by email and video conferencing facilities, have no other organisational linkages. They do not share any common activities or processes other than being exposed to the same training themes from the corporate training initiatives. There is no transfer of people between them and, no regular exchanges between senior functional managers. Reflecting this stand-alone perspective, the performance incentives of the BMs are based entirely on the financial results of their own business. The divisional results, as explained to corporate each month by the DMD, are presented as a set of separate financial statements for each business.

6.4.4 Summary

More than any other division in the study the strategy of Division B seems a manifestation of a *corporate* strategic agenda for cost reduction particularly through the rationalisation of existing businesses into a smaller number of units. The businesses within the division are non-cooperative and managed autonomously from each other in contradiction of the cooperative style suggested to optimise the value of related businesses (Hill, 1994). While the philosophical and structural imperatives of the M-form are the basis for divisional management here (rather than economies of scope from shared learning/knowledge/capital) there is another force that seemingly transcends both. This force is the financial drive for cost savings through economies of scale and capacity utilisation emanating from a beleaguered corporate level.

The amalgamations seem based on accounting assumptions rather than pan-divisional competences or capabilities. The stand-alone businesses seem to be *victims* of corporate/divisional strategy rather than mutually reinforcing partners in it. This is reflected in the expressed antagonism of the DMD to the controls and direction of a corporate centre of which he had so recently been a part.

It seems quite possible that this is an example where the businesses would have been better off as stand-alone units. i.e. M_{div} is negative.

6.4.5 Postcript

The disillusioned DMD left in early 1997 (headhunted). In 1997 Division B's profit performance was again poor with substantial losses in its UK and US businesses. These were announced to be for sale while the group attempted to build a strong pan-European presence in other divisions. The German business of Division C remained profitable and was not for sale *"although attempts to transfer its success to other territories have failed."* ("The Times" March 1998). This is hardly surprising as nothing that was revealed about the structures, systems, process or value philosophies of Division B was conducive to such "transfer."

6.5 Division C - Provision of Water Supply-Based Services

> *"I was coming from the angle that in new service development there was something we could define that might link some of the business units together or even all of them...that is there's a 20% piece we must not take our eyes off."*

The parent company is a UK based privatised utility with 11000 employees and a turnover of £1300m from 6 divisions. International expansion is ongoing with increased contracts and joint ventures in SE Asia, South America and Europe. After a period of diversification the company has undertaken a programme of rationalisation to a more focused portfolio. The company was the subject of criticism for its diversification programme which was branded *"a disaster"* (*Financial Times*, March 1996). At this time the advent of a new CEO and a sale of the recent acquisitions (with the associated charges and write-downs) was seen to have resulted in *"a cleaner group"* which needed to focus on *"squeezing costs"* out of its core businesses whilst *"making no more mistakes on the non-core side."*

Division C is one of the four operating divisions of the company with 3000 employees and 1996 revenues of £110m. It is made up of 6 businesses which arose as a result of acquisitions and spin-offs from other divisions in 1991/1992. The businesses market services to local authorities and industrial suppliers including their sister divisions. As well as the 6 Business Managers (BMs) and the FD, a Human Resources Director (HRD) reports to the Divisional Managing Director (DMD). The FD and the DMD are both recent internal appointments joining the division at the same time in mid 1996 and have formed a close partnership in attempting to drive the division in their preferred direction. The position of HR Director deals with the constant issues of pay, conditions, health and safety etc. that are manifest in the highly labour intensive businesses.

6.5.1 Membership Benefits

Guidance: • Operational interventions of the DMD (FD) to improve business performance above that manifest in the past.	*Facilities*: • Training of BMs. • HR expertise.
Team: • No team interactions in place based on common processes/capabilities.	*Group*: • Cross or joint selling of services to common customers (?)

There is a lot of talk at divisional level (see below) of the value of sharing and cooperation particularly at the level of customer collaboration. It is difficult to make a case for this being a uniquely divisional value and at this stage it has yet to be demonstrated within the Division. The *guidance* from the DMD extends to operational issues of culture, customer relations, people management but is driven from the administrative focus on below par performance. At this stage the value added by divisional membership is not clear although it at least seems unlikely that any of the businesses is being handicapped by being part of the division

6.5.2 Perspective and Pattern

Divisional Philosophy	• The division is a set of stand-alone businesses which, while operationally autonomous, will mutually benefit from collaborating in offering a package of services to their common customers. • Divisional value will arise from market cooperation as no common processes or capabilities underpin business competitive strategy.
Divisional Functions	• An HR director oversees the divisional wide implementation of corporate HR policies with respect to pay, employment, dismissal etc. • No divisional function is in place to oversee or facilitate strategic business processes.
Pan-divisional dynamics	
Integration	• Inter-business interaction is limited to the interactions of the BMs at the divisionally organised training events.
Measurement	• Structured control based on the financial outputs of the businesses. • There are less structured demands for particular behaviours from the BMs. (e.g. attending training courses)
Performance incentives	• Performance bonuses of the BMs are based entirely on profit performance of their business unit.

Whatever the espoused value the divisional level places on cooperation and sharing the structural characteristics of the division are more M-form in nature with the resultant dynamics of single business focus rather than pan-divisional integration or inter-business cooperation. It is unlikely that cooperation by policy will occur without cooperation by (enforced) practice.

6.5.3 Description

The Divisional Finance Director (FD) was interviewed in her office at Divisional Headquarters. A major re-orientation in the strategic style of the company has been ongoing since early 1996 when the newly appointed Corporate Strategy Director and the newly promoted CEO had reviewed the mix of businesses within the company. They found a diverse collection of units being corporately managed in a *"financial control"*[5] style. Many of these businesses had been added as the result of an aggressive acquisition strategy. Enthused by the concept of "*parenting advantage*" the corporate management team has been overseeing a programme of divestment of those businesses which they believe gain no benefit from being in the company. Linked with these divestments is a purposive attempt to switch to a *"strategic control"* corporate style and an orientation towards a more *"integrated"* company:

> *"The way the company operated before was pretty personality bound. You were very much in your boxes. There was no idea at all that that group of people would help that group of people and vice versa, that they would get involved in each other's strategies. All that was being said before was that 'Division C might supply us...if they're good enough'. Like a lot of companies being sister divisions doesn't give you any advantages...in fact the opposite."*

The move towards company *"integration"* is currently more a strategic intent than an operational process. While cross-divisional teams working on integrated strategies dealing with "*network infrastructure developments*" are the goal, the reality is currently limited to monthly meetings of the corporate management team and a recent 5 day workshop for that same group in Switzerland.

The issue of integration offers a challenge to the division. The divisional team believes that the best growth opportunities will come from working closely with

[5] The company had worked with a consultant who brought the Goold et al (1994) concepts and terminology into common usage.

other divisions to develop an understanding of the integrated services that will be needed by them and industry customers in five years time. Because of that "*there is no value in each of the companies (in Division C) trying to do its own thing*" as they have in the past and would still prefer. The need for a "*package of services*" delivered through long term contracts and mutually enhancing relationships with customers is seen to be the key value adding strategy underpinning the future of the division, "*so the strength should be **in the division as a group**.*" (emphasis added). However, the division comprises a set of business units that are viewed by other divisions as "*cowboy outfits*" that should be "*sold off.*" The BMs of Division C have similarly scant respect for their "*slow moving, hierarchy bound, rules based*" internal customers. This mutual antipathy causes obvious strategic problems, as does the traditionally independent functioning of the geographically dispersed businesses which "*have been together, pulled apart, put back together et cetera, so you've got some pretty disenchanted BMs.*"

The general lack of profitability of the businesses adds to the tenuousness of their position and the defensive aggressiveness of the BMs. The company CEO has given the divisional team a mandate to improve the profitability of the division through growth as well as operational improvements. He has lent his authority to promote more constructive internal trading relationships. There is some irony in this as, in a former divisional role, the CEO was one of Division C's more acerbic critics.

The relatedness of the businesses is seen to be primarily at the product market level. as they all provide services to customers in the same industry. Whilst these services are all labour intensive their basic nature is different. Managers in the businesses had generally grown through the ranks.

> *"The traditional structure in the business was a BM and a bunch of people called 'director' who were not really of director calibre. One of them, generally the BM, was the driving force."*

Each of the businesses is strategically, if not financially, capable of stand-alone existence and faces focused, stand-alone competitors. The low profitability of the businesses is a major problem for the divisional team. Despite poor profit performance most of the BMs are resistant to divisional 'help' with the best profit performer being the most resistant. *"I'm doing fine, leave me alone."* One BM and his Financial Controller had been replaced as a result of continued poor results and, more specifically, continued resistance to suggested change.

> *"No matter how hard we worked with the guy we could not get him to bring issues to us...The solution for him was culture change, relationship management, sales skills, project skills and a much stronger management team and yet he was not coming up with any of those things. So we shed a BM and Finance Controller and some other managers."*

Divisional involvement with loss-making or marginally performing businesses takes time and precedence over those that are making a positive return even if this return is inadequate by industry standards. The BM of the business making the most profits wants to be left alone *"and to be honest **we have had so many issues with the rest** that we only go and see him once a quarter."* (emphasis added). Yet, while this business is the most profitable in the division, with return on sales of 12 % against a divisional total of 2.5%, other external companies in the same product market are achieving return on sales ratios of over 20% *"but at the same time I'm so stretched by the others I have to let him get on with it."* The time spent on improving unit profitability has another drawback in that it is contrary to the espoused *"strategic"* orientation of the divisional team. A focus on financial statements is tending to reinforce the *"financial control"* perception of the BMs.

> *"Every month we would go and see them and we would talk about their profits and their costs and we couldn't seem to change the basis of the relationship."*

The emphasis on monthly financial outputs has ended up with *"everyone focused on the day job and nobody really thinking about the future."* The divisional team faces a strategic dilemmas in getting the businesses to develop the capabilities and positioning for future success in the face of resistance from the BMs.

The relationship between the business units and their internal customers has been characterised by antipathy. This has been a major problem for the performance of the businesses. *"We make the mistake of focusing on the technical aspects of the job but where we lose the money is on all the politics."* At a training workshop designed to tackle this adversarial stance towards internal customers, the option of becoming *"customer oriented"* received far less support than the option for the DMD to *"pull rank"* and force internal trading on favourable terms. The importance of this relationship lies in the need for the business units to be able to develop and maintain mutually beneficial *"partnerships"* with customers whereas *"the businesses wanted to stay in their own little world."* In such mutually beneficial partnerships, service and service development would become the strategic focus rather than price. *"We knew that we would always struggle on price so we had to add extra service to win. We also had to have a new service development process."* At a subsequent workshop with invited representatives of their internal customers the divisional staff were surprised at *"how ignorant the BMs were of their customers and the real animosity between them,"* This workshop at least resulted in a *"treaty"* as a basis for mutual reconsideration of more positive relationships.

Historically there had been no inter-connection between the business units to the extent that the BMs had little awareness of what the other businesses actually did. *"They'd known each other for 5 to 6 years and it took three workshops before they said 'what exactly do you do then?'"* This sense of separateness was not just within the division. The businesses saw themselves as owned by, but not belonging within, the company. One BM for example claimed to never see a senior company manager except when asked to produce *"a great tome of a plan"* for the annual budget review. This would form a basis for a ritual negotiation i.e. *"'up your profit number...., 'can't'... 'up your profit number'.... 'OK'"* followed by failure to achieve the increased profit budget in the following year. *"What a waste of time!"*

The divisional team believe 'partnering' should exist between businesses. *"We are trying to bring them together, trying to get them to share."* To facilitate this it seemed important for the businesses to have a *"similar value set"* and *"common standards of professionalism"* and operate *"in a reasonably consistent way"* in terms of such processes as *"project management", contract management skills"* and *"team development." "Then you begin to discover that we all have different meanings for those things."*

A series of professionally facilitated workshops was run with the BMs and divisional staff at country venues. Although based on various topics such as '5th discipline thinking', 'marketing' and 'innovation' the events were aimed at facilitating a more pan-divisional perspective through the promotion of commonality of business processes and objectives. An over-riding aim was to develop an awareness of the tangible value of inter-business sharing.

The relationship between the division and the businesses remains characterised by ambivalence. At the early stages the businesses were not viewing the divisional level as *"a value adding opportunity... as able to open doors."* It was seen as just *"another layer"* of assessment and monitoring and this was reinforced by the degree of performance variance analysis at monthly meetings. Even after a period of seemingly successful workshops, a planned divisional conference has met with *"mixed reactions"* although the BMs *"didn't wince"* as they had in the past when further training workshops were announced.

Against business opposition the division has introduced such processes as 360° feedback, internal business communication programmes and formal appraisals and is planning pan-divisional supervisors' programmes. At the same time it continues to aggressively monitor operating performance and actively intervene when performance is below plan. Despite this push towards a pan-divisional orientation the BMs have no shared accountabilities and each of their incentive plans are linked only to the performance of their business. At the same time the control focus of the division is on the traditional elements of profit, cash and directly associated measures. Divisional monthly reporting to the corporate level remains based on the financial accounts of the individual units.

6.5.4 Summary

Within a company wide theme of integration the divisional team are attempting to promote sharing and cooperation between businesses which, in the past, have BMs who have barely spoken with each other. The division has been a classically M-form organisation with businesses virtually left to run themselves with an annual strategic and budgetary framework. In practice, little has changed despite the avowed intent of the divisional staff to promote more linkages and a greater pan-divisional perspective. This remains a non-cooperative division with a top team espousing entrepreneurial, cooperation whilst immersed in administrative monitoring to the extent that they do not have the necessary time to influence mediocre performers as they are too busy dealing with the poor performers.

At best Division C might be seen to be in transition to a more cooperative form but the entrenched resistance of the BMs, who are guarding their stand-alone "patch" with vigour, may doom the attempt to failure. This is even more likely given that the relatedness of the businesses is viewed in terms of common markets and customers rather than common processes or capabilities. The input of the divisional team via exhortation and training events is aimed at achieving mutual, cross-selling of a package of services by collaborating BMs who, even now, have little idea of the services of their sister businesses and remain under performance pressure in their own business.

It is unlikely that substantial change in behaviour will occur without organisational structural and process changes being put in place to support and drive the new ideology. If there is material divisional value to be gained by the packaged, one-stop sale and delivery of a set of services (as proposed by the divisional team) it may be necessary that this selling/logistic activity becomes a divisional function (*activity* benefit) while the businesses focus on furthering their competitive (cost) capability in the service to be provided.

The dilemma between espoused value and M-form practice is acute in this division.

6.6 Division D1 - Manufacturing Capital Equipment for Retail Stores

> *"In reality of course you know that in any business you're stamping fires out. In a group of any size at any one time the chances of them all being up and everything's cosy and you can go home on a Friday and sleep and think about strategic things is wishful thinking."*

Division D1 is a sister division of D2 described in the previous chapter. It employs 1100 people and generated 1996 revenues of £80m from six business units in the UK. The businesses manufacture and sell a range of capital equipment and fittings to large retail stores. Customers are part of a concentrated industry where *"a handful of major accounts"* constitute the focus of competitive activity. While cost (price) is a competitive imperative, customising product to the specific *"bells and whistles"* requirements of the major customers offers the major value-adding opportunity. A foreseen strategic threat is that major customers begin to prefer the cost savings inherent in standardised products and move to a tendering process and hence increase *"the fair amount of downward pressure"* that is currently being exerted on prices and margins. The combination of products from the businesses make the division a large player in a fragmented industry with a unique breadth of offering.

> *"In our business it is the range of products that we have to offer by comparison to our competitors...we're able to do a turnkey operation for a major customer. In the UK there is no competitor that has that breadth of offer...that's the clear differentiation we have in the marketplace."*

Despite this breadth of divisional offering the businesses still need to be individually competitive on service, quality and price as some customers have shown a tendency to *"cherry pick"* particular components of the offer whilst taking cheaper alternative parts from other suppliers. Each of the businesses occupies the leading or number two position (by market share) in its particular product/market.

6.6.1 Membership Benefits

Guidance: • Varied inputs from the DMD to the individual BMs including taking the long term view.	*Facilities*: • Divisional brand
Team: • None	*Group*: • Potential for cross-selling with common customers

The primary value for the businesses of belonging to the division resides in the *guidance* given by the DMD. The entrepreneurial scope of this seem limited, however as his own description (below) of his fire-fighting (administrative) activities leave him no time for developmental strategy. There is no capability or resource sharing between the businesses (*team*) and the divisional level carries out no activities on their behalf (*facilities*) other than maintaining a divisional brand. Even the *group* value of the integrated offering/cross-selling seems over-stated given the tendency of customers to unbundle such offers.

It is difficult to make a case here for a positive M_{div} although it may not be necessarily negative.

6.6.2 Perspective and Pattern

Divisional Philosophy	• The division is a collection of stand-alone businesses that operate autonomously from each other. • Cross selling and market collaboration is encouraged between the BMs. • Divisional value stems from the integration of the offering of the individual businesses into a 'one-stop' package.
Divisional Functions	• No strategic functional or process support staff or facilities are in place at divisional level.
Pan-divisional dynamics	
Integration	• Structured linkages are limited to a monthly meeting of BMs.
Measurement	• Formal divisional control is based on the financial outputs of the individual businesses. The divisional results are also the individual business accounts.
Performance incentives	• The performance bonuses of the BMs are entirely based on the profit results of their own business.

This is a non-cooperative organisation in structure, process and philosophy. Other than the hands-on DMD these are separate businesses selling non-competing products to the same customers. There seems to be little that the divisional umbrella provides that could not be gained from stand-alone units in a trade association or a more informal network.

6.6.3 Description

The DMD was interviewed in an office on one of the business sites on a Birmingham industrial estate. During the 1990s there has been changes in corporate orientation with respect to the position and role of DMDs in the company. Prior to 1993 the four DMDs were *"sitting in the businesses they had grown out of"* and becoming increasingly autonomous. In 1993 they were *"put into headquarters"* and set up to operate as an executive team. In mid 1996 this move was reversed and the DMDs were *"devolved"* out of headquarters to their divisions in a move back towards strategic and budgetary independence. This move was based on the view that *"we, being DMDs would be more useful if we were out in the operations."*

Changes have also been taking place in the structure of the division. 1996 was the first year that its six, functionally autonomous businesses has operated under an integrated marketing policy and, in particular, under one brand. The six businesses have been further integrated into two major groupings based on product similarities with some manufacturing sites being amalgamated. The businesses are seen to be highly related at the product/market level, *we're branded the same...we're interfacing with the same customer operating in the same markets...the same culture"*, but have little process capability in common. For example even though the businesses manufacture at four UK sites, manufacturing is not regarded as a strategic process.

> *."..we don't have to be stuck about manufacturing...we can badge we can do what the hell we like as long as we've got* ***control of the face to market."*** (emphasis added)

Other than the Business Managers (BMs) only a part-time Financial Controller reports to the DMD. The role of the finance man is to *"collect the information that comes to the (corporate) centre and push that back in a format that's useful for* *divisional board meetings.*" This part-time role is filled by the Finance Director of one of the businesses.

The DMD has occupied various operating roles in his twenty years with the company and finds difficulties in his current role in *"letting the operators operate."* This is particularly the case when problems arise in the operating units that appear beyond the capabilities of the BM to resolve quickly. While the *"ideal situation"* is to have

> *"competent BMs running the units fully devolved to the point that they understand what their targets are...with a clear strategic view through me to corporate",*

the reality is that at least one of the businesses is likely to be in crisis at any given time and the DMD *"ends up going back to be an operator in the real world."* While strategically distracting and undesirable it is an essential part of the DMD's role that, unfortunately, reflects badly on the BM of the business in question, *"so it comes down in the end to the selection of people beneath you."*

When free from such operational involvement an important input of the DMD's role lies in developing visions for the businesses in the medium and long term. The BMs' lack of experience and their focus on day-to-day issues leave them with no time to develop a future orientation.

> *I really think the added value that I give is to take my experience' point out if necessary, if I'm asked, where that might be of some benefit but really to look at the opportunities and the bigger issues."*

Organisational restructuring is another ongoing feature of divisional intervention. This restructuring has taken two forms. The first has been to promote the *"short term* *strategy"* of the division in getting the businesses individually in *"good order."* This has meant pursuing cost savings through amalgamation and rationalising manufacturing facilities. The second form has been to further the *"longer term strategy"* of becoming *"the single most important supplier in the UK"* through offering *"turnkey solutions"* to customer problems by developing the concept of *"cross-selling." "The real issue is: How do you cross-sell?"*

This capability of offering a total package of products from the six businesses is seen to be the key attribute underpinning the value of the group over the sum of the stand-alone businesses.

> *"They are absolutely worth more as a grouping. If you broke them up and sold them, and that's the acid test isn't it?, they would have nothing to offer individually amongst a multitude of similar competitors."*

By common branding, integrated marketing and sales efforts and active cross-selling by BMs the value of the division is seen to be enhanced as a potential *"one-stop shop."* Even though any under-performing business or *"star"* might be seen as a profitable divestment opportunity, *"if you took it out of the whole it lessens the value of what's left"* and the divested business itself would be worth less if deprived of divisional membership on the basis that it would take a product out of the portfolio on offer.[6]

The linkages between the businesses are limited to unstructured *"cross dialogue"* between the BMs and a monthly meeting of them all with the DMD. The

[6] These are the views of the DMD. As noted earlier I found it difficult to justify this view.

performance incentives of the BMs do not include any pan-divisional elements being related only to the financial performance of their own business.

> *"There is no formal reward (for sharing), on the other hand the guys are trying to operate within a system that gives reward even if it's only by acknowledgement of the contribution they make at a divisional Board meeting level."*

There is a competitive element between the businesses that operates against cooperation, . *"..they've got their own P and Ls and they will deliver that and don't care about anybody else to that extent."* However, they are dealing with the same, small set of customers, and withholding information makes it seem that the BM *"hasn't got his ear to the ground, and if you say 'I don't know' which means 'I ain't going to tell you', well basically you look stupid."*

Each year a dozen or so of *"the stars if you like"* from across the company are taken as a group through a management training course at a prestigious training centre. While coordinated at a corporate level the identification of the high potential individuals is via the BMs and then supported at divisional level. The DMDs take part in the training process by acting as *"consultants"* and take turns in leading this party on overseas inspection tours. This annual event is the only structured contact between managers below the BM level and is the only systematic divisional (or corporate) training.

The divisional results are reported directly to the corporate finance office from the business units with (financial statements only) being reported with the DMD commenting on individual businesses and not the division as a whole.

6.6.4 Summary

Despite being part of a company that espouses integration and core competences this is a non-cooperative division which operates as a set of stand-alone businesses with no integrating structures, systems or processes between them. It is the product market activities of the individual businesses that define their relatedness and not a sense of common capabilities, competences or processes. While the DMD has a strongly espoused orientation towards 'sharing', this is predominantly reflected in the exchange of market/customer information between BMs both informally and at the monthly divisional meeting. The DMD concedes that his own fire-fighting duties prevent him from acting more proactively to develop his ideas of 'turnkey' solutions and the lack of any divisional support staff (even the FD is part-time) indicates the lack of commitment to pan-divisional functioning.

6.6.5 Postscript

Announcing its own large losses in mid-1997 the parent company revealed the sale of Division D1 to a German engineering group. The division had experienced a drop in profits due to the deferment of refurbishment by major customers and a series of operational difficulties. The sale was in order that the company could concentrate on its core divisions and *"leverage their synergies."* (Annual Report for 1997). This plan did not seem to increase the perceived attractiveness of the company's shares:

> . *"..investors should be under no illusion that a quick turnaround is on the way...there are better bargains elsewhere in the sector."*
> (*Financial Times*, July 1997.)

6.7 Division E - Vehicle Sales and Service

> *"We actively want the head office to be very much smaller, **very much less involved in what happens at the local business level but we want to coordinate that activity** to the extent that we can maximise the opportunity it presents."* (emphasis added)

With a turnover of £1500m and employing 9000 people in four business groupings in the UK and France the parent company is a UK leader in its sector. After a history of broad diversification in the 1970s and 1980s (e.g. hotels, electronics, computing) the company has reshaped its industrial and geographical portfolio to become *a "broadly based"* services group in the vehicle industry. With stated goals of being "*the leader in each area in which we operate*" and a long term aim is to make the company name stand for *"trust"* and *"value for money"* the company is seeking to build market share as a means of increasing returns to shareholders. The corporate focus is *on "investing in the areas of greatest opportunity and maximising the returns in each individual business."* To relate this focus to shareholder value each business is measured *on "its profit after a charge for the cost of capital, reflecting its gearing and risk characteristics."* This measure is a key feature of management bonus schemes.

Division E generated 1996 revenues of £800m from 3500 employee throughout the UK. The primary businesses units are sixty five autonomous dealerships which are in one of four franchise groups under the control of a Franchise Director. As well as the four Franchise Directors, a Finance Director and an Operations Director, *"who looks after certain key activities, personnel, information technology and so on across the* *patch"*, report to the Divisional Managing Director (DMD). The division has had several different organisational structures in its attempts to maximise value from its collection of dealerships.

Operating in mature markets the dealerships sell and service new and used vehicles. The new vehicle industry is becoming increasingly concentrated as the manufacturers are actively reducing the number of distributors. The suppliers have a strong ownership orientation to their franchised brand outlets

> *."..just get it right guys (they say). We own the right to distribute this product. You're the franchisee and we're the franchiser and we'll tell you how we want to see it."*

The franchisers are increasing the geographical area of responsibility of their franchisees to minimise intra-franchise competition and encourage a more mutually beneficial *"partnership"* between themselves and their retailers.[7] In contrast the used car market is highly fragmented. New and used cars are sold and serviced locally and local marketing and reputation are seen to be the key facet of competitive strategy *"there are very different characteristics within local market territories."*

> *"It is quite difficult today to drive clear competitive advantage. Our belief is that the real competitive advantage will be demonstrated through the way we deal with our customers...the only real point of differentiation has to be in the effectiveness of your processes and the quality of your people."*

[7] Potential changes in European law has also acted as a spur to the manufacturers.

6.7.1 Membership Benefits

Guidance: • Administrative Summary by the DMD/Franchise Directors	*Facilities*: • Divisional name (?) • Administrative (e.g. IT) help. • Divisional training schemes in quality, people skills etc.
Team: • No material internal linkages.	*Group*: • Increasing territorial exclusivity driven by the manufacturers i.e. the manufacturers want fewer, larger, outlets.

There is limited divisional value from the *guidance* of the divisional level as the prime value-adding characteristic of the dealerships are rooted in local issues. The dealerships are not linked with each other in terms of process or capability although they do have email linkages (which they do not use). The value of the divisional brand is admitted to be limited and whether generic, divisional wide training is value enhancing is a moot point. The prime potential for divisional value seems to lie in the potential for enhanced prices/margins as competition is reduced between same brand dealerships due to the increasing territories being allowed to the one company.

6.7.2 Perspective and Pattern

Divisional Philosophy	• The division is a collection of stand-alone businesses that operate autonomously from each other. • Value is derived from the local, market-specific activities of the dealerships. • Limited value is gained from inter-business processes.
Divisional Functions	• No strategic functional or process support staff or facilities are in place at divisional level although administrative help and overview is given by the Operations Director
Pan-divisional dynamics	
Integration	• The divisional staff, including the Franchise Director meet monthly but no such structured meetings occur for the dealerships.
Measurement	• Formal divisional control is based on the financial outputs of the individual businesses. • A move towards other non-financial outputs is underway (e.g. customer service).
Performance incentives	• The performance bonuses of the BMs are entirely based on the profit results of their own dealerships.

Divisional strategic management is based on separate, autonomous businesses generating value from their specific markets. The divisional processes, systems and philosophies are consistent with stand-alone M-form organisation. There is a move towards non-financial measures but the shareholder value measure remains the key indicator of business success.

6.7.3 Description

One of the Franchise Directors was interviewed in his office at the divisional headquarters in Buckinghamshire. He has been in the division for 4 years and with the company for 25 in various roles in the UK and overseas. The division has been in a state of organisational flux for some time. *"We've gone through a number of different phases of the organisation over the past few years."* Four years ago, after the division had expanded by acquisition there had been a more significant level of functional support to the dealerships in their particular franchise groups. *"For every franchise director, you had a finance guy, personnel support and other support teams. So it was five times quite a lot of people."* Moreover, because the Franchise Directors had different company origins, they *"were organising and running their own ship"* in different ways to each other. *"It was very much an organisation of separation where they were separate organisations... very different."*

In response to these *"different cultures"* it was decided to structure and implement a divisional *"way of doing things."* A standard computer system was imposed, as were ways of selling, service *"all sorts of things."* *"Big teams of people"*, based at divisional head office focused on implementing such programmes across the organisation *"as rapidly as possible."* On the back of buoyant trading the costs associated with this organisational culture change were painlessly absorbed. A market downturn, however, caused a close look at the *"one hundred and eighty people that were engaged in these projects and programmes and support processes and management etc."* and it proved ***"difficult to see where the added value was."*** (emphasis added). As a consequence it was decided to reorganise the division on a regional basis. While the number of Franchise Directors stayed the same they lost their support staff and had General Managers who, with their team, were responsible for a number of dealerships on a geographical rather than franchise basis. This was combined with a reassessment of the dealerships and the decision to dispense with some of the long term non-performers[8].

> *"...if you have a problem you spend a helluva lot of time putting all your energy into that problem. You never spend the time putting your energy into the opportunities."*

Although *"predominantly cost driven"*[9] reorganisation into a regional structure was also

> *"driven towards getting economies of scale out of the regions. It was more efficiency driven...to maximise our marketing potential in the region. We could have adjacent businesses in the same territory, or at least in contiguous territories where they could be actively behaving in two different directions with no synergies at all and effectively competing."*

"Synergies" were gained through various cost reduction and efficiency based initiatives such as rationalising common systems and services in local regions. (e.g. spare parts were rationalised to one warehouse.) *"Pre the structural changes we didn't have synergies."*

After 18 months the changes were reviewed *"and frankly we agreed that it had limited success."* It was concluded that previously there had been *"one level of complexity"* at the top of the division that *"really rested in the head of the DMD...he was the only guy that really needed to bring together a picture."* It now seemed that

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[8] This has been an ongoing process and, linked with the consolidation of dealerships in response to franchiser pressures, has seen a reduction in the total number of dealerships from 105 at the beginning of 1992 to 62 at the end of 1996.

[9] The restructuring allowed a 56% reduction in head office numbers. (i.e. 180 to 80)

this level of *"strategic thinking or structural thinking"* had been moved *"down two levels into the heads of the regional GMs"*, and the regional GMs proved incapable of handling the multiple issues.

> *"They were suddenly in a region with maybe four or five franchises and having to understand the complexities of the manufacturer's requirements in each franchise. Having to see what could be done, what couldn't be done and how they could achieve results from that."*

Where regionalisation was seen to have been successful it *"was where we had a single franchise."* Another force at work during this period was that the major manufacturers, who previously had been insistent on small franchise regions, had begun the shift of orientation to a preference for fewer franchisees covering larger territories.

At the beginning of 1997 the division moved back to a franchise based structure but with some major differences from the earlier franchise based organisation. Whereas the former Franchise Directors had full support staff the current roles *"have no support at all."* They act more as a *"direct link"* to the dealership[10]. Also some of the (one-franchise) regional groupings were left in place. Throughout all of this restructuring the dealerships have been autonomous with respect to the functions needed for day to day operations. When explaining his monthly results the Franchise Director reports on each of the businesses separately. When the divisional results are reported the figures are reported by franchise but individual dealership figures are still made available.

[10] At this stage the divisional office head count was down to 30.

Most of the time of the Franchise Director is spent on operational matters in his set of dealerships.

> *"Eighty percent of my time is spent in business reviews, one-to-one reviews site visits, operational reviews ...twenty percent of my time is spent on development strategic activity around the portfolio and around performance of the portfolio. We spend time as a (divisional) board developing those things."*

Although most of the Franchise Director's performance incentive is based on the results of his business group there is a an *"element"* of it that is linked to the overall divisional result. The incentives of the dealership heads are based only on the performance of their own business, *"they are very focused in that regard."* Performance for the purpose of bonus is measured in terms of *"shareholder value, which is based on a the concept of a return on capital"* but also incorporates the results from a *"customer service index"* and an annual *"employee opinion survey."* While shareholder value remains the first and most important hurdle the last three years in particular have seen increased emphasis place on a more *"balanced scorecard"* incorporating employee and customer satisfaction.

During the past few years the divisional level realised that there *"were lots of other areas we were less than comfortable with."* The division has been through *"lots of programmes like 'Investors in People' and ISO9000 and all those sorts of good things"* but believed that *"processes and people were not getting the attention they deserved."* Currently a consultant facilitated, self development programme is being enacted throughout the division. The programme, *"a cascading process which starts* *at the top and works its way down"*, is designed to help all employees reflect on their role and position in the organisation. *"How you fit in, what you like doing and what you don't like doing, what you can do more, and a skills and talent assessment as you go along."*

The value of the process is seen to be in *"getting us (management) closer to the people"* and in *"energising"* the organisation because *"in our industry there's forty years of apathy been built up in the way we do business ."* At the end of the programme each employee receives a badge to signify successful completion and a small, laminated card *"as a take-away and reminder"* of the divisional vision and the goals for customers, employees, managers, manufacturers and performance parameters.

Other than exposure to such pan-divisional training programmes there are no structured links or shared processes or activities between the dealerships nor between the franchise groupings. Although all units within the division are email linked, this has not been a precursor for more horizontal connectedness. Even at the level of common stocks of parts and second hand product the dealerships have been reluctant to cooperate and share.

> *"I've got email facilities to all the dealerships. ..Now getting them to use it is a different matter. The parochial thinking's like 'I bought this item and it's going to show me a profit so don't take it away from me.' The technology makes it (sharing) possible but it's the old horse to water issue. There's plenty of water in the trough, now we've just got to get the horse to believe that it's the right thing for it to do. We're getting there but we're not at that point."*

The issue of the value of being part of the division and the value added by the divisional level is a vexed one. *"It's a good question because I think it's one of the biggest challenges we are facing...**it questions the value that division adds to the picture locally.**"* (emphasis added). Rationalising common activities (e.g. parts supply) within regions and *"operating a more effective distribution strategy within that geography"* are opportunities for cost savings for individual dealerships and yet

> *"to be frank with you it's yet to be proven absolutely to me that is the right route. **I think there are equally opposite views that show you that individually a business with the right focus can produce higher returns as well.**"* (emphasis added)

Although all the business within the division operate under the divisional name this is not seen to be a brand as such. The advertising and brand of the suppliers is seen as the marketing image that draws customers.

> *"At the end of the day the customer decides he'll buy that product and he'll look for a local dealer for that product. He's not thinking 'I'm going to buy something from (Division E)."*

Repeat purchase through customer loyalty are key local goals *"so if the divisional name adds loyalty, great! but if it doesn't add loyalty, why do it?"*

Despite the identical processes, products, technology etc. across dealerships and businesses it is difficult to draw lessons from one to the other.

> *"You've got to be careful you don't make too many assumptions. There can be effective ways in a particular geography of gaining benefits that relate to scale more than anything else and economy in terms of cost to manage the operation. But I don't think you could necessarily go away and replicate that elsewhere."*

6.7.4 Summary

This is another non-cooperative division but one that over the years has actively organised and reorganised in search of value from (regional and franchise) linkages. However, during all this time the fundamental source of value has been viewed as the local product market activities of the business and the necessary autonomy of the BM to manage those local nuances. This marketing mind-set is perhaps not surprising as the common career path in the division starts at the salesman level in a dealership. No concerted attempt has been made to operate the division on the basis of common capabilities or processes. This part of the value-adding equation seems to have been left to the manufacturer/franchiser. The ambivalence of the Franchise Director about the value-adding potential of pan-divisional processes is clear. His description also indicates that the BMs are actively resistant to any erosion of their autonomy. Although there may seem to be little positive M_{div} at the capability/resource level in the division there is potential for value from the market power that a smaller number of dealerships will hold within one franchise. These territories can be such (e.g. entire counties or regions) that the opportunity for the typical private consumer to benefit from competitive bidding between dealerships in the same franchise will effectively be non-existent. In this case relatedness will be of value due to market power with the divisional input being to maintain the necessary discipline between its autonomous units.

6.8 Division F1 - Manufacturing Child-Care Durables

> *"We are a series of national businesses and it is our objective to try, as far as we can, to keep it that way. That allows us to get different margins in different countries and allows the division in total to be more profitable than it would if we were to turn it into a global business... harmonising our products across all markets would bring the margins down to the lowest."*

> *"The role (of the divisional level) is to make* ***sure each of the companies in isolation is doing the right thing to benefit itself and yet doing nothing to offend the total of what the division is trying to do....it's also a*** *coordinating point for the various subsidiaries."* (emphasis added)

The parent company is a multinational with 5000 employees generating revenues of £950m and operating profits of £41m from four product divisions across Europe, Asia, Oceania and US. In 1993 a new CEO was appointed from within the company (a Board member since 1973) and a new chairman joined in 1994. Internal programmes to *"increase efficiency and improve business processes"* have been in place since 1995 with longer term aims stated for *"design innovation"* - through IT systems, *"transferring expertise"* - eventually through a *"global personnel policy"* and "communication" - through newsletters, video conference etc. The company is pursuing a corporate strategy of *"acquisitive growth"* and joint ventures towards its goal of becoming synonymous with *"commercial dominance of its international markets."*

Division F1 had 1996 revenues of £100m and employs 1100 people in eight businesses in Western Europe, Australasia and the US. As well as the BMs an

Engineering Director (with no staff) reports directly to the DMD. While a Financial Controller also works with the DMD, his direct reporting line is to the corporate finance department. The DMD has been with the company for three years in a continuance of his career in consumer goods companies.

Traditionally the strength of the division has been in the UK, Germany and Australia. Expansion to other parts of Europe has taken place through the establishment of self contained, national marketing companies either through acquisition or start-up. The strategic imperative for the division for the future is international expansion and *"America is the key for that."* While current profitability is sound, future organic growth is limited to a rate *"a little ahead of inflation"* unless the division makes inroads into the USA which is the biggest single product market in the industry. Following an initial, greenfield[1] start-up at the beginning of 1996 the medium term growth strategy is based on the acquisition of a major American competitor.

Selling through retailers, the businesses, which are self-contained in all functions, market nursery products to first time mothers. While the four largest businesses manufacture their products the businesses are *"product design and engineering companies and marketing businesses first...manufacturing is not essential to us."* Markets are mature and concentrated in the countries in which the businesses have a presence. The maturity of the markets for the major products are a function of legislation which makes the use of the product compulsory for designated sections of

[11] A BM of one of the European businesses was seconded to the US for two years to oversee the start-up.

the population. Despite the identical function of the products, legislation and consumer taste varies between regions to the extent that national markets differ considerably[1].

"Basically the division is ***a series of national businesses*** *with commonalties between them."* (emphasis added). Legislative requirements, reflected in mandatory use and product standards, are important market-entry barriers. The businesses work closely with regulatory bodies to raise the technical hurdles to entry.

> *"Part of the strategy is to keep the products increasingly technically advanced and make those advances statutory, which means it reduces the number of simple entrants and has the moral rationale that it makes the product safer. It also happens to be commercially attractive."*

The competitive strategies of the businesses are based on *"combination of three of four factors that separate us from the crowd."* Specific to particular countries the division has *"some very good brand names"* so that in Germany, for example, the business brand name has the *"same recognition factor as Coca-Cola."* The businesses have *"technical leadership over most of the competition"* to the extent that in total they employ *"more design engineers than the rest of the industry put together*[1]*."* Linked with this technical expertise, two BMs are *"top people"* in the industry as well as the divisional Engineering Director and as a consequence the

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[12] While one set of regulatory standard requirements now prevails throughout the EEC these standards are different, and the differences are substantive, to those in the USA which in turn are different to those in Australasia.

[13] This is not a just reflection of relative size as, on a global basis, Consumer Products Division is one of three (equal revenue) co-leaders the industry.

division is *"disproportionately heard in terms of all the standards and committees."*

Finally the businesses are *"very good at managing retail distribution at local level."*

6.8.1 Membership Benefits

Guidance: • General (DMD) management inputs to the individual BMs including the provision of longer term direction.	*Facilities*: • None
Team: • Some cross sharing of technical knowledge.	*Group*: • Increasing technical and legislative barriers to entry. • Price management between territories. • Reputation of the company and representation on industry wide bodies.

The three major businesses (in terms of profits) in the division are dominant in their national markets with market shares of over 65%. On a prima facie basis the ability to maintain local (national) pricing by owning the virtual cartel of likely competitors in Europe is a potential source of *group* based divisional value and hence "synergy." i.e. the whole is worth more than the sum of the parts because the parts would be competing away margin if they were stand-alone. *Team* based benefits seem trivial at best and given the comments of the DMD (below) probably more apparent than real. The *guidance* inputs from the DMD appear 'administrative' in nature and hence not likely to be truly value-adding despite his more optimistic views.

6.8.2 Perspective and Pattern

Divisional Philosophy	• The division is a collection of stand-alone, nationally based businesses that operate autonomously from each other. Despite similarities of product and process the market differences of the businesses are paramount. • Divisional value is a function mainly of the general guidance of the DMD and the group benefits of the elimination of European, cross border price competition between businesses that, were they stand-alone, would be natural competitors.
Divisional Functions	• No strategic functional or process support staff or facilities are in place at divisional level. • A divisional Engineering Director represents divisional interests on standards and legislative committees.
Pan-divisional dynamics	
Integration	• Structured linkages exist in the bi-annual meeting of BMs and an annual meeting of Technical Directors. • The divisional Engineering Director acts, to a limited extent, to share technical knowledge between businesses.
Measurement	• Formal divisional control is based on the financial outputs of the individual businesses which also comprise the divisional performance measures at the corporate level. • The DMD operates as a non-structured guidance and feedback system based on more behavioural input parameters with a particular focus on new product development.
Performance incentives	• The performance bonuses of the BMs are linked only to the profits of their own business.

The prominent feature of this division are the M-form characteristics of autonomous, stand-alone businesses judged on their individual financial results with no functional nor process inter-dependence. The actual, structural interactions between the businesses are limited to bi-annual meetings of the BMs and annual meetings of their Technical Directors. The divisional Engineering Director has no input into engineering or product design despite his background in this function.

6.8.3 Description

The Divisional Managing Director (DMD) was interviewed in his office at the company headquarters. Although there is no process, function nor system support the divisional level is seen to add value to the businesses in several ways. Regular visits to the companies ensure that *"they are steering the ship generally in the right way"* as local operating managers can *"get so caught up in the detail that they lose the direction of where they ought to be going."*

In particular the visits aim to keep the business focused on new products and new product development which can get deferred to more urgent operational contingencies. In the smaller marketing companies *"by their very nature"* the skills of the local managers *"are not totally rounded"* and support is given by the DMD. The divisional level provides *"the impetus to enter new markets"* as the local focus of the national companies hinders more expansionist initiatives, *"the Germans worry about Germany, the English worry about the UK"*, Although the DMD visits the businesses frequently there is no formal schedule of meetings. The businesses are measured on their achievement of budgeted financial targets although the DMD maintains an overview of *"product development programmes"* in the larger businesses. The performance incentives of the BMs are based entirely on the profit performance of their business. Twice a year, once in the UK to coincide with the annual result announcement in the company and once in the US at an annual trade fair, the BMs meet formally as a group with the DMD and the Technical Director to discuss any issues deemed important to the division or other parts of it.

There are no functions, activities or processes that are shared between the businesses other than the relationship of supplier-customer that exists between the larger businesses and the smaller marketing/sales companies. Despite having the same manufacturing process and selling *"essentially the same product"* there is no interchange of product nor the cross sharing of manufacturing facilities.[14] The potential gains from improved manufacturing efficiency from focusing each facility on a narrower range of products are deemed *"trivial compared to the potential gains from launching a new product."* Even at the level of common components the German and UK businesses are designing and manufacturing their own different

[14] Two occurrences showed the relative ease with which this could take place. In the first case the American operation started up by assembling products from parts that were shipped from the German and UK plants. This was despite the fact that *"we had to make amendments to all the products to meet American standards."* In the second case a gap in the product portfolio of both the German and UK businesses was filled by the same product, with cosmetic changes, supplied by one overseas supplier. (Eventually both companies tooled up to make the product themselves.)

versions which *"does add a little bit of competition"* which is seen to be *"quite a good thing."* Overall *"if you look at the* ***synergies between the businesses they're very limited****."* (emphasis added).

Despite this

> *"there's a lot of cross-fertilisation, particularly on the engineering front, between the companies, so that if we get a good idea in one place we transfer that knowledge to others who may use it in a different form."*

Knowledge exchange happens at an annual meeting of Technical Directors of the businesses and on a more informal basis between BMs *"which we rather encourage."* Part of the role of the Divisional Engineering Director is to remain in contact with his business counterparts and ensure that he acts as *"a catalyst to the transfer of knowledge."* The major part of his role, however, is as divisional representative on various standards and regulatory bodies.[15]

Other than some technical matters, local market differences dominate the views of the businesses and division. The appearance of the product differs according to national taste. *"If you look a the products in Germany, on appearance alone less than 10% could be sold in the UK and vice versa."* Different brands are used in different countries *"so the management of brand varies."* The *"structure of retail distribution"* varies widely with 55% of retail trade being through small, independent outlets in Germany while the *"multiples"* account for 90% of similar trade in the US and France. The structure of the *"multiples"* also varies with *"true*

[15] The incumbent, who has been with the company for many years and has received an MBE for his services to the industry, is currently in ill-health. Should he retire there is no intention to replace him i.e. it seems that it is the *individual* rather than the *role* that is of value.

supermarkets" dominant in France and more specialised outlets more powerful in the UK and US. *"It's very difficult and perhaps not even a wise thing to manage retail distribution except on a local basis."* The exception to this may come in the form of globalising customers and in particular with customers adopting a pan-European orientation. *"In the long run the business will become global."*

Despite an espoused lack of synergy between the businesses, a potential acquisition in the US is predicated on potential synergies as well as a drive for growth. The opportunity for a *"clear two brand strategy"* using European product/brand through the US distribution system is matched by the reciprocal opportunity to bring the lower cost, American product to countries in Europe. Also taking *"some cost out of the system by amalgamating manufacturing areas in the States"* is less problematic in the new market.

> *"It is actually the differences that give the opportunity for synergy... most of the synergies will be on the sales front which is leveraging the distribution channels...we haven't got the management capability to do that in isolation.. that is without an acquisition."*

The value of the division over the sum of its businesses is also augmented by its ability to constrain competition between its two largest businesses. Both have in excess of 60% market share in their national markets but *"the UK tends to be a lower margin country for us than the continent."* Having *"a similar but different product"* in various countries enables the businesses to *"price position differently."* If the two businesses were stand-alone then the UK business, with lower costs than it's German counterpart, would compete in Germany at lower prices. If the German business was thereby forced to lower its prices the effect on its margins and profits would be significant even if its market share was unchanged. *"We actually take advantage of the fact that it is a series of national markets rather than a European market."* The move to a common European currency is a potential threat as "*our ability to confuse the issue though different currencies will become more difficult and cross European pricing will become a little more transparent.*" Customers with pan-European ambitions are already causing problems by selling product purchased in the UK in other European outlets. Changes in the marketplace may force changes in the strategic orientation of the division with a consequent change in the nature of the people in the businesses.

> *"I do accept that in time it will move towards a more global structure and maybe the types of MDs we require will need to change to be more system type people rather than entrepreneurial."*

6.8.4 Summary

Division F1 is not a cooperative organisation despite the fact that, typical of other manifestly non-cooperative divisions, the DMD talks about knowledge sharing and cross-fertilisation in a way that bespeaks a cooperative orientation. The businesses are, in fact, stand-alone, nationally based entities that in reality have little to do with each other in any but the most cursory of ways. Even the low degree of sharing suggested by the DMD is probably overstated as he also describes how the UK and German businesses are separately (and secretively) designing and developing the same, critical component. No structural mechanisms are in place to force sharing or integration and, other than the Divisional Engineering Director who seems to be more an industry representative for the division, no functional/process staff are in place to add expertise. This DMD is comfortable with running the division as a set of autonomous units because his perception of the most important source of value lies in the local product-market activities of the businesses which, in his view, are defined more by their differences than their similarities. Hence his seemingly contradictory statement about "differences" giving rise to "synergy." By this he means that by adding low market end products (different) to their current high end (and high cost) portfolios the businesses will make more profit (i.e. synergy).

An important issue for Division F1 is the value of maintained pricing, in particular, in Germany[16]. At this level of *group* benefits it is logically feasible that restriction of (price) competition, which is under divisional control, is a material divisional value. In such a case the M-form management of the division is an appropriate one as it is important to maintain and enhance territorial and hence business boundaries to ensure territorial discipline.

The value of this division may indeed be greater than the sum of the parts i.e. synergy may be in existence, but based in economics of monopoly control rather than economies of scope.

There is more than one way to make added profits from relatedness.

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[16] There was more than a hint of local resale price maintenance being a feature of the market dynamics of the (dominant) German operation.

6.9 Inside a Non-Cooperative Division:

In this case a "deeper" investigation of a non-cooperative division was undertaken through interactions with other divisional level managers and business managers after the discussions with the DMD. Although the major issues brought out by the DMD are evident in these additional interviews a richer sense of the dilemmas and tensions of divisional memberships comes through.

Division F2[17] - Vehicle Sales, Servicing and Leasing

> *"As long as the man who's running the business is a good all-round 'chap', good all-round performer I don't see that you can add value to that.* ***I feel our job at the centre is merely to put in place the correct person to run that business and don't get involved anymore and just make sure we monitor his financial activity."***
>
> (DMD - emphasis added)

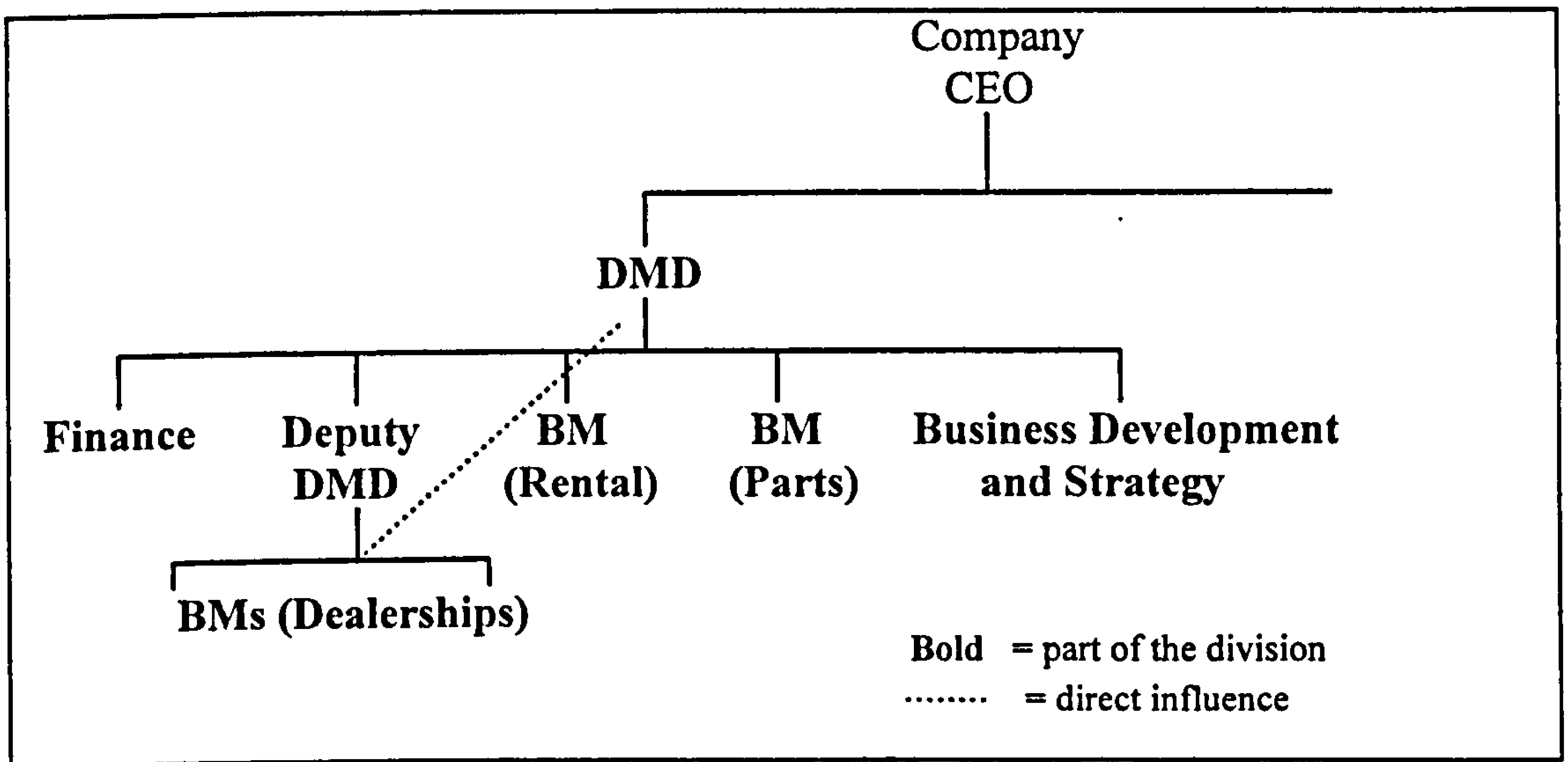

Figure 6.1 Organisational Chart - Division F2

[17] As a quid pro quo for access to this division I was asked to make a presentation on my findings/thoughts particularly pertaining to the dealership businesses. The summary report of that session is contained in Appendix F)

Division F2 is one of four product divisions of Company F the parent company of Division F1 described above (6.7). Employing 2300 people in the UK the division generated 1996 revenues of £600m from three businesses operating in the vehicle distribution industry as a competitor to Division E (above). The three main businesses areas operate in different segments of this mature industry. The dealerships, the main focus of the division, sell and service new and second-hand vehicles as well as supplying parts and in some cases hiring or leasing products for short or extended periods. The growth of parts supply, both to consumers and to other dealerships, has been such that it has been consolidated into one stand-alone business within the division[18]. Similarly the growth of the leasing market caused leasing to be operated as a significant business area in its own right. The parts business supplies some of the requirements of the dealership but is limited to the parts of one (major) franchiser. The dealerships supply some of the new product requirements of the leasing company. While a 'preferred supplier' basis is evident these internal trading arrangements operate on an 'arms length'/market pricing basis. Leasing and Parts businesses are headed by Business Managers (BMs) with a functional organisation below them. The other business area, headed by the deputy DMD, comprises 26 stand-alone dealerships each headed by its own BM and functional team. The deputy DMD has no support staff and shares with the DMD the

[18] In fact the growth was within one large dealership where the parts operation grew to be so large it was handled as a separate business within the dealership and finally put as a stand alone divisional business, incorporating activities from other dealerships. It is still a very small business in terms of turnover compared with the other two.

oversight of the 26 dealerships. i.e. his role is a manifestation of 'span-of-control' difficulties which the DMD would experience if 28 businesses reported directly to him. A Financial Controller and a Director of Business Development and Strategy also report to the DMD. The Financial Controller consolidates divisional numbers and is a link with his counterparts in the business. The position of Director of Business Development and Strategy is a newly created one and the role of the incumbent has not yet been fully defined. Currently he is acting as the project manager of a centralised computer system for use by all the dealerships. Later his role is mooted to be involved in assisting the dealerships with internal processes on the basis of his past experience as a consultant in process improvement.

The current divisional strategic imperative is shaping the dealership portfolio to meet longer term macro environmental change. Foreshadowed changes in European law and the response of major suppliers are causing a rethink of the potential shape of the division. Within the dealerships the second hand market, which is an important source of margin, is highly fragmented and easy to enter. *"a piece of tarmac, a shed and a telephone and that's it, you're in."* The new product market, important as the *"shop front"*, however, is becoming increasingly concentrated as the major marque suppliers are actively reducing the number of franchisees and increasing the territory of those that remain. The suppliers are also trying to break down a long term adversarial relationship with their franchisees, *"they're generating friends in the business, people who want to form partnerships with them in the long term."*

Local market knowledge and responsiveness are seen to be the key issues underpinning competitive success in the dealerships with the BM being the key driver of business performance. The *"main ingredient"* of the competitive advantage of a dealership is

"customer care...how we treat the customer to get the repeat business."

6.9.1 Membership Benefits

Guidance: • Administrative overview by the DMD/Deputy DMD who act as guide, counsellor and cross pollinators of problem solutions. • (Planned) kaizen inputs from newly appointed divisional manager. (?) • Designated divisional experts in Sales, Welfare, Service. (?)	*Facilities*: • Divisional name. (?) • Centralised IT.
Team: • Meetings of sales and service heads of the dealerships • Divisional sales incentive scheme run by one of the dealership BMs. (?)	*Group*: • Increasing territorial exclusivity for the dealership businesses driven by the manufacturers i.e. the manufacturers want fewer, larger, outlets. • Captive custom for leasing and parts. (?) • Purchasing discounts. (?) • Cheaper finance.

The (?) indicates potential value of membership that is suggested by some members but questioned by others (notably the BMs) as a divisionally specific benefit. The major potential value of membership seems to lies with *group* based benefits of the increasing territorial exclusivity that is being made available to the dealerships. The administrative inputs of the divisional level seem unlikely to sufficient to make M_{div}

significant even in the eyes of the DMD/deputy DMD (see Description below). It is difficult to make a case for a divisional value greater than the sum of stand-alone performance unless increasing market consolidation does end up having a positive effect of prices/margins through monopoly effects in regional markets.

6.9.2 Perspective and Pattern

Divisional Philosophy	• The division is a collection of stand-alone businesses that operate autonomously from each other. • Value is derived from the market-specific activities of the businesses. • It is important for the BMs to have the responsibility and authority to run their businesses as their own with limited interference from the divisional centre unless the business fails to deliver its budgeted performance
Divisional Functions	• A new role of Business Development Manager has been added which duties have yet to be fully defined. Other than this there are no process or functional support staff at divisional level.
Pan-divisional dynamics	
Integration	• No structured integration of the businesses (within the three main areas or the dealerships) is in evidence. • Informal contacts of functional heads of the dealerships are maintained.
Measurement	• Formal divisional control is based on the financial outputs of the individual businesses. • A move towards other non-financial outputs is underway (e.g. customer service).
Performance incentives	• The performance bonuses of the BMs are entirely based on the profit results of their own business with no part contingent on divisional performance or shared goals with other businesses.

This is a determinedly non-cooperative organisation wherein, throughout the division, the possible economic benefits of scope through shared learning and development of capabilities and competences are subjugated to the psychological, organisational and marketing benefits of separation and autonomy.

6.9.3 Description - The Divisional Managing Director

The Divisional Managing Director (DMD) was interviewed in his office at divisional headquarters in Worcestershire. The divisional managerial philosophy it strongly oriented towards autonomous business units. The DMD has been in the role for 5 years although with the company and in the industry for over 30. When he took up the role he changed the structure of the division. *"We used to be totally centralised, we (the centre) used to do all the advertising, we used to do all the buying."*

This was not the way he felt was the best way of motivating people in the businesses.

> *"I knew how I felt as a business manager. They don't want some wanker coming from head office saying "this is how I think", a great theoretician coming along telling them how to run the business."*

Thus all the BMs are given the functional autonomy to run *"their"* business on a stand-alone basis. They must however do this within the framework of achieving agreed targets.

> *"I say 'if you know how to run the business that's fine, can I just tell you what the rules are? Do you agree that we need to get X?* ***If you're quite happy to do that I won't even come here again. As long as you send me the money I'm quite happy to do that'.****"* (emphasis added)

The businesses are measured on their financial results against budget. Although a return on capital employed (ROCE) target is the main measure the (individual) monthly meetings go into details by cost centre. The performance for each cost centre is graded as 'excellent', *"that's humming"*, 'average' or 'poor', *"requires a high level of focus and attention."* The dealerships are also measured on their performance against an externally generated customer service measure with an objective to be at number one or number two if number one is another divisional business. On these measures *"you don't have to be there tomorrow but the next time the figures come out you have to not go down. We'll let you stand still a bit but you have to keep moving forward."*

As well as the ongoing customer measure the divisional level has undertaken a consultant supplied *"mystery shop programme"* to audit various aspects of customer service.

Other than the external customer survey the benchmarking of performance is internal. Dealerships that consistently under-perform in an area are encouraged to visit and learn from those that are doing well,

> *"where we've got a relatively poor performer we can attempt to bring in the skills from a good performer and insist that the guy who's running the business goes and gets a piece of that action"*

or the DMD and his deputy *"cross-pollinate"* solutions to problems.

> *"Where we help is to say 'Joe Bloggs had this problem two weeks ago and this is how he satisfied it. Try it. If you're not happy with it do something else but we still want our ROCE."*

This problem solving orientation is acknowledged to do nothing to drive the better performers. *"I think we tend to take the best performer for granted and wrestle with the ones below him."*

The bonus incentives of all managers in the division are based on the financial performance of their business and includes no shared or pan-divisional components. There is no link of the incentive scheme with any non-financial measure. For corporate reporting purposes (and explanation at Board meetings) divisional performance is reported as a set of separate figures for each of the business units. Although all the businesses and dealerships share the divisional name ('brand') there are no formal linkages of processes, systems or functions between them. While no facilities are currently shared by the dealerships, a centrally located and maintained computer network is in the process of being installed under the project management of the Director of Business Development and Strategy. All of the BMs used to meet twice a year at corporate conferences based around full and half year result announcements. These meetings have become less frequent since the appointment of a new company CEO and restricted to fewer numbers. The value of such meetings was questioned in any case, *"whether it's we don't do them right or what...I mean we get a bit out of it, but the amount of money it costs!"*

The BMs of dealerships with the same franchise meet under the auspices of the deputy DMD once a month in a *"very informal meeting which isn't agendaed by the centre"* based on a *"what's going on? How is it with you? sort of thing"* which benefits the people attending who *"contribute, listen, get a flavour."*

The benefits of divisional membership, outside of the intervention and guidance of the senior managers, did not come easily to mind,

. "..some economies of scale...we can buy our finance at half a percent less and on the volumes that we deal with it adds up to hundreds of thousands of pounds... a bit on consumables and a few bits and pieces elsewhere...there has to be something in the branding...hopefully we attract quality people that stay with us."

A particular dilemma centres on training and the divisional neglect of business level inputs and processes, *"I don't know how to train our people.."* Similarly the selection of key business and unit level staff is handled at the centre by a large competitor but is rejected as central interference in Division F2.

"I try to put it all back to the man who runs the business and if there is something that is not working in that business then it's down to him. And if he requires training or if he's got crap salesmen then that's down to him."

This approach is not without its concerns.

"When you see the rest of the industry doing the complete opposite of what you're doing, it worries you a bit."

6.9.4 Description - The Divisional Level

The executives reporting to the DMD (Fig 6.1) comprise two divisional staff positions, the Finance Director and the Business Development and Strategy Director, the Business Managers (BMs) in charge of two separate businesses of Parts and Rental and the deputy DMD in charge of 26 stand-alone businesses (dealerships) The perspective of the divisional level as a stand-alone, autonomous group of businesses is clearly a shared one by the managers at the divisional level.

. "..we don't actually run it from the centre."
(Deputy DMD)

. "..operationally we are autonomous."
(BM- Parts)

"from the time he (DMD) appointed me he left me to do my own thing. He never once attended a board meeting."

(BM - Rental)

"Fundamentally the responsibility sits with the BMs which is right, it's a decentralised organisation."

(Director Business Development and Strategy)

As well as having external customers, the Rental and the Parts business trade internally with the Dealer business. Parts are sold to the dealerships which enjoy lower costs and stock holdings as a result. The dealerships sell vehicles to the Leasing business with consequent volume benefits for the dealerships as well as the opportunity to obtain first preference for service contracts. In this sense *"synergy between the dealerships and the rental company is fairly obvious."* (BM - Rental) The 'synergy' is one-sided as the Rental business can buy from anywhere and sometimes pays a higher price to the divisional dealers for the sake of maintaining the internal trade. Apart from internal transactions there are no ongoing linkages between the three business areas. Each exists independently and shares no facilities, meetings, processes etc. with any of the others. In fact all of the dealerships have their own local parts businesses with 15-20 people employed and some of the larger ones run their own rental operations. For their own businesses the Rental and Parts BMs had difficulties thinking of advantages to being part of the division.

"..I do struggle with the idea of advantage. Operationally we are autonomous so from that point of view there is no direct advantage."

(BM - Parts)

The recently created divisional level position of Director, Business Development and Strategy seemed contrary to the strongly prevailing culture. The appointee came from outside the division (and the company) and is known within the division as the "Kaizen Manager." His background in the automobile industry and consulting had built his expertise in waste reduction and cost improvement based on focusing on organisational activities and processes.

> *"My focus is very much on the process and that's trying to break away from just thinking about results. Get the process right and the results should come."*

In this he agreed that his perspective was contrary to the prevailing ethos of the division, *"it will take quite a lot of time to break away from a numbers driven approach."* In another significant way his orientation towards inter-business sharing was contrary to divisional practice.

> *"There are elements of best practice across the group, what we don't have currently is a way of sharing that. What happens is we reinvent the wheel.... We try and facilitate sharing though the various league tables, **'you guys that are bottom talk to the guys at the top', I don't think the sharing part occurs enough...It's about getting away the fear that talking to somebody else is a sign of failure.**"*
> (emphasis added)

Despite these strongly held views on the value of sharing he does not advocate the imposition of sharing mechanisms. In the context of a *"decentralised organisation"* there had to be *"local ownership"* with his input coming from *"working along side the BMs more."* So far he has been focused on managing the centralised computer project and has had little input of a *"kaizen nature'* into the businesses. His optimistic assessment that the principle of kaizen being appropriate across the dealerships *"is fairly well embedded into most of the BMs' minds now"* is not reflected in the comments of the BMs. Similarly, his commitment to training as a facilitating mechanism, particularly in the light of his views that the division is *"unprofessional in our training from the BM down to the first line manager"*, is in marked contrast to the DMD's expressed lack of faith in management education and training.

This role seems out of place as neither pan-divisional processes nor ongoing process intervention at business unit level has been a characteristic of divisional strategy and operating culture in the past and is not consistent with the current views of the majority of others in the division.

6.9.5 Description - The Dealerships

> *"We are left almost completely alone to be master of our own destiny."*
> (BM - Birmingham)

> *"The best thing about our group is that we are allowed to get on and run the business."* (BM - Stafford)

The dealerships form the core of the division and, organisationally, constitute a mini-division of autonomous businesses under the stewardship of the Deputy DMD. There is a move, initiated by the major manufacturer/franchisers, towards consolidating dealerships by geography such that a hub dealership has control of other satellite sites. This change is aimed at reducing the number of franchisees and enabling those that are left to better control prices and margins in larger sales territories. *"I'd call it a cartel personally."* (Deputy DMD)

Although some of the dealerships differ by franchise (two marques predominate) they operate under the same divisional name, sell the same products and offer the same services to the same type of customers. The customer segments, while the same for each dealership by type, exist in differing proportions in different territories.

> *."..you are in your own market place, the demographics are your demographics and nobody else's. Therefore if you're in a large city centre and have a huge welfare component...you have to be an expert in that. If you're operating in a smaller seaside town in the south of England...it's probably pure retail therefore you need all the strategies that go for an aged population that's well moneyed and so on."*
> (BM-Birmingham)

Their product strategy is seen to be dominated by the actions and requirement of their franchiser *"we are dependent on the manufacturer for our marketing plans."* (BM - Cheltenham). Despite this restriction, the dealership BM's unanimously assert that *"giving the sort of service that makes people want to deal with us"* (BM-Manchester) and *"building relationships with your local community, local police..."* (BM - Banbury) to be the critical underpinnings of their long term competitive and financial success. To fully develop local focus it is argued that autonomy of operation is logically essential.

> *"The essence of this job is to run it like it's my own business. It is important that we have that delegation down because you need relationships with the local community, you need to understand how the local community operates."*
> (BM - Banbury)

Consistent with an "own business" culture there are no processes, structures or systems that link the dealerships in their daily operations. It is also apparent that not only do the BMs view stand-alone functioning as necessary, it is also an orientation they like and prefer. They want to be in charge of their "own" business with as little input from division as possible. *"One of the great benefits of this group is the autonomous nature*

in which we are allowed to manage" (BM - Manchester). The Deputy DMD, however, is conscious of some problems with being consistent with a culture of behavioural autonomy and output controls,

> ."*..there are too many examples at the moment where, if you'll forgive the conceit, we know that what the BM is doing is wrong, but because we operate on the principle "you run your business we're here to advise or consult" we can only comment, **we can't insist he changes.**"* (emphasis added)

He offered as a current example the instance of a BM who had persisted with a functional manager for eighteen months despite the Deputy DMD's oft given advice to the contrary. Finally the functional manager was dismissed after being acknowledged by his BM to be specifically responsible for a significant monthly loss. The Deputy DMD remains angry that he did not command the dismissal of the manager at an earlier date and questions his own persuasive abilities' *"perhaps my arguments were not strong enough"* while at the same time contemplating the dismissal of the BM because *"it's obvious his thinking is not quite sound."* Despite this, and other examples of the costs of autonomous functioning, the Deputy DMD remains committed to the principle because *"if everyone thought I knew all the answers then we'd have a major problem."*

In most instances where there is disagreement the BMs tend to take the proffered advice of the Deputy DMD or the DMD. If not for the obvious political reasons then this is for the pragmatic ones that the two senior men are experienced industry managers who also have daily contact with other divisional businesses and *"they can see some obvious things that won't work and then it's good to get a view that it's failed everywhere else."*(BM - Bournemouth). The generally accepted input from the divisional level is in the form of problem solving suggestions related to specific under-performance. Occasionally a pan-divisional suggestion in terms of broader process issues is offered but these are less likely to be taken up by the majority. An example of this was given by the BM - Sherwood (one of two female BMs). Six years previously the division had exposed all the BMs to a sales training company. Whilst most BMs attended the initial presentation and tried the programme for a short time, the BM - Sherwood was the only one that had persisted with the training. The problem being for the others, as she saw it, was the fact that the process involved ongoing monitoring of salespeople and particularly their telephone techniques and *"the guys didn't like being constantly monitored."*

Although no formal inter-business links exist there are two semi-structured sharing mechanisms. The first exists in the form of acknowledged expertise among the BMs. Three of the BMs are considered to have gained, either through background experience or through current operating circumstance, particular skills and knowledge in a particular function or process. (Repairs, Service, and Welfare Sales) and are nominated as the divisional experts. These BMs are used by others, either through self initiation or through the 'advice' of somebody senior, as the prime source of knowledge in their particular areas. For example other BMs may visit the 'service expert' or send their Service Head to spend time at his dealership.

The second mechanism lies in monthly meetings of the dealership Service Heads under the chairmanship of the 'service expert' and twice yearly meetings of the Sales Directors. This latter meeting is run by one of the BMs who also runs a cross-divisional sales incentive scheme. Whilst these meetings are focused on sharing information, discussions on 'best practice' do take place. The BMs fulfilling these quasi-divisional functions are not rewarded on the basis of them and do not have any aspect of these roles included in their annual objectives. They could renounce these extra-business roles if they so wished.

The value of these sharing mechanisms and whether or not they are contingent on divisional membership was questioned, however.

> *"Nice to have but not essential. The franchisers do similar things... That networking is very important* ***but it would happen anyway****, within the industry. I wracked my brains to see what there is in terms of synergy and,* ***yes, you get those things, but you get those things anyway.****"*
> (BM - Banbury - emphasis added)

In general the BMs were hard pressed to specify tangible advantages of belonging to the division[19]. *"When you start to talk about divisional benefits they do get watered **down a little bit because you are expected to run the business.**"* (BM - Leeds - emphasis added).

The Deputy DMD was similarly hard pressed to see the added-value of grouping the businesses other than some *"economies of scale"* from central purchasing and finance, and some selective value from the *"advice and counsel"* from the top because *"if you've got the right people they would not need any governance at all."* However the value of even these factors were seen to be low by some of the BMs.

> *"Buying power is overstated, central purchasing is not much better than I can do...J's (DMD) been here twice this year. It's nice to chat and chew over ideas but, he's the owner/banker, **he's no more than that.**"*
> (BM - Banbury - emphasis added)

The divisional name is seen to be less important than the franchiser's brand and both are less important than local reputation. Being part of a large, reputable group was helpful in reassuring customers and in attracting high calibre staff. In the main little tangible advantage was seen to accrue from being part of the division. The BMs believe they should get together as a group more often to get to know each other,

> *"There are BMs who probably don't talk to each other from one six months to the next. I think we miss something in not seeing each other,"*
> (BM - Stafford)

[19] Intriguingly (at least to this researcher) some of the BMs (unwittingly) suggested that the businesses were worth less as part of the division. e.g. *"If it were my own business I could take a view that I could more effectively build it up by ploughing back all the profits and accepting that I won't make a short term profit because I know what I am doing will generate a much more stable, long term business...whereas with a plc they want their money back as soon as possible."* (BM - Cheltenham) and *"a family owned business would take a more long term view of things than a plc with shareholders to keep happy."* (BM - Manchester)

"I've never met the fellow from Birmingham for example"
(BM - Sherwood)

This, however, was suggested as a mechanism for developing a sense of group cohesion rather than in pursuit of business advantage. Some of the BMs, *"the clique"* (BM - Shirley), had planned an annual social gathering under their own auspices if the divisional people did not arrange such an event[20]. Despite these expressions of a need for some form of togetherness an encapsulation of the overall culture came in one BM's response to the question: "Do the other BMs spend much time with each other?" *"I don't know, I really don't care what others do."* (BM - Manchester)

Although the value, necessity and desirability of autonomous functioning was expressed by the majority there was one BM who had a notably different view. This man was the 'service expert' in the division who, having risen through the ranks of technician to service manager was now in charge of a dealership. This was unusual as the typical BM rose through the sales ranks. He was adamant that *"as much as J and P (DMD and Deputy DMD) believe in autonomy, and that's great,* ***there are efficiencies you can gain from getting together****"* (BM - Shirley - emphasis added). He saw potential for doing many things *"across the businesses"* but believed this needed to be handled at a divisional level because no manager lower in the organisation would have the time. He was *"all for cross-fertilisation, and swopping*

[20] This was motivated by the good time a dozen of so of them had enjoyed on a franchiser sponsored *"freebie"* in Amsterdam.

and changing" people, ideas and learning across the division and would have *"no problem adhering to set parameters"* from a central source. The division was singularly lacking in ongoing cross-learning for which he was an enthusiastic supporter.

> *"If you are a department manager and you walk out of here to another dealership we should all be doing the same because we've all learned the best procedures and practices and whatever. Because we should have cascaded down all these best practices. I'm all for that, I'd love to do that tomorrow.*
> *If someone said to me 'go out and spread the word' I know I could go into every dealership and talk to the service manager and say, 'this is the way, unless you've got something different, something better, this is the way or this is your starter for ten. It's ISO9000, if you're going to change it I need to know. So try it first, write the procedure out, and put it in, and we can change the entire system.' That's what I think we should do."*
>
> (BM - Shirley)

The key to cross-divisional learning in his view lay in standardisation of functions, processes and systems. He believed that *"despite a few wrinkles"* between different franchisers, *"a lot of the things we do are the same"* but were being done in different ways despite the fact that one of those ways must be the most efficient. He foresaw little problems with the other BMs as, in his experience as the 'service expert' he had found that, despite their defence of stand-alone individualism, *" it's amazing how they will do the same things if they can see the profit in it."* This degree of espoused support for pan-divisional linkage and standardisation was unusual among the business BMs and the divisional level executives.

6.9.6 Summary

In this more deeply based examination of a non-cooperative division the lower level discussions revealed more team oriented behaviour than noted by the DMD. Despite some ambiguities, however, the overall divisional perspective and practice remains consistent with the views of the DMD. Throughout the division the classical M-form organisation of vertical and horizontal split of responsibilities is manifest. Linked with a clear demarcation of business boundaries is a pervasive philosophy of individual accountability linked with commensurate responsibility. The systems of the division are consistent with this perspective and the enthusiasm of the BMs reflects their personal commitment to running their 'own business.'

Consistency is also evident in the two interacting drivers of perspective and practice. The first driver is the orientation of the DMD and his divisional colleagues who are committed to managers being given as much autonomy as possible. The second is a shared perspective on competitive advantage that emphasises the primacy of the position of the business in its local product-market. Divisional knowledge sharing and learning is embodied primarily in the DMD and his deputy by virtue of their industry and company experience and their active 'cross-pollination' of business solutions to specific performance problems.

Tensions and dilemmas are also evident however. The prevailing primacy of autonomy and local market dynamics is seen to sub-optimise the valuable control influence of senior managers and impedes the development of best practice across the businesses. Perceived operating inadequacies can arise due to the reliance of the divisional managers on persuasion rather than direct command. Similarly in areas with ostensibly common processes (e.g. the service departments), unrealised opportunities inherent in a pan-divisional approach to 'best practice' are recognised by at least one BM.

There are more inter-business connections and knowledge sharing than indicated by the DMD. These take the form of 'unofficial' but regular meetings of service and sales department managers, 'clique' based networking and the acknowledged process 'experts'. Whilst the divisionally-specific value of such linkages are doubted by some they remain an informal source of pan-divisional knowledge transfer. In terms of social cohesion there is a strong sense of 'benefit' in regular group gatherings to the extent that BM-initiated action was mooted should the absence of divisional commitment prevail.

The tension between autonomy and control and stand-alone and linked businesses are embodied in the recent 'Kaizen Manager' divisional role. His perception of the role and his influence on the businesses is at odds with the prevailing culture of the division. In another setting his appointment would be initial evidence of a shift of orientation to a focus on common business processes but the lack of active support from the divisional level contradicts this interpretation.

This remained a mystery until later. (See postcript)

6.9.7 Postscript

In a management buyout in early 1997 the Parts and Dealership[21] businesses were acquired by a partnership of the DMD, his Dealer Director and a new Finance Director. It was put to me that the position of 'Kaizen Manager' had been created as a consequence of the concerns of the venture capitalist partners who had wanted post-acquisition improvements identified. Cost savings, based on commonality of process, had been proposed and the 'Kaizen Manager' created to effect these savings. This makes sense of the lack of 'cultural' fit of the position which, even after the buy-out, remains out of kilter with the strategic and organisational perspectives of the joint CEOs. Informal follow-up (dinner with the DMD-now joint CEO) revealed that the 'Kaizen Manager' remains immersed in the centralised computer project which has been beset by start-up problems. He has yet to begin his planned development of pan-divisional processes and will be unable to do so for the considerable time involved in the computer project.

The stand-alone philosophy still predominates this now automous M-form business.

[21] The retention by the parent company of the Leasing business suggests that the benefits of divisional membership were not perceived to be overly high.

6.10 Overview of the Non-Cooperative Division

'Non-cooperativeness' is a syndrome i.e. "a characteristic combination of opinions, emotions, behaviour, etc." (Concise Oxford Dictionary, 1991) made up of a pattern of "signs" (what the "outsider" can see) and "symptoms" (what the people involved report as their experience and views). The non-cooperative divisions studied share a number of characteristics consistent with a view of divisional value being derived predominantly from the product/market activities of the individual units. Major organisational processes, systems and philosophies reflect the emphasis placed on optimising the performance of individual, semi-autonomous businesses and, if divisional staff positions exist at all, they tend to be in control-based functions (Finance) monitoring systems focused on the outcomes of the individual units. Benefits of divisional membership exist primarily in the form of general management *guidance* from an experienced and interventionist DMD and (sometimes) *group* gains from the overall size of the business grouping and the consequent purchasing market power effects. Divisional performance is viewed as the sum of the performances of the individual businesses with sustained under-performance of any unit always being unacceptable to divisional management and generally resulting in an increased level of intervention. These patterns and behaviours exist despite the relatedness of the business units and despite the espoused value of sharing of most of the DMDs. i.e. they *talk* about cooperation but have no processes, systems or structures in place to enable it, other than exhortation.

6.10.1 Tensions and Trade-Offs

There is not the sense of prevailing division-business tension in these divisions that was expressed in their cooperative counterparts. The BMs here, as in the cooperative groupings, value and support the autonomy of the businesses and the idea of the "pure" M-form structure and philosophy as a normal "default" mode is reinforced. The non-cooperative mode seems to be the inertial status quo from which any move towards cooperative mechanism requires energetic input.

Clearly some trade-offs are consciously made but there is not the feeling of an ongoing struggle about this

e.g. *"...we know that what the BM is doing is wrong but because we operate on the principle "you run your own business we're here to advise or consult" we can only comment, we can't insist he changes....but if everyone thought I knew all the answers then we'd have a major problem."* (Deputy DMD - Division F2)

Tensions and dilemmas over the loss of potential gains from business cooperation are submerged beneath a tide of concerted support for the stand-alone perspective.

6.10.2 Whither Synergy?

Synergy in the form of inter-business economies of scope is not actively managed in some of these divisions because *it is not perceived to exist.*[22] i.e. the existing dominant logic excludes such synergy as a major divisional value driver.

[22] Whether it does exist or not is arguable but what is not arguable is that senior managers think that it does not.

e.g. *"...I think there are equally opposite views that show you that individually a business with the right focus can product higher returns as well."* (Franchise Director - Division E)

> *"...if you look at the synergies between the businesses they're very limited."* (DMD - Division F)

However some of the divisions do suggest that synergy is inherent in the business grouping,

> *""When people ask me what I've been doing, I've been running a mini-conglomerate. That is a division comprising a number of discrete businesses but with a **good deal of synergy between them.**"*
> (DMD - Division A, emphasis added)

> *"..the synergy that is talked about but can't be budgeted for..."*
> (DMD - Division B)

but have no systems, process or structures in place to exploit it.

It seems possible that a value opportunity is being missed in non-cooperative divisions. Organisationally they are reflective of the traditional concept of the "pure" M-form in the way that they are manifestations of splitting and division at the expense of sharing and integration. Hence they do not appear to be functioning in a way that can optimise the horizontal scope-based economies theorised to be a significant basis of the synergy inherent in the relatedness of the business units. Discussion of the reasons for this and the existence of cooperative divisions that do appear to be attempting to create value from such scope economies is taken up in the next two chapters.

Chapter 7

DIVISIONAL VALUE, COOPERATION AND RELATEDNESS.

*"What does the Divisional Office bring to the game?
Well I think the jury's still out on that..."*
(Human Resource Director - Division G)

In theory, divisional value (M_{div}) derives from benefits that are contingent on divisional membership and which are realised through appropriate structures, systems and processes managed by divisional executives. The previous two chapters have described and analysed twelve divisions of related businesses. Based on differences in the membership benefits they are interpreted as offering their businesses, and their organisational philosophies, structures and processes the divisions have been labelled as being 'cooperative' or 'non-cooperative'. The nature of the study precludes any rigorous classification or comparison of "degree of cooperativeness" and relying on the stated values of the DMDs would put all but two of the divisions into the cooperative category. However a "feel" for the relative positions of the divisions on a 'cooperativeness continuum' can be gained from two of the more "objective"[1] divisional characteristics; 1) the number of divisional level staff and 2) the extent to which business manager's remuneration incentives are linked to divisional performance.

1. Divisional Staff

Launenstein (1985) made the observation that

[1] In the sense a fact readily verifiable by others and not contingent on subjective interpretation.

> *"...management's real opinion of the value of synergy is revealed by how it organizes. Related operations are brought together under a group executive. It is at this level that the strategic advantage of synergism must be realised.* ***But there is almost never any strategic staff at the group level.*** (p. 50, emphasis in original).

If "cooperation" is substituted for "synergy" then a feel for management's commitment to cooperativeness (i.e. their "real opinion") can be inferred from the number of "strategic staff" at divisional level. "Strategic" staff are those reporting directly to the DMD (including "dotted line" reports) who are not in charge of a business unit and excluding the DMD's secretary/personal assistant.

2) *Business Managers' Incentives*

This is a simple indicator based on the well worn truism that in management, as with most jobs, people will do those things for which they are rewarded in preference to those things for which they are not and hence cooperation must be rewarded if it is to occur (Lorsch and Allen, 1973; Gupta and Govindarahan, 1986). In his "classic" paper Kerr (1975) pointed out the importance of rewarding the behaviour that is wanted rather than "hoping" for it. A specific example he gave is the contrast between "hoping" for team effort (i.e. cooperation) and rewarding individual effort (i.e. non-cooperation). The extent to which a business manager is rewarded for the attainment of divisional goals is one measure of the commitment of the division to cooperation as a working ethos rather than an espoused ideal.

Table 7.1 below ranks the twelve divisions on the basis of divisional staff and indicates the percentage of the business manager's performance incentive that is related to divisional results.

Division	Divisional Staff	Divisional Component of BM's Performance Incentive (%)
"Cooperative"		
G (Vehicle manufacture)	9	30[1]
H (Drinks)	6	50+
D2 (Auto components)	5	30
I (Pharmaceuticals)	5	0
J (Auto components)	4	40
"Non-Cooperative"		
A (Agriculture)	2	20
C (Water Services)	2	0
E (Vehicle sales)	2	0
F2 (Vehicle sales)	2	0
F1 (Child care products)	2[2]	0
B (Building products)	1	0
D1 (Retail equipment)	1[3]	0

[1] Instituted after the case write-up
[2] One part-time
[3] Part-time

Table 7.1 Divisional Ranking by Divisional Staff and Divisional Incentives

This table is admittedly at the level of "rule-of-thumb". e.g. To some extent the number of "strategic" divisional staff is overstated as, for all of the divisions except D2 and B, one of the divisional staff is a finance director (the part-time position for F1) which, notwithstanding the strategic input of many FDs, remains a predominantly control-focused position. On the other hand in some divisions (e.g. Division J) specific business managers have a broad divisional role as well as responsibility for their unit. i.e. the level of divisional "staff" is understated. Despite this, mapping the divisions in such a fashion clearly indicates a split in practice that differentiates two sets of divisions.

There is a clear "break point" at the level of number of divisional staff with 2 being the *maximum* in the non-cooperative group and 4 the *minimum* for cooperative divisions.. The qualitative detail from the cases emphasises the significance of this break point as in the non-cooperative divisions the (fewer) roles tended to be characterised as "control" or "advisory" positions whereas in the cooperative divisions they were described as more strategically and operationally interventionist.

There is also a clear link between those divisions (cooperative) with more staff and the tendency to tie BMs' incentives to divisional results. In only one division with four or more divisional staff is there no tie and this is in the "mini" example of the pharmaceutical manufacturing division. In contrast there is only one division with two or less divisional staff where there is such a link and this, at 20%, is the lowest percentage of all the divisions who tie BMs' remuneration to divisional results.

The data in the table above suggests that those divisions which are attempting to realise the value from the relatedness of their businesses are doing do through cooperative mechanisms which they have accepted means additional cost in the form of staff positions. They are also intent on emphasising to their BMs the place of the division as the central focus (through the incentive system).

But this raises the question again as to why there are cooperative and non-cooperative divisions when (by definition and prior selection) all of them are made up of related businesses and they all *should* (economically speaking) be cooperatives. A logical starting point in examining this (partial) contradiction of theory and practice is to analyse the type of value that the divisional management layer add (or think they add) and how this pertains to relatedness.

7.1 Divisional Management and Adding Value

Divisional managers, while not familiar with the concept of divisional membership benefits, are familiar with the concept of value added to the businesses by management[2]. All of them act to add such value either through their own direct influence, categorised as (general management) *guidance*, or through managing other divisional managers and dynamics. In practice, however, none of the divisions which took part in the study *measure* or attempt to measure actual or potential divisional value-added[3]. Hence, DMDs are uncertain about the value added by themselves or from membership of the division even in those divisions where concerted commitments of time and effort are made in pursuit of such value.

> *"I couldn't attribute whether I've had fifty percent or ten percent or five percent influence."*
> (DMD - Division A)

In the non-cooperative divisions direct *guidance* is the major, and often the only, material discernible benefit of membership. In these organisations, as was often

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[2] The question "What value do *you* add?" is a familiar one for managers and has been extended by corporate strategy authors (e.g. Goold et al., 1994) to "What value do *they* add?" in reference to the corporate (in this study divisional) layer.
[3] This is one of those "obvious" findings that is surprising. Measurement is conventionally argued to be the sine qua non of effective management and yet, in the corporate and (here) divisional value-added debate so popular over the past ten years (e.g. Goold et al., 1994), the measurement of the value added ("parenting advantage") by senior management levels is notable by its absence.

implied in the case analyses, it is particularly disputable that there is a positive M_{div} i.e. that the value of the division is greater than the sum of the stand-alone businesses and some BMs do indeed dispute this value. However, even in the manifestly cooperative divisions where additional *team* and process *guidance* benefits have been suggested, this value is still, at best, an inference by both the divisional team and the researcher who both lack measurement tools and criteria. In the absence of direct measurement, an attempt is made below to examine the likely potential for membership benefits of cooperative and non-cooperative divisions by associating proposed divisional value-adding activities from the cases with more traditional value categories and examining the degree to which these value-adding activities can be logically supported as positive membership benefits for the business units.

7.2 Categories of Value

Chandler (1994) has suggested that the value roles of strategic management can be divided into overlapping *administrative* or "loss preventative" and *entrepreneurial* or "value creating" categories. Divisional managers describe 'performance maintenance' and 'crisis intervention' activities that can usefully be classified as 'administrative' functions where "loss" is extended to incorporate below-budget performance. 'Performance maintenance' represents the ongoing monitoring and guidance activities ensuring that business units continue at expected (budgeted) levels while 'crisis intervention' denotes more urgent and focused assistance when businesses are experiencing acute or chronic operational problems.

Another set of value-adding divisional activities deal with factors that are believed to be beyond the scope or capability of the stand-alone business unit. In this sense they can usefully be categorised as divisionally 'entrepreneurial' or value creating.

Included in this category are activities termed 'future orientation' i.e. forcing a longer term time horizon on each business; 'best practice' - driving improvement in the processes and functions of individual businesses and 'pan-divisionalism' - intra-divisional processes based on the division as an entity rather than a collection of stand-alone businesses.

Figure 7.1 represents these categories.

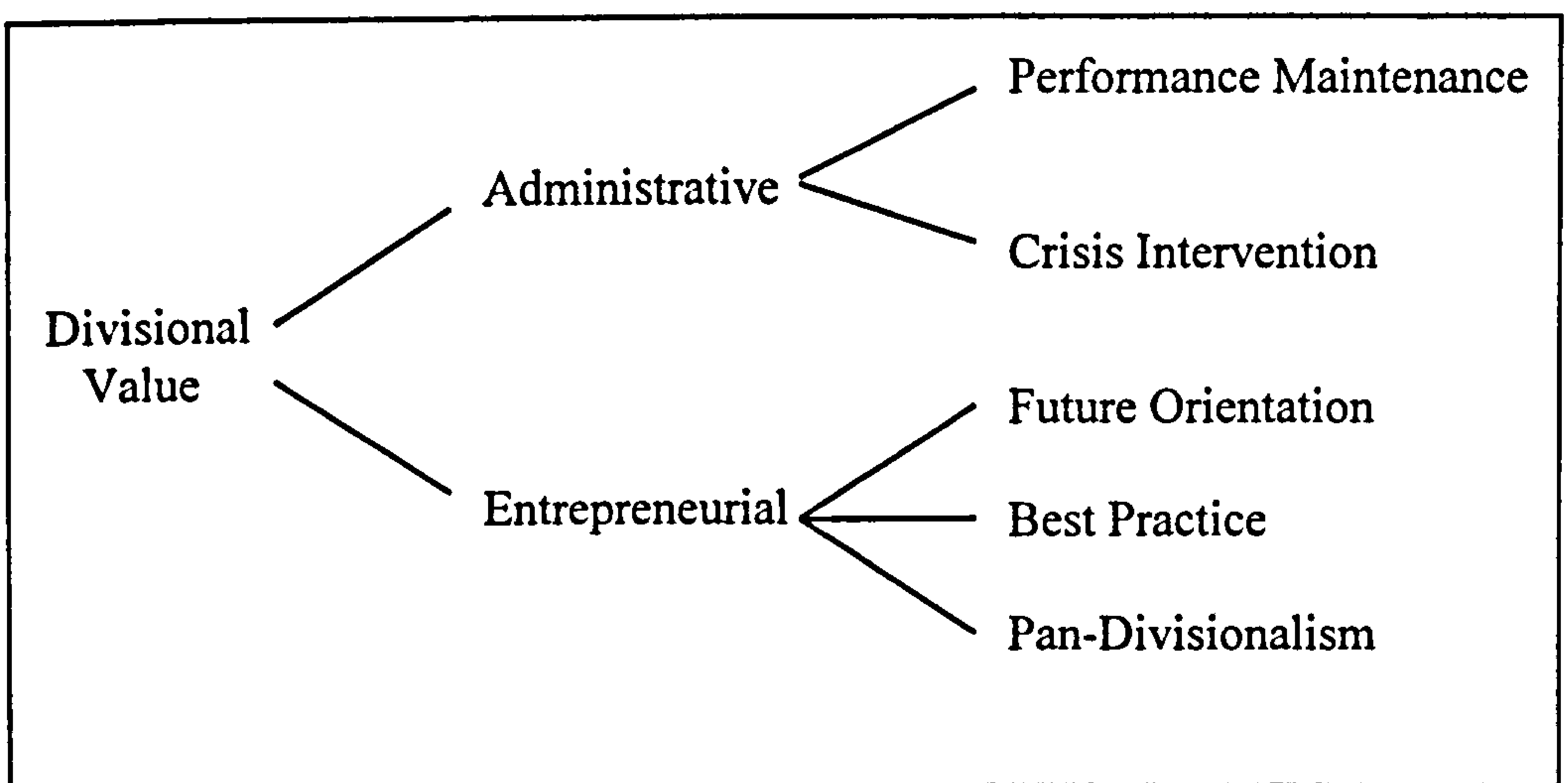

Figure 7.1 Categories of Divisional Value.

In the following sections Administrative and Entrepreneurial value are examined in three ways. Firstly the sub-categories of these two classifications of value as discussed by the DMDs are briefly described and discussed. Note that at this stage the fact that it is *the divisional informant* who has specified the activity to be of value. These categories are then linked with business relatedness. i.e. it is indicated how the specific value-category might logically be *leveraged* by being applied to related businesses. Finally the sub-categories are examined to see whether a case can be made for them to be a source of divisional value, i.e. whether they can be a component of $M_{div.}$ The argument is made that only "best practice" and "pan-divisional" activities are logically likely to be value-adding at divisional level, "future orientation" and all "administrative" inputs are more likely to be more akin to superstitious behaviour i.e. the belief in causality when objective evidence suggests otherwise. (Gimpl and Dakin, 1984).

7.3 Administrative Value

The active maintenance of budgeted business performance and crisis intervention underpins much of what is perceived as value-adding activities in all the divisions and, whatever the staffing at divisional level, absorbs a significant amount of the time of the DMD.

7.3.1 Performance Maintenance

Monitoring, communicating, supporting, advising and otherwise interacting with the business units about to their on-going operations consumes much of the day-to-day activities of many divisional level managers[4]. These activities capture more than

[4] For example the deputy DMD of Division F2 claims to motor 3000 business car-miles a month in this role throughout England. i.e. at an optimistic average of 50mph he thus spends 1.5 (40 hour)

governance influence in attenuating opportunism and sub goal pursuit and the amelioration of general agency problems (Williamson, 1991; Eisenhardt, 1989b). They incorporate the active maintenance of business unit performance to acceptable standards. Maintaining business performance is such a 'taken-for-granted' part of the divisional role that it was often bypassed by informants when describing the value of their role.

e.g. *"...apart from all the obvious clichés...forget the profits and everything...my role is..."*
(DMD - Division D1)

The maintenance activities of divisional level staff[5] are primarily focused on the performance of the *individual* business unit. Although convinced of the value to be gained from the energetic, stand-alone, activities of competent BMs and their teams, most divisional managers are, at the same time, wary of the losses that could be incurred through inappropriate decisions. While not wishing to dampen the initiative of the gifted they do want to contain the actions of the less able. There is, however, an awareness of the dilemma of divisional curtailment versus freedom to act and the necessity to be specific about this

e.g. *"...we give people maximum freedom of activity within a clearly defined and mutually discussed and mutually accepted framework."*
(DMD - Division A)

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working weeks per month in his car visiting businesses. While the car mileage is unusual the dedication is not.

[5] The use of the general term does not mean *all* divisional staff but refers to a finding from this study and the people in it.

By 'leaving alone' within established policy guidelines it is felt possible to gain the benefits of a stand-alone business in terms of the energy and commitment of the people running it, but at the same time to protect the division from the consequences of any one business becoming a major problem..

7.3.2 Crisis Intervention

While the managers in the business unit are constantly involved in dealing with operational threats that have the potential to harm the financial performance of the business, some of these issues become large enough to also threaten the total divisional performance and hence attract the direct intervention of divisional staff and particularly the DMD. Variously termed 'fire fighting', 'problem solving' and 'crisis management' this aspect of divisional functioning is seen as an ever-present distraction from a more desired 'strategic' role.

> *"In reality of course you know that in business you're stamping fires out...In reality attention gets diverted to those problems."*
> (DMD - Division D1)

Value-adding at this level overlaps with 'maintenance' but has a greater sense of time urgency and a need for immediate damage limitation. There are two broad types of crisis that attract the sustained intervention of divisional staff. The first comprise *specific events* leading to problems or losses. Examples included sales losses due to functional incompetence (Division F2) and 'dumping' of product by international competitors (Division A). The second type of crisis is *sustained under-performance* of a business unit. Here the drive of the divisional role to get the business back on planned track will often involve the replacement of the BM and some of his/her team. (Division C). It was not uncommon for the DMD, or one of his divisional staff, to have taken over the management of an under-performing business as interim management until a new BM had been appointed. (Divisions J and D2)[6].

7.4 Administrative Value and Relatedness.

The relatedness of the business units in divisions makes early detection of performance problems more likely and management intervention more timely and potentially more efficient than if they were unrelated and so suggests a sensible 'administrative' rationale for managing related businesses together. Key performance indicators in related units are common and form a limited set of criteria by which divisional managers can judge and control a number of businesses. In particular the format and meanings of terms on the financial statements tend to be identical with ratios such as margin percentage, overhead costs to sales, stock turns, debtors days etc. being directly comparable. Capital requirements, hurdle rates for projects, staffing levels, stock holdings, productivity measures, etc. are all capable of management control within a limited set of generic guidelines. Comparison between the business units enable these guidelines to be a dynamic manifestation of current trends as well as a reflections of history. Under-performance of an individual unit is made more apparent by comparison with its peer businesses and divisional

[6] The eventual non-participation of one of the divisions that initially agreed to take part in the study was due to the DMD sacking one of his BMs and temporarily taking over the running business himself. As well as 'commuting' from the South of England to the Midlands on a weekly basis he required his PA to do the same so that he could continue with divisional duties at the same time.

management is able to gauge the performance as a business-specific or market/industry wide problem and can 'leverage' business similarities in search of efficient handling of specific problems.

It is a rare set of operating problems or crises that will not have been encountered and dealt with by one of the businesses or the (experienced) DMD in the past. The necessary knowledge, techniques and actions can hence be transmitted either directly or via the divisional level. i.e. relatedness allows a divisional 'cookbook' of operational 'recipes' as responses to business problems. Division F2 is an example of this wherein the DMD, on the basis of 30 years in the industry, is able to offer advice, or direct the BM to one of the other businesses which has already solved that day's particular problem. Organisational learning is manifest in an articulated or articulable form as a mix-and-match set of problem solutions either in the head of the DMD or via another business. If the DMD deems the problem to be beyond the capability of the incumbent BM he can step in himself or put other divisional resources into the business to help the management team.

7.5 Administrative Value as Divisional Value

The fact that it is easier to *manage* a group of related businesses and that administrative activities comprise a relatively narrow range of tasks across a group of such units does not necessarily mean that the *businesses* thereby benefit from divisional membership. Administrative management absorbs time, energy, resources and commitment at divisional level and yet it still remains to be understood why such oversight and intervention logically *adds* value to the divisional units to make them more valuable as part of the division . The problem for positing the administrative value function as a significant source of divisional value-added was concisely put by the Deputy DMD of Division F2.

> *"In terms of the governance of what they (Business Managers) do, I suppose one could assume that if you've got the right people they would not need any governance at all, **that left to their own devices they would be OK**.."* (emphasis added)

While most administrative value-activity is routine based and system driven, crisis intervention demands disproportionate attention and distracts divisional and BMs from more entrepreneurial activity. Whatever the overall divisional strategy, an under-performing business receives focus as a individual unit until the problem is resolved. Even where divisional staff exist, the DMD is the key managerial input. The management pattern is one of *super-management*[7] i.e. overseeing the *same* managerial processes as the BM. As with other bases of divisional value, the value of super-management, and of administrative value in general, rests on the implicit assumption that the business *would* not and/or *could* not achieve the same value (performance) on its own[8].

It is difficult to sustain a viable argument that typical, capable, self-interested managers would allow their stand-alone businesses to consistently under-perform the industry or their own historical performance levels without making efforts to correct

[7] This term is used in the same sense as "*super*vision". It was disparagingly referred to a "micro-management" by the Manufacturing Director of Division I.

[8] Again in these discussions I am staying with the typical and avoiding extremes of ability, luck, motivation etc.

this. Even in the event that the managers themselves were not motivated to engage in corrective action, the pressure of external stakeholders would concentrate their minds in that direction. In the same way, managers of stand-alone businesses are motivated to respond to crises. i.e. they will not ignore profit threatening contingencies any more than divisional management will and no logic says they are less able to cope. The logic that membership of a division enables the business to better deal with under-performance or crisis rests essentially on the value of super-management of the DMD and his staff. Each of the DMDs appears to assume the superiority of their knowledge and experience over that of their BMs. An example of this came from the DMD of Division A,

> *"Maybe one BM's a numbers man, not good with HR but good commercially so maybe I make a contribution there. In some business where I've worked overseas and travelled the world I've probably got a perspective that an engineering division of a salmon farmer in Scotland couldn't possibly have in that business. That is helpful if they're talking about developing their export strategy."*

There are, however, at least three logical impediments to sustained divisional value being derived from such inputs:

1. It is unlikely to be true for most divisions that the DMD does in fact possess superior knowledge and insight about the running of particular businesses unless the BM is new or the division has a policy of employing BMs who are less competent than the DMD. To have superior ongoing knowledge the division must overcome the "10 percent versus 100 percent paradox" highlighted by Goold, Campbell and Alexander (1994). i.e.

"The very idea that part-time managers at one remove (or more) will be able to enhance the performance of the business's own dedicated management is, in some sense, paradoxical." (p. 79)

If, for a period of time, the DMD did have superior knowledge then it must soon be imparted to the BMs or, over time, become less relevant.

2. If it is true that a DMD is a particularly gifted person in keeping businesses on track and resolving crises then it is not membership of the division and exposure to the DMD *position* that is the source of value. Value is vested in the management capabilities of that *individual.* The delayed retirement of the DMD of Division A suggests that an "irreplaceable" individual perspective does exist in some divisions[9]. If this is a true perspective then there are potential consequences for divisional value when the "irreplaceable" individual finally retires.
3. Problem solving and crisis resolution skills do not comprise divisionally-specific knowledge. They are freely available to stand-alone BMs as are the articulated, industry recipes that are often the basis of the experienced DMDs knowledge.

Logically, stand-alone BMs *will* aggressively deal with crises and under-performance and *can* do so at least as well as when their business is part of a division of related businesses. In fact it is argued by some that administrative intervention by senior management is often unwarranted and costly interference in a business wherein a set of below-budget monthly figures is merely a manifestation of natural variation

[9] An interesting issue with respect to gifted individuals versus divisional or company value lies in the problems of bargaining over the quasi-rents generated by the individual/division. The huge remuneration packages currently commanded by some individuals in charge of large companies and the compliance of institutional shareholders with this, suggests that such quasi rent bargaining can operate in a non-trivial way at the corporate level at least.

(Demming, 1986). Where this "interference" is ongoing "advice" as suggested by the DMD of Division A above then the question arises as to whether the BM asks for it or gets it whether he/she needs it or not.

In the light of these points, and the overall weakness of the argument that divisional value is greater than stand-alone value *because the division stems loss better*, it is difficult to sustain the view that that 'administrative' value functions lie at the heart of divisional value creation. This is not to deny the benefits of input from other divisional businesses and/or the guidance of the DMD and his staff in problem resolution. However, where they are a benefit, these are more likely to be occasional and *supplementary* and not a primary, on-going source of value.

As expressed in Division D

> *"There is no reason for Divisional Office to be here unless we are pan-European. In my view* ***administering and controlling are not enough.***"
> (emphasis added)

7.6 Divisional Administrative Value - Implications

A paradox appears to exist that significant time and effort is committed at the divisional level to activities associated with problem solving and crisis resolution in the businesses but that the added value from this is logically minimal. If the total costs of these activities (e.g. resource (the DMD), the internal transactions with the businesses) are combined with possible diminished business value from loss of market incentives then it is difficult to understand how administrative activities on their own add net value to the group compared to the sum of the stand-alone units.

i.e. In terms of divisional value a significant component of general management *guidance* is probably not a material membership benefit. If this is the sole source of "value" offered to the business units then a lean "delayered" divisional staff (lowest possible hierarchical costs) operating in a hands-off manner[10] (minimising interference and wasteful transactions with value adding BMs) controlling through systems (e.g. IT) and a well defined and specific set of incentives and contracts at least minimises the hierarchical and interactional costs for the value-adding businesses. i.e. a pure M-form philosophy, is the least cost option for divisions if entrepreneurial value is not added. As was highlighted at the beginning of this chapter those divisions classified as non-cooperative exhibited evidence of such a stance with few divisional staff and incentives for stand-alone performance only.

7.7 Entrepreneurial Value

The sense of the entrepreneurial value functions of divisions is evoked when divisional management discuss "opportunities" or the "strategic" part of their role. i.e. what they and the division do to create *extra* value. Without exception this function is contrasted with administrative management and is often subjugated to it.

e.g. *"...if you have a problem you spend a helluvalot of time putting all your energy into that problem.* ***You never spend the time putting your energy into the opportunities."***
(Franchise Director - Division E, emphasis added)

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[10] Not noted with any DMD. Even in the most avowedly non-cooperative division (F2) the deputy DMD spends man-weeks each month in his car visiting the businesses. This division has sophisticated IT systems, phones and faxes. Other than the psychic satisfaction and reassurance of the Deputy DMD there is logically limited M_{div} emanating from his travels.

With differing levels of emphasis, 'future orientation', 'best practice' and 'pan-divisionalism' are three identifiable sets of entrepreneurial divisional activities which are *claimed to be of value by the DMDs.*

7.7.1 Future Orientation

Managers intuitively believe in the value of environmental scanning for signs of trend changes and the emergence of strategic issues of threat or opportunity and a significant literature supports this believe. (e.g. Dutton, Fahey and Narayanan, 1983; Dutton and Jackson, 1987; Dutton, 1988). In line with this thinking, all of the divisional managers see such a function as a significant part of their role and, more pertinently, believe themselves to be in a position to view and interpret the future and set broad *business* direction better than the BMs because of the focus of the BMs on the day-to-day business operations[11].

> *"(BMs) get so caught up in the detail that they lose the direction of where they ought to be going."*
> (DMD - Division F1)

While future orientation is stressed as an important divisional input, discussions revealed no dedicated mechanisms to carry out the necessary environmental scanning. Nor did interviews give the impression that much time was being spent on this by the divisional people. In reality divisional views of the future seemed to stem primarily from casual inputs from the businesses more than from independent

[11] The view that the divisional level is better equipped to predict the most likely futures and hence the most appropriate business response is not necessarily shared by the business managers.

thoughts or structured investigations from divisional management. As close industry interactions are a *business* dynamic this is hardly surprising.[12]

7.7.2 Best Practice

Under this category is incorporated divisional attempts to lift the current operating *capabilities* of the businesses to higher levels. These are behaviours and systems designed to "enhance", "develop", "grow" etc. the businesses beyond current averages or norms. Although interconnected, best *practice* is distinguishable from best *performance.* The latter is characterised by benchmarking 'what' is achieved (i.e. outcomes) while best practice is characterised by 'how' it is achieved (i.e. behaviours or inputs). Both practice and performance standards are viewed from two perspectives in the divisions. One view is to adopt as a benchmark the best in the division. The other is an attempt to lift all the businesses to a "world class", "best in class" or "industry best" level in designated areas.

Division J is an example that combines an internal perspective with an external one with *"the best ten companies in Japan"*, and particularly Toyota, serving as models for process and capability goals. While driven by performance benchmarks, Division J is explicitly focused on skill and knowledge sharing to all the businesses rather than just to "problem" businesses.

> *"...one operation is by the far the best at inventory management... what we do is get into that particular business, understand **how they do material control** and we then standardise that across all the other businesses."*
>
> (DMD, emphasis added)

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[12] This mutual influencing of the strategic orientation of different hierarchical layers has been explained and explored by Burgelman (1983, 1994).

7.7.3 Pan-Divisionalism

This category expresses the importance of inter-linked dimensions across the businesses and the attempts to exploit value from them. More critically perhaps it is the mindset of the divisional level that focuses on their value-adding role achieving value from the division as an *integrated whole* which is made up of (business) components as compared with achieving value from optimisation of a set of separate components. Of all the identified characteristics and categories of value it is the commitment to pan-divisionalism and the associated organisational structures and processes ***and staff*** that empirically differentiates the cooperative and non-cooperative divisions.

Almost inevitably associated with this perspective is the active pursuit of *standardisation* of processes and procedures in the businesses that pertain to the strategic variable under focus.

> *"We are now moving towards a higher degree of **consistency and standardisation across the business units**"*
> (Division J - emphasis added).

It is perhaps this drive for a degree of trans-business standardisation that meets with the most resistance from autonomy-minded BMs who are sensitive to local nuance and their own loss of specific control to divisional forces.

> *"...it must be human nature or something, to want control. I'm not sure there is always a good business rationale for all this tweaking and wanting things different. Sometimes it's just because they (BMs) feel better, more comfortable with something they own or they suggested."* (Division J)

7.8 Entrepreneurial Value and Relatedness

Across all three of the categories of entrepreneurial value, relatedness appears to offer the potential for value creation and leverage.

As market, industry or broader macro-environmental change will have an impact on all *related* businesses, a prescient, future-oriented divisional level affords the opportunity for anticipatory action across all the business units. Even if the divisional level does not anticipate change itself, it can swiftly spread the word from the businesses that have noticed new contingencies to those that are not as well informed. Not only does business relatedness enable the need for change to be efficiently transmitted it also enables communication of the most appropriate mechanisms. This overlaps with the category of 'best practice'.

At the level of the cross sharing of 'best practice' and, to a lesser extent, 'best performance', relatedness between business units appears to have powerful value-catalysing potential as a specific manifestation of the knowledge based economies of scope. (Teece, 1982). Even where 'best performance' is used as the comparative spur, it is the practices and methods underpinning that performance that often become the focus for change although this is not inevitable[13]. The relatedness of the businesses enables such practices to be transferred between businesses effectively

[13] It might, for example, merely become a spur for renewed effort with existing methods or, in more political environments, for tinkering with measurement systems. I suspect the 'measurement' response is not a trivial matter. In one company in my experience a high premium was placed on safety performance to the extent that any bonuses to senior managers were contingent on not exceeding maximum levels of Lost Time Injuries (LTIs) defined as injuries that caused work absence of at least one day. To meet the performance benchmarks of peer businesses one enterprising(?) manager made room in the medical centre for injured workers to be at work and not at home. His business levels of LTIs were commendably low but safety practices remained lamentably poor.

and efficiently with the minimum disruption to ongoing operations. i.e. there is already a degree of organisational 'fit'. This is particularly so where, as in most cases, 'best practice' is an incremental derivative of 'common practice' which is a feature of pan-divisionalism.

'Pan-divisionalism', whilst a seemingly significant psychological change in divisional mental maps, is a logical development of the sharing of individual best practice but in this case the division *specifies* the best practices and processes and *actively manages* these as standardised inputs across the division rather than facilitating the cross-business sharing of business-based developments. Pan-divisionalism can only exist as a value-adding construct as a manifestation of exploitable divisional relatedness. As with the sharing of best practice, it is based on the relatedness of underlying processes, methods and behaviours and is not necessarily contingent on the relatedness of *outputs*.. Pan-divisionalism, reflected as the logic of common process inputs underpinning disparate product outputs, is congruent with the modern concept of "core competence" (Prahalad and Hamel, 1990; Rumelt, 1994).

7.9 Entrepreneurial Value as Divisional Value

As with 'administrative' value, the potential for relatedness-based entrepreneurial value is only a potential divisional value if stand-alone businesses cannot or will not avail themselves of similar benefits. It had already been suggested that relatedness-linked, administrative value has difficulties passing this 'test' despite the significant investment of divisional resource.

There are two problems in positing the future orientation of the divisional level as a source of M_{div}. The first problem is demonstrating that the activity is valuable *in itself* and the second lies in explaining, if it is valuable, why businesses don't/won't do it themselves. In the first case the increasing pace and inevitability of environmental change (Toffler, 1971, 1990; Naisbitt, 1994) and the value to be gained from timely and appropriate organisational response (Kantor, 1989; Pettigrew and Whipp, 1991) might be received wisdom from some quarters but Barney (1986) questions whether this is the case,

> *"...analyzing a firm's competitive environment cannot, on average, be expected to generated expectational advantages that can lead to expected above normal returns,"* (p. 1238).

Added to the potential lack of advantage from systematic environmental advantage (over, say, following the others) is the fact that forecasting of complex environmental change is almost invariably wrong although techniques of professional forecasters continually increase in complexity if not sophistication. (Gimpl and Dakin, 1984). Notwithstanding this more gloomy view of its objective value 'future orientation', 'the long term view' or 'the strategic perspective' has strong intuitive appeal as a value-adding input from divisional managers. Yet as an activity and a skill it seems logically unlikely to be necessarily *divisionally* contingent. Divisional managers claim that BMs have no time to fulfil this function but it seems, from their own descriptions, that divisional managers are similarly constrained. Notwithstanding the lack of necessary organisational slack, it is difficult to sustain an argument that the BMs would systematically pay less attention to future strategic developments than their current divisional superiors if sensitivity to future change is important for business success.

If not a question of motivation then divisional value from future orientation can be based on divisionally superior capability. However this again introduces the "10 percent vs 100% paradox" (Goold et al., 1994) and there is little logical support that the divisions in this study are likely be more adept at forecasting and handling relevant long term change than their business units despite the contrary beliefs of the DMDs. IBM's now legendary failure to notice the emergence of the PC is an example of corporate short-sightedness which, along with others[14], may even suggest that large, organisations are prone to *not* see threatening change but are more likely to forecast continuing benign circumstances. (Starbuck and Milliken, 1988; Miller, 1992). Overall it seems unlikely that significant ongoing divisional value can be justified on the grounds of superior future orientation and no examples arose in this study to counter this view.

The activities of divisional management in developing and sharing of 'best practice' and associated knowledge does seem to be a potential value-adding role. Barney (1986) points out that that it is by turning inwards in its analysis that might expect to

[14] e.g. even the redoubtable Bill Gates "missed" the significance of the Internet.

enjoy "significant expectational advantages" (p. 1239). The view that hierarchy (in this case divisions) is superior to markets (stand-alone businesses) as a mechanism for adding and retaining knowledge-based value is a well established one. (Williamson, 1975; Teece, 1980. 1982; Hill, 1994). The first problem for stand-alone businesses is that other businesses that are related are often current or potential competitors. For logical reasons competitors are unwilling to share knowledge and learning that is important to competitive success and, in fact, attempt to do exactly the opposite and maintain secrecy. Division J is facing this problem with new Joint Ventures where the different partners are opposed to sharing with other partners who are their competitors in other markets. For the same reasons businesses might be unwilling to share proprietary knowledge with non-competitive businesses for fear of losing control of its distribution. Even if businesses are not competitors, it seems unlikely that shared learning is a spontaneous practice outside of a formalised structure (e.g. alliances, divisions). From this study it is apparent that even between sister businesses in the same divisions, sharing and cross-learning needs to be driven by external authority if it is to become an ongoing dynamic. The necessity to continuously drive and manage inter-business processes in the face of the determinedly autonomy-seeking behaviour of BMs was emphasised by all the divisional managers.

Even if willing to share best practice and knowledge it is difficult for stand-alone businesses to do so. Firstly knowing what to share is problematic. Unless businesses are constantly monitoring each other's capabilities and performances (as can happen through external processes in divisions) they will tend to focus on their own processes and problems and only occasionally seek information when large differences in performance are manifest in the market-place. Secondly the imitating of best practice is fraught with problems of knowledge transfer and codification particularly of tacit, team-embedded skills. Ongoing contact and interaction are essential minimum requirement even if trans-location of staff is not possible. Even where 'best practice' is seemingly well understood and articulated e.g. the efficiency and quality systems of the Japanese motor industry, attempted transfer at the level of codified knowledge has proven difficult, costly and problematic in achieving operating parity (Womack, Jones and Roos, 1990).

Inherent in sharing best practice is a level of standardisation enabling successful transfer. 'Pan-divisionalism' takes this to the extréme and divisional managers aggressively develop cross business standardisation as infrastructure support for optimal intra-divisional sharing. While 'best-practice' can be a process of *inter*-business transfer, 'pan-divisionalism' is an *intra*-divisional characteristic. The practical problems of stand-alone businesses sharing isolated 'best practice' are significant, the difficulties of adopting a pan-business approach to processes and capabilities are insurmountable in the real world.

7.10 Implications

Entrepreneurial value through 'best practice' or 'pan-divisionalism' is a potential source of significant divisional value. It is only realised through active divisional *meta-management* i.e. the management of processes that are not managed or manageable by the BMs[15]. Specific meta-processes include inter-business cooperation and the sharing of knowledge and learning. Evidence from all the divisions indicates that *if these processes are not aggressively managed from outside of the businesses they do not occur.* Entropy rather than cohesion seems to be the "natural" or, at least, business-preferred state. Such meta-management is a major problem for stand-alone (inside or outside of a division) businesses attempting to cooperate in that someone has to *enforce cooperation* and enforcement is not a peer-based dynamic. It is here that divisional management appears to have its greatest opportunity for creating value over the sum of the stand-alone parts as it can act to enforce value-enhancing cooperation despite the resistance of the businesses.

The specific mechanisms, activities and processes will be contingent on the broad category of benefit that divisional management is aiming to offer. All of the cooperative divisions in the study were different in these ways. What was constant was that there significant activities and areas of responsibility that *remained devolved to the businesses.* i.e. the fundamental framework of the division was still an M-form structure but with an *evolved* set of more holistic, more complex, more horizontally

[15] "Meta" is used here in the sense of "higher or second order" (*Concise Oxford Dictionary)*

manifest but still vertically managed interactions, i.e. network dynamics (N-form) within an M-form skeleton.

7.11 Divisional Management and Membership Benefits

In Williamson's (1975) terms all of the divisions in this study are "corrupted multidivisionals" wherein "the general management has become extensively involved in operating affairs" (p. 153). The operationally interventionist DMD is *the* common feature of all the divisions but, consistent with the administrative and entrepreneurial value discussion above, such intervention is viewed as a value input rather than the contamination of an ideal. As Hill remarks

> *"the deeper one goes into a multidivisional firm, the more likely it is that deviations from the M-form ideal come to light."*
> (1988: 75-76)

Another commonality among the divisions is the preference for stand-alone functioning by BMs and their aggressive pursuit of autonomy. While this fits well with the splitting ethos of the M-form and the Western cultural value of individualism and manager-as-hero (Hoskinsson, Hill and Kim, 1993), it is a significant obstacle for divisional teams attempting to inculcate inter-business cooperation. Major differences in the strategic management of the divisions are linked to the prime, divisional membership benefits and the allied[16] management orientation and structure of the division.

[16] The use of this word purposely begs the question as to whether structure follows strategy, strategy follows structure or the connection is merely "sense making".

7.11.1 Non-Cooperative Divisions.

In non-cooperative divisions the prime focus of divisional management and organisational processes appears to be on 'administrative' activities. These have been argued above to be unlikely to form a basis for sustained[17] divisional value. General management *guidance* is the prime perceived business benefit but such guidance is super-management of the individual business which raises the question of the competence of the BMs and their teams rather than the value of the DMD. *Team* benefits based on systematic interactions and linkages between business units are subjugated to the value of business autonomy.

The term 'non-cooperative' is coined because, whilst demonstrating many of the stand-alone, unit-optimising characteristics associated with traditional M-form organisation, these divisions are more than "collecting points" and are not "competitive" organisations in the sense of being managed at "arms length", on the basis of "rate of return" by non-involved management, (Hill, 1994). The DMDs are operationally active. They are not shareholder proxies they are *managers* who are constantly influencing inputs and behaviours by push, plea and persuasion from their position of authority and (assumed) superior knowledge but the question still remains as to the real business benefit of such influence.

The *guidance* benefits from these DMDs can be argued to be underpinned by economies of scope of *general management* as classically suggested by Penrose

[17] Whereas a once-of "injection" of management help might help a business initially, as in "restructuring" a business that is often in need of such help suggests other remedies are more value-adding in the long term than repeated divisional involvement.

(1959) however, for this to be a divisional value the knowledge of the DMD must be *systematically* greater or more valuable than that of the BMs. This is logically unlikely as an ongoing position and is accepted as such by at least one very busy manager.

> *"...if everyone thought I knew all the answers then we'd have a major problem."* (Deputy DMD - Division F2)

While the DMDs espouse the value of shared knowledge among the businesses they are the sole pollinator, catalyst or agent of that knowledge and, from their own descriptions of the time they spend in monitoring, controlling, reporting and fire-fighting, it not credible that such a role is a reality in these divisions - they simply do not have the time. While the DMDs acknowledge business capabilities and processes as important components of competitive success they give primacy over these to the unique product-market interactions of the individual business. If cross-business learning or knowledge-sharing does take place it occurs in the context of crisis management and fits a problem solving (administrative) rather than a developmental (entrepreneurial) model of value and learning.

The non-cooperative divisions seek maximisation of divisional value through optimising the performance of the individual units. Business differences are seen as the prime source of divisional value with collaboration encouraged but not mandated by decree or structure. Stand-alone optimisation is the primary divisional philosophy with no commitment to pan-divisional control of strategically critical processes or systems.

e.g. *"Our goal is to develop our businesses to achieve market leadership **in their** markets."*

(DMD - Division B, emphasis added)

*"The role of the divisional level is to make sure **each of the companies is doing the right thing to benefit itself** and yet doing nothing to offend the total of what the division is trying to do."*

(DMD - Division F1, emphasis added)

*"I say 'if you know how to run the business that's fine, Can I just tell you what the rules are? Do you agree that we need to get X? If you're quite happy to do that **I won't even come here again.**"*

(DMD - Division F2, emphasis added)

In 'non-cooperative' divisions DMDs may intervene to restructure separate business units under one BM to realise cost savings through facility and staff rationalisation. However, following such reorganisation, they maintain a unit optimisation approach to the (fewer) remaining businesses and operate in the "financial control" mode of Goold and Campbell (1987) rather than a "strategic planning" mode. To this end, amongst other characteristics, divisional staff numbers are kept to a minimum (costs are minimised) and incentives for business managers are focused on the business performance.

It is difficult to maintain a logical argument that non-cooperative divisions have a value greater than the sum of the stand-alone businesses unless there are significant market power (monopoly) *group* benefits. This lack of additional value of membership is in spite of the relatedness of the business units.

7.11.2 Cooperative Divisions.

These divisions aim to exploit *team* benefits and/or *guidance* from divisional process or functional experts as well the gains from some *facility* and *group* value. A significant component of competitive success is seen to lie in the processes, technologies and capabilities that are common across the business units. A pan-divisional orientation towards the exploitation of this "resource"-based relatedness through shared learning results in structures, processes, systems and *staff* promoting and driving inter-business linkages and sharing. An identifying characteristic of these divisions (compared with non-cooperative divisions above) is the presence of divisional staff responsible for strategically important processes or functions although there are different positions and hence different intensities of involvement in different processes.

While the differences in local market applications and customer needs are acknowledged and managed, these differences are not allowed to gain primacy over the synergistic benefits of pan-divisional processes. The businesses have stand-alone responsibility for local issues but are required to demonstrate active commitment to divisional goals. Both in terms of economic rationales of exploiting non-tradable, knowledge based economies of scope (Teece, 1982) or core competences (Prahalad and Hamel, 1990) and corporate strategy rationales of sharing activities and transferring skills (Porter, 1987) these divisions are actively engaged in the search for extra-business synergy. Divisional managers install mechanisms of standardisation of systems, procedures and activities to achieve sameness across the businesses and drive inter-business learning and sharing. i.e. they meta-manage processes that the businesses would typically ignore or resist. They accept that, unattended, the ideal of self-initiated inter-business sharing will only occur under exceptional circumstances and so use their divisional staffs to proactively and aggressively drive cross-boundary interactions. They seek optimisation of divisional value through integration.

e.g. *"Each location generally has a formal structure of a monthly meeting for all the people...* ***We also require*** *a weekly meeting of the local business manager and his managers."*
(Human Resource Director - Division G, emphasis added)

"the bedrock is manufacturing excellence...(I'm) still in the process of doing is build(ing) manufacturing excellence ***across the division.****"*
(DMD - Division J, emphasis added)

"I don't just mean countries when I say ***'cross-border'****. I'm talking of functions,* ***I'm talking of businesses...****"*
(DMD - Division G, emphasis added)

7.12 Dilemmas of Divisional Value

In practice none of the divisions studied *measured* divisional value-added and, consistent with this, all divisional managers expressed uncertainty about the value they and/or the division added in quantitative terms. Some were even unsure of the value they added in a more subjective sense. Value benefits might be most easily measurable in *facilities* and *group* categories particularly in (business) cost savings through the centralisation of common activities (*facilities*) or discounts on volume purchases (*group*). Ongoing developments, however, tend to reduce these as a source of value contingent on divisional membership. The outsourcing of activities e.g.

distribution, computer services, payroll, etc. and the use of specialised professionals for occasional services, e.g. tax, legal, training etc. has become a standard ploy for stand-alone businesses. This enables them to reap the savings from the economies of scale of one expert servicing many businesses and also to benefit from that expert's focused ability in a narrow range of activities. Provided the market price of these facilities is not materially greater than the internal divisional costs then divisional members have no value benefits over stand-alone outsiders. Some *group* benefits are also less contingent on divisional membership. e.g. changes in competitive law in some countries have markedly reduced the availability and the materiality of volume-based discounts and, where they do still exist, stand-alone businesses are free to form buying groups to gain these advantages.[18] Even without these developments some businesses are sceptical about the actual savings the division can manage for them compared with their own efforts.

e.g. *"...Buying power is overstated, central purchasing is not much better than I can do."*

(Business Manager - Division F2)

The theoretical perspective detailed at the beginning of this study posited the view that ongoing divisional benefits are primarily grounded in economies of scope manifest in shared learning and knowledge and that these are best exploited through 'cooperative' processes and mechanisms. This perspective is strongly linked to the observed divisional *entrepreneurial* value management functions of "best practice"

[18] 'Retravision' in Australia and 'Ardek' in Germany are two examples of groups of otherwise independent retailers who have linked to consolidate buying power over large suppliers.

and "pan-divisionalism" and the membership benefit categories of *guidance* from functional or process experts and *team* based interactions between the businesses. Yet only five divisions (labelled the 'cooperative' cluster) showed strong evidence of putting in *guidance* functions other than the DMD or adopting a proactively pan-divisional approach to achieving *team* value. In the seven other divisions a non-cooperative a unit optimising approach prevails and *guidance* is typically confined to administrative value activities of the DMD. These activities have been argued above to be unlikely to form the basis of material divisional value.

7.13 Summary

The foregoing research and discussion suggest following bald conclusions or propositions for further research.

1. Non-cooperative divisions are (relatively) easy to manage but, absent significant market power effects (i.e. price/margin control), provide no more sustained membership benefits (M_{div}) than a group of stand-alone businesses or a divisional conglomerate of unrelated businesses.

   i.e. *at best* $V_{div} = a_s + b_s + c_s$

   where V_{div} = divisional value and a_s etc. are the values of the sum of the stand-alone businesses. M_{div} = divisional membership benefits = 0.

2. Cooperative divisions are (relatively) difficult to manage but, as well as market power effects, provide benefits by leveraging common processes, resources and competences across the division. They add value through benefits of business

integration (*team*) and/or focused divisional level process or functional inputs (*guidance*).

i.e. $V_{div} > a_s + b_s + c_s$

The value of the division exceeds the sum of the values of the stand-alone businesses (by $M_{div.}$)

3. The fundamental structure of cooperative divisions and non-cooperative divisions remains M-form in character with both categories giving significant operating autonomy to the businesses in many areas. Compared to the non-cooperative divisions however the cooperative divisions (and the businesses) are learning to manage integration, holism and "horizontalism" without sacrificing all of the benefits of division of labour, individual focus and vertical authority. i.e. cooperative divisions are not "either-or" they are "both".

If there are benefits in the horizontal management of relatedness which result in added value (synergy or M_{div}) why do non-cooperative divisions exist given that they too have relatedness as their raison d'être?

The next chapter attempts to answer this question and to reconcile the contradictions of the two categories.

Chapter 8

RECONCILING THEORY AND OBSERVATION

> *"Every man is in certain respects like all other men, like some other men and like no other men."*
>
> (Kluckhohn and Murray, 1953)

The study of divisions is as bedevilled as any study in social science. Divisions are organisational *systems* wherein recursiveness typically confuses dependent and independent variables (Forrester, 1969, Senge, 1990) and apparent stability is often a dynamic equilibrium of path-dependent, organisationally-specific interactions exhibiting non-linearity and "sensitive dependence on initial conditions" (Glieck, 1987:23). Despite such complications, social science theorising is concerned with explanations based on generalities. To say that all divisions are different is indisputably true at one level, but this chapter attempts to reconcile such differences.

8.1 Divisional Strategy

Divisional strategy is argued to be theoretically grounded in the creation of additional value ("synergy") from the process or capability *relatedness* of the component businesses. Whilst there may be other relatedness-connected benefits specific to particular divisions, general divisional value is realised over the long term through pan-divisional management of common capabilities, processes and functions. i.e. through the creation, development and management of exploitable relatedness. Divisional strategy is diagramatically represented in Figure 8.1.

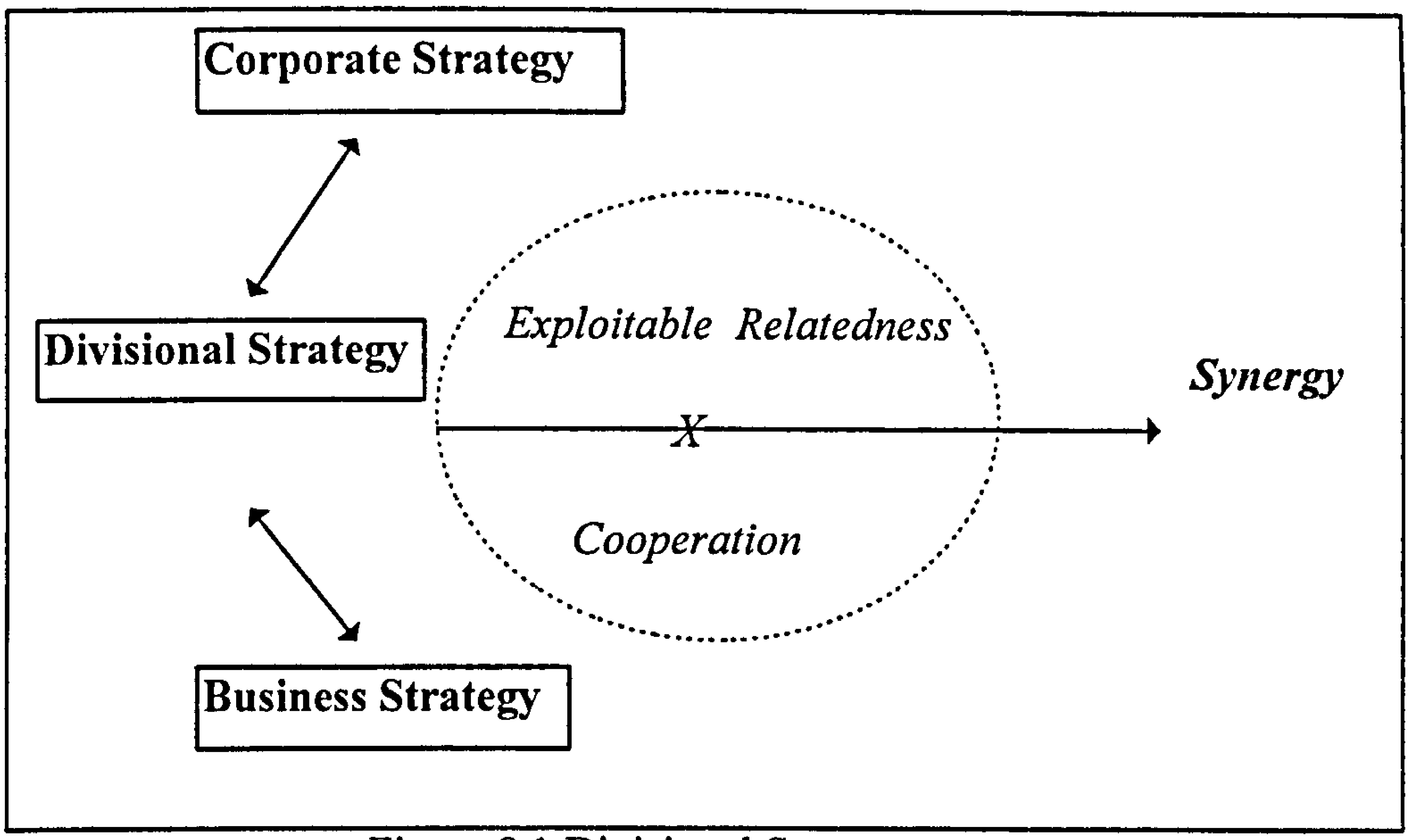

Figure 8.1 Divisional Strategy

In Figure 8.1 *exploitable relatedness* is the *perceived*, strategically valuable aspect of business relatedness and *cooperation* is manifest in pan-divisional perspectives and practices and includes various strategic functional/process inputs from the divisional level which may augment or replace business functions/processes. *Synergy* is the resultant value added above the sum of the stand-alone businesses. The multiplicative relationship between the two dynamics suggests that if either exploitable relatedness or the appropriate style of strategic management is absent then synergy is unlikely to occur. i.e. synergy is a manifestation of creative, active management.

8.2 The Dilemma of Practice versus Theory

The cooperative division is reflective of a the synergistic perspective above. However, the non-cooperative divisions are not passive administrative units managing the units at arms length. Like their counterparts in the cooperative divisions the divisional managers of non-cooperative divisions are aggressively operational, espouse the value of inter-business sharing and have mind-sets oriented towards divisional value by adding to business value. What they do not have is a strong pan-divisional mindset, divisional staff managing functional inputs or process integration nor incentive systems that explicitly reward inter-business cooperation. On the other hand the cooperative divisions continually fight the stand-alone proclivities of their business managers and have typically evolved from a non-cooperative structure in the past.

So while some divisions are attempting to add value through the pan-divisional management of perceived exploitable relatedness others are not. If, as suggested, the economic rationale of divisions is exploitable relatedness why are they not all reflecting the same approach and how does the behaviour of non-cooperative divisions "fit" with the theory as suggested?[1] An internal contingency explanation is suggested i.e. organisational "realities" impede strategic (economic) rationales.

8.3 Forces Against Managing Divisional Process Relatedness

While categorisation is inevitably an attempt to separate the inseparable, the forces sustaining a unit optimisation perspective are an interaction of corporate, business

[1] It should be noted that this is the general style of question faced by all social science theories which, typically, are not universally manifest in their expressed form in real life. Whilst the theory proposed certainly has theoretically 'ideal' connotations it has been induced from other research findings and theoretical viewpoints and observed in real divisions. (See Chapters 2 and 3).

and divisional processes. The pressures are such that stand-alone, unit optimisation becomes the default mode of strategic management practice in divisions.

8.3.1 Corporate "Style" - Pressure for Unit Optimisation.

Goold and Campbell (1987) describe three major corporate styles as 'strategic planning', 'strategic control' and 'financial control' with "style" being a holistic interaction between the continua of 'planning influence' (structure, review of plans, allocation of resources etc.) and 'control influence' (objectives, monitoring results and incentives). They report on the influence of corporate style on the behaviour of the divisions and business units in the corporation. One of the significant aspects of corporate style with respect to divisional strategy is the way the corporate level views and treats its divisions. i.e. as a collection of business units or as an integrated whole. As it is "harder to have a longer time horizon than your boss" (Goold et al. op. cit. p. 256) it is harder for a division to focus on horizontal integration if the corporate reporting, review and strategic planning requirements force a focus on the financial performance of business units rather than the strategic functioning of the divisional whole. While the perception of the corporate level as "*control freaks*" by the DMD of Division B is an extreme view, even in the cooperative divisions the divisional-corporate reporting requirements are predominantly focused on the financial parameters of individual business units.

Corporate predispositions towards unit optimising systems are exacerbated if there is a corporate drive for observable cost savings through rationalisation, "downsizing", "re-engineering" etc. which has been communicated to the City. Division B is a good example, although not the only one, where an over-riding corporate agenda has left no room for additional staff, resources or time to build inter-business systems.

8.3.2 Business Autonomy - Pressures for Stand-Alone Functioning

In all the divisions the business managers actively promote their stand-alone preferences. Differences are accentuated and similarities undervalued. The more different the business are perceived to be, i.e. the more regionally idiosyncratic, the more dissimilar in product, process, market and industry characteristics the more likely that exploitable relatedness is masked and optimising individual businesses will be viewed as the only viable divisional strategy. Even in the manifestly cooperative divisions, divisional staff struggle with the non-cooperative preferences of business managers.

The proffered explanations of the BMs for their stand-alone preferences are based on their belief[2] that it is in fact better for the business and the division for their business unit to be autonomous. They stress the nuances of their customers, competitors, suppliers, operational processes and labour force ("it's different here in the South than in Coventry") and the need for them to be able to respond flexibly to local contingencies without the "bureaucracy" of the division slowing them down. Congruent with this view, every impediment and cost of divisional membership is

[2] The long history of research into attitudes, beliefs, cognitive dissonance etc. would support the view that most of the BMs do actually believe this even though more cynical observers might see conscious self-interest as the basis for their autonomy-seeking behaviour. The way that most BMs "own" their businesses as part of themselves rather than as an instrument for future gain has perhaps to be experienced to be truly accepted.

highlighted (wasteful meetings, unsuitable IT systems, inappropriate training courses, unwarranted interference etc.) as is every instance of value from business self-sufficiency[3].

In a much broader context the M-form, with its emphasis on stand-alone performance, is infused with values that are consistent with the admiration for successful individualism and manager-as-heroic-*lone*-leader that is intrinsic to the cultures of the US and UK wherein it rapidly grew. In fighting for autonomy then, the BMs are merely reflecting societal values. Whittington (1993) points out that "systemic" theories of strategy are based on such "social embeddedness" (Granovetter, 1985) of decision makers.

Another reason for BMs being determinedly autonomous is that *it is rational for them to be so.* Whatever the level of cooperation espoused by the organisation, performance appraisal systems focus on the individual and his/her contribution relative to others. Internal promotions, with the attendant rewards of power, prestige and remuneration, go to those who are seen to excel *as individuals* and who are associated with *individually attributable* performance which is relatively better than others who also might be in running[4]. i.e. promotion is inherently a *competitive*

[3] One of the business managers of Division J - a cooperative "learning organisation" - delighted in telling me how he and his accountant worked their way around the capital approval limits when they felt the business needs outweighed their commitment to the divisional ethos.

[4] This is not to deny the significant impact of politics in organisations as "impression management" remains contingent on individually attributable outcomes. Adroit business managers negotiate budgets and manage reporting in ways that enhance their perceived performance.

process. Running your own, autonomous business offers better opportunities to demonstrate comparative excellence than does being part of a cooperative team.

A final, and perhaps more salient point, is that BMs "raised" in an M-form environment almost certainly lack the necessary knowledge and skills to establish and maintain organisational cooperation even if they thought it potentially valuable..

8.3.3. Divisional Inertia - Past and Present

The organisational history of the division and the mental maps of its managers influence divisional strategy. The major problem for divisional management contemplating change, however, is the commitment of measured resource in pursuit of uncertain value.

8.3.3.1 *Divisional History*

Divisions are born out of separation. They are off-spring of the M-form and most of them have a long history of managing separate businesses. Many researchers (e.g. Pettigrew and Whipp, 1991) argue that the true understanding of organisations can only be gained through longitudinal analysis. The present is a path dependent outcome of the past. Organisational inertia causes adherence to established processes particularly if financial performance has been good (Miller, 1994).

The divisional strategy of today, then, is likely to be a function of the divisional strategy of yesterday and will remain so without aggressive and proactive change by divisional managers. The organisational structure and the systems of planning, reward, capital appropriation etc. reflect and influence how the division is strategically managed. A small staff at divisional level, combined with stand-alone incentives, individual review and an 'administrative'-value focus, favours individual optimisation and vertical management processes. This common scenario, as shown in this study, militates against the development of more amorphous linkages across and between business units.

8.3.3.2 *Divisional Mental Maps*

Cognitive working models, whether they be seen as the 'mental maps' (e.g. Lorsch and Allen, 1973), 'sensemaking' (Huff and Schwenk, 1990), 'dominant logic' (Prahalad and Bettis, 1986) or 'frames' (Hamel and Prahalad, 1994) of divisional managers are an important rationale and driving force for maintaining or changing divisional strategy. These maps shape how and what managers perceive, attend to, remember and learn about competitive advantage, the nature and value of the relatedness of the businesses, the role of business management, divisional management etc.

The divisional managers in this study generally arrived in their role with mental maps built on experience in the industry and often the company and division they are currently in. Their belief in their own autonomy as the basis for their success as stand-alone managers (e.g. the DMD of Division F2) combined with a business experience restricted to organisational cultures of unit optimisation and the 'guru' style of divisional management leaves them bereft of alternative views of divisional value. Even if DMDs entertain a pan-divisional view of value creation they often have little, if any, experience or knowledge on how to go about releasing such value. As the DMD of Division J pointed out there is little of specific help for divisional management in the management literature[5].

Another problem for divisional managers is that a move to a more cooperative structure is a move towards increased ambiguity. This is not a situation that typical Western managers enjoy,

i.e. *"Western managers have a low tolerance for ambiguous situations and have a tendency to perceive them as a threat. Ambiguous situations are those that cannot be categorized because of* ***lack of familiarity*** *(newness);* ***complexity*** *(interaction of events too difficult to analyze completely); or* ***contradictory situations*** *where different elements suggest different structures."*

(Gimpl and Dakin, 1984: 132, emphasis in original)

Non-cooperation is a far less ambiguous orientation.

8.3.3.3 *Measured Focus vs Intangible Scope*

Divisional strategy can be viewed as the interaction between vertical organisational processes and horizontal relatedness of the division. Although such concepts are interactional continua, models couched in static extremes facilitate focused discussion and explanation. If exploitable (i.e. valuable) horizontal relatedness is taken as 'high' or 'low' and divisional strategic management orientation as non-cooperative (i.e. optimising individual businesses) or cooperative (i.e. optimising the integrated whole) then the interaction between them and the divisional value dilemmas can be represented as in Figure 8.2.

[5] By this he meant nothing with a title such as "Divisional Strategy".

		Strategic Management Style	
		Non-cooperative	*Cooperative*
Exploitable Relatedness	*Low*	1. Maximise Efficiency	3. Organisational Cost
	High	2. Opportunity Cost	4. Maximise Scope

Figure 8.2 The Divisional Value Dilemma

The dilemma is grounded in the dimension of exploitable relatedness. The value to be gained from relatedness is contingent on the perception, imagination, thought i.e. the mental maps of management, but the realisation of value only arises from appropriate management. Thus the paradox arises that managers cannot know that relatedness value exists until they successfully exploit it, but they are unwilling to attempt to exploit it until they are sure it has value. i.e. Digging for gold is contingent on knowing it is there but knowing it is there is contingent on digging.

This leads to a game-theoretic dilemma for divisional management. By managing the division in a non-cooperative, unit optimisation style, divisional management achieves benefits from focus efficiencies and does not incur the costs associated with inter-business management. Whether these "costs" are the well-known organisational imposts of measurement, accountability, intra-boundary conflict, divisional-business conflict [6] etc., or the financial costs of extra staff and resources; their key characteristic is that they are *tangible* and, in the case of resources, measured in the day to day financial monitoring of the division. By managing in a cooperative, integrated optimisation style these costs are incurred but the value gained from exploiting horizontal relatedness is, in the majority of cases[7], not measurable in a way that is separate from the stand-alone performance of the businesses.[8]

So in table 8.2, quadrants 1 and 4 are the (conceptually) value-maximising options while net losses of different types are represented in quadrants 2 and 3.

Organisational costs (Quadrant 3), particularly financial under-performance against budgeted outcomes, are immediately obvious and bring unwelcome attention to those who are accountable. On the other hand, opportunities missed (Quadrant 2) are rarely noticed and even more rarely are the precursor to censure. In the traditional M-form organisation a risk averse, divisional office, where 'risk' is used in the subjective sense of "chance of loss" (Collins and Ruefli, 1992), will tend to manage through unit optimisation. With such a style the opportunity costs of not exploiting horizontal relatedness are unmeasured and (probably) unmeasurable. This is less risky than incurring the measurable costs of integrating the group particularly if perceived

[6] Divisional (or corporate) service/function provision and the allocated charges are the traditional battleground on which autonomy-control battles are most energetically fought. The "cold war" often becomes "hot" at budget time when a business, under pressure for cost containment, is allocated divisional (corporate) charges which have increased by more than the "allowable" factor. Inevitably the businesses can "do it cheaper and better" than the division.

[7] Centralising and rationalising functions are measurable in a financial way and hence tend to be the more frequent manifestations of divisional strategy.

[8] This problem of non-measurability is compounded by the tendency for the measurement of divisions to be the sum of the component businesses.

relatedness value proves to be illusory. In the language of game theory (Poundstone, 1992) the "rational" option for divisional management, even if they perceive potential value from pan-divisional relatedness, is to "defect" to a non-cooperative orientation. Such "defection" is, however, a passive maintenance of the status quo.

8.4 Divisional Strategy - an Evolving and Dynamic Compromise with "Reality"

Divisional strategy then is an ongoing compromise between economic potential and organisational reality. Prahalad and Hamel (1990) are wrong when they characterise the "SBU" as the "tyrant" barring the way to the exploitation of core competences. The SBU is merely *a symptom* of the complex mix of psychological, organisational and environmental dynamics underpinning the relationship between organisational forces and economic value. Figure 8.3 represents some of these forces.

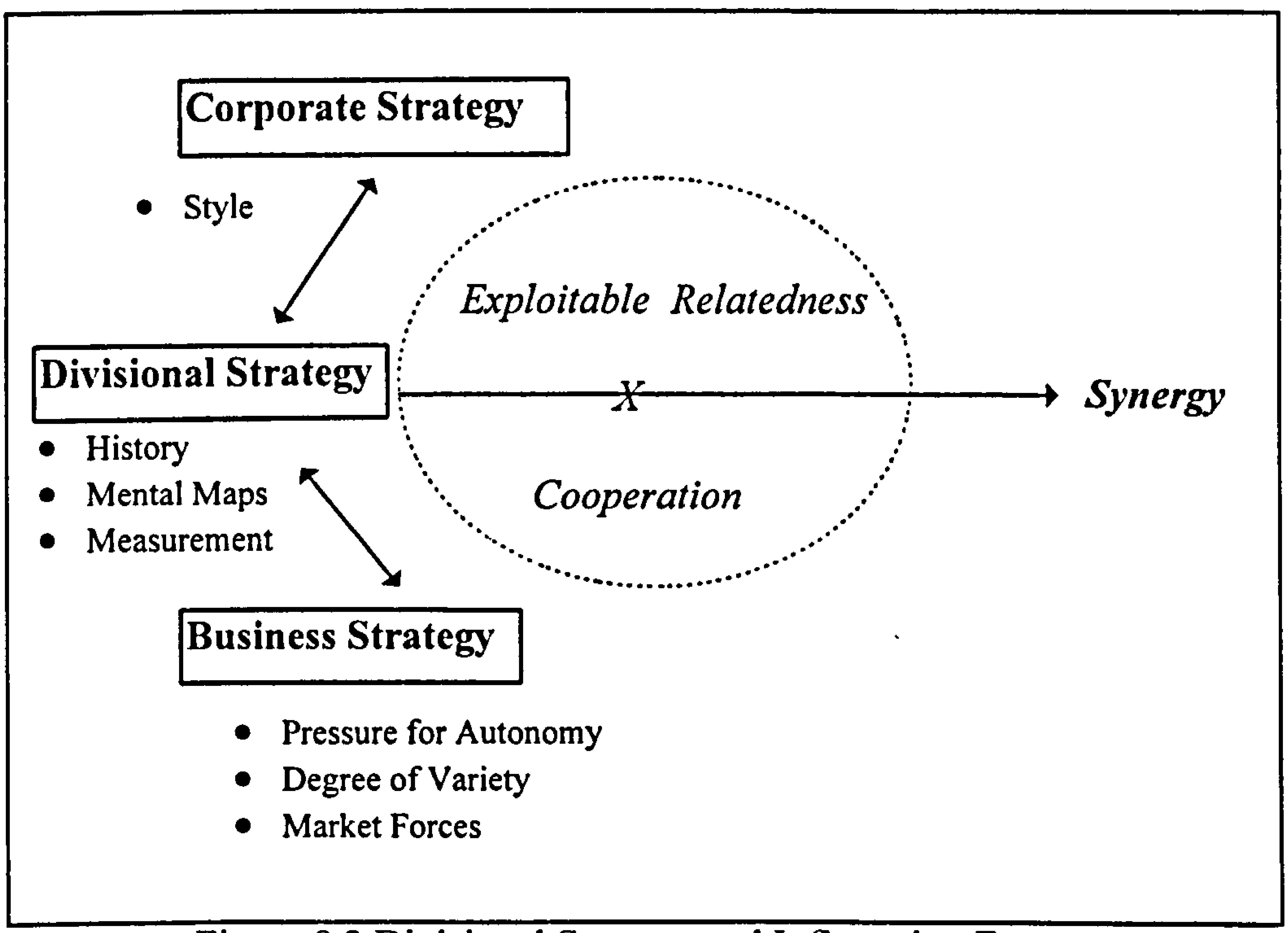

Figure 8.3 Divisional Strategy and Influencing Factors

i.e. Divisional strategy is the achievement of added value (synergy) from the exploitable relatedness of the processes and capabilities of the component businesses. The achievement of value from exploitable relatedness is via a cooperative set of managerial and organisational perceptions, systems and processes. The extent and nature of exploitable relatedness and cooperative patterns and perspectives is contingent on a variety of interacting forces at corporate, divisional and business levels.

8.4.1 Forces for Change

Changing to a cooperative structure can be initiated at any of the levels which act as barriers. A new DMD might bring a different view of divisional functioning. Division D2 is becoming an increasingly integrated group as the result of the beliefs and actions of the new manager as has Division J. The requirements of the market place and changes in business industry can also force a more pan-divisional perspective. Globalising customers are a significant force for Division G and an ongoing pressure for an integrating orientation. The non-cooperative Division F1 is also under pressure to rethink its stand-alone perspective as customers become increasingly pan-European. Corporate pressure, perhaps driven by a drive for cost reduction as in Division B, or by comparative performance benchmarking against other corporations can also lead to increasing functional integration of business units and a sharpened focus on the potential synergies currently dormant in the divisions.

8.4.2 Developmental History

The cooperative divisions have developed from non-cooperative origins and still have to manage non-cooperative forces. Even the most structurally non-cooperative divisions are attempting to gain from sharing between the businesses if only at the level of "cross-pollination" by the DMD. i.e. whilst non-cooperative they are not avowedly 'competitive' in outlook or behaviour. These signs are consistent with M-form history and development. From its creation as a response to growth- induced complexity through its period as a facilitating structure for acquisition-driven growth the M-form has harvested the benefits of separation. Structural and operational autonomy is thus the starting point of M-form divisions and, despite the relatedness of the business units, still confers benefits of simplicity and focus. However, like all evolving "organisms", increased levels and breadth of performance, whether demanded from a changing environment or fostered by internal drives, are contingent on metamorphosis to higher order and more integrated (vs separated) forms of organisation. i.e. complex (non-decomposable) processes needs must be managed by organisational forms demonstrating "requisite complexity". The development of divisions from competitive through non-cooperative to cooperative structures mirrors the increasing complexity and interactivity of the management processes necessary to harvest all sources of potential value.

8.5 Some Implications for Practice

Informing practice is at the heart of strategic management research

> *"If the discipline of strategy aspires to be more than a specialized sub-branch of the field of business history, it must be able to prescribe appropriate actions* ***a priori****, not just describe outcomes* ***ex post****. It must develop theories, tools and systems which guide managers and companies towards more productive choices, not simply record the strategies espoused by the eventual winners and their historians. True intellectual progress, therefore, consists of demonstrable improvements in prescriptive capability."*
>
> (Strategic Management Society[9], 1998 - emphasis in original)

This research, while focused on the processes and strategic orientations of divisions, is grounded in the assumption of a causative link between strategy and performance. The specific divisional strategy-performance links are captured in the following assumptions:

(a) cooperative divisions create more operational[10] value than non-cooperative divisions in the same industry and

(b) cooperative divisions create more operational value than the equivalent set of related but stand-alone businesses in the same industry.

This two part proposition addresses the issue of pan-divisionalism versus unit optimisation *within* divisions (the major focus of this study) and also that of divisional membership versus stand-alone functioning (the rationale for group management in the first place). Little, if any, work has been carried out on either of these comparisons at the divisional level because the division, as defined in this work

[9] Ps 1-2 of the "Call for Panel, Paper and Poster Proposals" for the 18th Annual International Conference.

[10] This adjective is used as distinct from market (stock price) value.

as an internal, quasi-corporation, has rarely been the unit of analysis in any research. The evidence that does exist comes from parallel work at the corporate level.

Even at the corporate level little has been done to compare operating performance of related corporations verses the equivalent group of "related" but stand-alone businesses. Market valuation comparisons, i.e. acquisition and divestment frequency or valuation measures e.g. Porter, (1987), have been used to show the problems of unrelated *acquisitions*. Much work has also been carried out on the comparative performance of companies comprising related and unrelated *portfolios* (e.g. Rumelt, 1974). However the acid test of corporate (and divisional) value-adding or synergy lies in the comparison of a group of businesses under one management and a group of similar businesses operating as stand-alone units. This comparison is a difficult one to undertake.

Some support for the superior performance of cooperative organisations has already been found at the corporate level where Hoskisson, Hill and Kim (1993) have suggested the "by no means hard and fast" conclusion that most successful multi-divisional are "those that emphasise cooperation between divisions." (p. 290). Also Davis, Robinson, Pearce and Park (1992) find a positive correlation between "relatedness" and performance in the US paper and pulp industry and their particular operationalisation of 'relatedness' is more a measure of cooperative orientation[11]

[11] i.e. "Each manager responded to questions about the extent to which business units shared: customers, plant and equipment facilities, the same sales force, advertising and promotional efforts. research and development efforts, and interdivisional product transfers as purchases and sales." (p. 355)

than the traditional measures of market/production similarity. These corporate studies lend weight to the argument that cooperative divisions will out-perform non-cooperative ones.

If this value proposition is an accepted assumption it then makes economic and strategic sense for the managers at all levels in multi-divisional companies to develop and maintain cooperative orientations, processes and structures integrating related businesses in their companies.[12] However, as observed in the divisions studied, this is not necessarily happening in the world of practice where various dynamic barriers and dilemmas impede theoretically optimal strategy.

8.6 Strategic Perspectives

Two overlapping perspectives are pre-requisites if the divisional collection of related businesses is to capture economies of scope.

1. Divisional value,
2. The Division as the unit of management

8.6.1 Divisional Value - Membership Benefits and the Divisional Level

By divisional value is meant the additional value the businesses derive from being part of the division. Two dimensions of divisional value are important the sources or nature of value and its measurement.

[12] Although this research is focused on divisions as established groups or quasi-corporations of related businesses the same logic applies to stand-alone corporations that are made up of related businesses

8.6.1.1 *Sources of Value*

The unique value potential of a division lies in the exploitation of some aspects of the relatedness of its component businesses. The nature of exploitable relatedness is divisionally specific and contingent on the imagination and efforts of management at all levels. Value must first be discovered/created before it can be exploited. One way of viewing such value is to examine the division in terms of the *membership benefits* that the businesses derive from being a part. Four categories of membership benefits have been suggested: *group* (e.g. size, market power), *facilities* (e.g. centralised distribution, centralised branding), *guidance* (e.g. divisional manufacturing group helping the businesses) and *team* (e.g. core processes and businesses helping each other). This is a simple, and not necessarily exhaustive classification, that nevertheless provides a starting point for managers who have not thought systematically about this issue[13].

While all the categories offer the potential for divisional value, the more that benefits derive from capabilities and processes grounded in interactional learning the more likely it is that the value will be sustainable as a source of divisional-specific value. i.e. the more a 'core competence' is developed that underpins a set of 'core products' or 'core processes' the more valuable the division is likely to be over the sum of the stand-alone businesses (Hamel, 1994).

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[13] This would include all of the divisional managers in this study for example.

Other divisional value issues, related to the "parenting advantage" insights of Goold et al. (1994), concern the value added by the divisional level. Such questions logically follow the definition of membership benefits as the role of the divisional level and the value it adds is contingent on the benefits to be managed and exploited. Answers, or at least *struggling with answering*[14] will clarify appropriate roles, actions and systems.

It is logically unlikely that administrative value activities alone (i.e. monitoring, controlling, 'fire-fighting') add value over that of a competent business manager. A divisional head swamped with such duties either has incompetent subordinates (and the solution is clear) or lacks the necessary concepts, skills and organisational support to operate differently. Such *super-management* ensures, in the main, that the businesses are doing what they could and would anyway. The divisional level only adds value through entrepreneurial behaviours concerned with improving the businesses beyond their operating norm and managing the value-creating linkages and processes between the businesses. i.e. by *meta-managing* those processes that, as a matter of course, the businesses *could* not or *would* not proactively manage themselves.

8.6.1.2 *Measurement of Divisional Value*

Divisional managers are uncertain about divisional value. In the non-cooperative divisions the divisional managers espouse "sharing" and "cooperation" but are

[14] The fact that ready answers are not available to complex questions should not mean ignoring the issue. Some questions are inherently unanswerable in terms of a final *best* solution but from the ongoing struggle with the dilemmas better insights and management will emerge.

inhibited in enacting the necessary (costly) systems due, in part, to the non-measurable nature of any resultant gain. Even in those divisions that have manifest commitments to cooperative structures, staffing and systems; it is belief, ambition and hope that have overcome this dilemma rather than the surety of knowledge. One divisional manager spoke of "hard" synergy being the synergy that could be measured in terms of cost savings and "soft" synergy that could not be measured but was valuable in some intangible sense. It was, perhaps inevitably, "hard" synergy that was most energetically pursued.

If membership benefits based on relatedness are the major source of divisional value then, to transcend the metaphysical status of "synergy", these benefits must have some concrete representation. The measurement of such value remains an issue of intellectual experimentation as neither academic theory nor business practice offer guidelines. Unfortunately, in light of the business cliché that "what gets measured gets done", measurement must become as connected to divisional value as it is to business value. If divisional value is not made tangible then the measurable cost-savings from "downsizing" (divisional staff) will always be a temptation in tougher times and the "defection" to unit optimising "minimalism" will always be the "rational" choice.

8.6.2 The Division as the Unit of Management

To facilitate the quest for divisional value, managers of cooperative divisions view their task as managing one, multi-component business rather than a collection of separate units and they are also more committed to a 'pan-divisional' perspective.

8.6.2.1 *The Division as the Business*

Conceptualising the division as one multi-site, multi-product or multi-country business rather than as a group of several businesses is a necessary perceptual integration that precedes meaningful intra-divisional linkages. Thinking in terms of "one business" facilitates inter-business insights and the management of breadth. This is often a difficult re-orientation for managers who have come up through the business management ranks. They have generally been immersed in a sense of business 'separateness' and have neither the mental models nor the necessary integrative skills demanded of cooperative divisional processes. Not only might the manager not be aware of an alternative logic but he often has a personal commitment to a perspective of separate businesses as it was in this structural orientation that he achieved the success that enabled him to achieve his current position. For similar, self-oriented and self-interested reasons, business managers also reinforce the ideal of separateness and business autonomy.

The perspective of the division as the business fosters a view of business-based employees as divisional personnel with business responsibilities. In particular the business managers may also have other pan-divisional roles such as the divisional 'quality training' role fulfilled by one of the business managers in Division J. This multi-role perspective can be difficult for business managers who are often culturally conditioned to the ideal of "running their own ship" and who view themselves as business managers first and divisional members second. Given that these are the divisional/corporate managers of the future, however, it is appropriate that they develop a broad perspective sooner rather than have to overcome a narrow one later. A commitment to the "one business" view can be supported through the divisional measurement, reporting and reward systems. This support might also include having the division reporting to corporate as a divisional whole rather than as a collection of business units (not noted in the study). Joint accountability of business managers for divisional performance is another possible integrating mechanism that was not noted in this study. So, while 'stockturns' is an important operational parameter for Division J, the businesses are judged separately on this measure. A focus on the divisional performance might requires targeted divisional stockturn figure for which the business managers (via their material control managers) are jointly accountability as well as retaining accountability for their individual business performance.

8.6.2.2 *Pan-Divisionalism*

Realising divisional value, whatever its source, is contingent on appropriate management. It may depend on aggressive, pan-divisional management of attributes, processes etc. that transcend business boundaries. Such management is characterised as *meta-management* as it entails the management of higher level or second order processes than business managers manage, either because they do not have the power, position or capability and/or because they resist the loss of autonomy implicit in pan-divisionalism (i.e. will not). In the single business, managing cross-functional teams and horizontal processes rather than (vertical) functions is now received wisdom to the point of cliché. (e.g. Womack, Jones and Roos, 1990). Such trans-boundary management is also a feature of divisions realising economies of scope. Pan-divisionalism can be reflected in inter-business processes (e.g. core competences, key processes etc.) entailing the management of the horizontal inter-relating or can be reflected in a core process capability at divisional level which guides each business and entails managing vertical inter-relating[15]. However, whatever the level of inter-relating, its creation and maintenance depends on divisional influence as a top-down dynamic. i.e. teamwork is created and maintained through the authority of hierarchy. It is perhaps this paradox that most needs to be understood by divisional managers. While implicit in the notion of 'teamwork' is a sense of voluntarism based on mutual awareness of common goals and the common good, the evidence from the divisions in this study suggest that views on the common good are, in fact, not common. BMs, in particular, believe that the common good is best served by summing their autonomous efforts.

The implications of this is that pan-divisional processes deemed to be strategically important must be actively managed *at all levels* and such active management

[15] The various specific mechanisms such as task forces, staff trans-location, cross business teams etc. are well known (e.g. Alexander, 1993) and will not be covered here. The main points are that such mechanisms are predicated on a pan-divisional perspective *and must still be managed.*

implies the presence of proactive divisional staff. In terms of trans-business processes "what gets managed gets done", but, perhaps more pointedly, what does not get managed, does not happen. The emphasis on "all necessary levels" derives from the reluctance of business managers to spontaneously promote ongoing trans-business interactions and the corresponding inertia of their functional managers to self-initiate ongoing peer contact. The ongoing interaction, so necessary for tacit, group based learning, is lost without (divisional) managerial drive and support. Divisional and business managers in non-cooperative divisions of cost focused corporations are likely to view the simple advocating of divisional staff as a controversial suggestion for which the potential "rewards" do not warrant the concrete risks or losses. "Enlightened" self-interest acts to leave synergy "in the ground".

8.7 From Stand-alone to Cooperative

Change carries risk particularly where that change is a major reorientation of perspective and practice against multi-faceted forces for the status quo. Often a major crisis can becomes an undeniable rationale for transformation[16]. Unfortunately, from the perspective of divisional strategy, a performance crisis is more likely to orient corporate and divisional managers towards cost savings and rationalisation rather than the creation of divisional staff positions and interactive processes. It might be then that the establishment of cooperative, pan-divisional processes is best started in

[16] Kotter (1995; 60) identifies "Not establishing a Great Enough Sense of Urgency" as the number one error underlying failures in transformational change.

"good" times. The problem then is that business managers will be even more forceful in their defence of the value of stand-alone functioning and their logic of "it ain't broke don't fix it" can seem indisputable.

Guidelines for the introduction of such change in organisational orientation do exist. Collis (1991c) for example presents a hierarchy of five levels of "modes of coordination" of separate businesses within a corporate strategy framework. At the top level are "those modes of coordination which involve the least centralized intervention" (p. 8). He suggests it is "often best to introduce coordination by gradually moving down the hierarchy" (p. 9) and in particular to start with those cooperative activities that are in the self interest of the businesses to implement. As synergies become apparent at lower levels the businesses can be helped to the realisation of the long-term benefit of increased levels of divisional coordination of business processes. The "trappings" of stand-alone functioning might need to be left in place to assuage fears of a downgrading in status. e.g. as Division D2 moved to a more integrated structure the title of Managing Director was left with managers who were, technically, no longer in that role.

Cooperation is as much a mind-set as it is a practice-set and both must be in place if divisional value is to be created.

Chapter 9

CONCLUSIONS, LIMITATIONS AND FUTURE DIRECTIONS

"Now this is not the end. Is not even the beginning of the end. But it is, perhaps, the end of the beginning."
Winston Churchill)

In Chapter 1 five research questions were posed about the strategic management of divisions which gave direction to an empirical investigation of divisions. These questions are now be re-visited with brief answers giving concluding summaries of the study.

9.1 Question 1: What is 'divisional strategy' in theory i.e. What is the value creating rationale of the division?

Divisional strategy is the creation and management of exploitable relatedness in its component businesses to create membership benefits such that the value of the division is greater than the sum of the values of the stand-alone businesses. A variety of membership-contingent benefits can be created ranging from the exploitation of market power to the linkage of competences and capabilities between businesses. These benefits have been categorised into:

guidance benefits- where divisional level resources actively augment the strategic capabilities of the businesses;

facilities benefits- where divisional level resources replace the strategic capabilities of the businesses;

team benefits- where the businesses actively augment each others' strategic capability; and

group benefits - where the advantages of membership are inherent in the size, history and/or position of the division.

The unique input of the division over its component businesses lies in the creation, development and management of the meta-value of membership.

Although market based relatedness can be a source of additional value (e.g. through quasi monopoly effects) the prime basis for positive divisional membership benefits lies in the exploitation of commonality of processes, functions and competences via an aggressively cooperative divisional infrastructure. One of the reasons that a cooperative infrastructure is required is that the successful exploitation of economies of scope of divisional-specific knowledge and learning which underlies shared capabilities relies on the transfer of the tacit components. Such transfer is dependant on physical interaction as tacit knowledge, by its nature, is not reducible to articulable coding.

This viewpoint follows the significant stream of research on the link between relatedness and performance (e.g. Rumelt, 1974; Singh and Montgomerie, 1987; Amit and Livnatt, 1988) where several variables have been argued to intervene between relatedness and synergistic performance. i.e. relatedness is a necessary but not sufficient condition of synergy. Amongst these variables a managerial orientation towards underlying capabilities or resources as the key, exploitable component of relatedness (Lemelin, 1982; Markides and Williamson, 1994) and strategic management oriented towards "cooperative" inter-business systems and structures (Collis, 1991c; Hill, 1994) have been deemed to be significant.

9.2 Question 2: What is 'divisional strategy' in practice?

i.e. What is the value creating perspective of division management and how do they purposively enact it?

In Chapter 3 this broad question was broken down to two specific queries about the views of divisional managers:

1. What are the views of DMDs on the membership benefits for divisional business units, the role of the divisional level and the businesses in achieving those benefits and, in particular, the extent to which inter-business or business-division cooperation is important.
2. What specific structures, processes, mechanisms etc. are planned or in place to encourage, facilitate or drive intra-divisional cooperation.

In practice the perspectives and practices of some divisions (cooperative divisions) support the theoretical view of trans-business/inter-business capabilities as the prime source of divisional value. In these divisions cooperative orientations were expressed by divisional managers and they were managing structures and systems to facilitate interactions either between divisional-level resource, between the businesses or both. An identifying characteristic of such divisions is that a number of strategically focused staff are put in place at divisional level and business managers are given incentives linked to divisional performance. The perspective of divisional level staff tends to reflect the management of a single business (the division) which is made up of several inter-linked components (businesses) wherein cooperative processes need aggressive meta-management. These divisions can be argued to be structural manifestation of the exploitation of horizontal, learning-based economies of scope and exhibit a theoretical potential (not measured) for synergistic *team* value although active *guidance* from divisional specialists as general management inputs from the Divisional Managing Director are other sources of divisional value.

However there are another set of divisions that did not support such a view (non-cooperative divisions). These divisions manifest the perspective and structural imperatives of the traditional M-form. These organisations are characterised by a paucity of divisional staff, with those that are in place being in predominantly control oriented positions, and by the fact that business managers are offered no remuneration-based incentive to focus on divisional performance. While often espousing the "value" of cooperation the dominant logic of the divisional managers is based the division as a set of autonomous businesses. Value is seen as arising from the specific product-market characteristics and activities of the individual business unit with limited additional value from inter-business cooperation. *Group* benefits can arise from market and quasi monopoly effects of size. The DMD is operationally involved as a source of general management *guidance* and this involvement can be argued to be an exploitation of management based economies of scope (Penrose, 1959). However, as with the cooperative divisions, much of this input is in the nature of administrative or loss ameliorating activity (crisis management and performance maintenance) and, as such, is difficult to support as a systematic basis for added-value over that created by normally skilled and motivated Business Managers. Perhaps inevitably then divisional strategy in practice is *contingent* on the interaction of a number of corporate, divisional and business dynamics. The performance transparency of the M-form structure and its facilitation of specific accountabilities seem to make this the current default modus operandi for divisions. The potential gains from pan-divisional, inter-business (i.e. non-M-form) processes are non-measurable in the standard financial statements whereas the costs of staff, coordination and boundary blurring are observable and measured. If a corporate emphasis on cost savings, delayering, etc. and a focus on individual business is allied with career oriented, risk averse divisional management then this interaction militates against the necessary staffing and structural moves necessary to force a cooperative division. "Forcing" cooperation seems to be required on business managers who tend to aggressively strive to maintain business autonomy and to develop it further where they can. This anti-divisional stance is perhaps due to the prevailing culture of individual-manager-as-hero but might also reflect a rational striving for perceived stand-alone excellence as a major pre-condition for internal recognition and advancement. Such internal incentives for the business manager in the division take the place of the market incentives for the stand-alone business.

9.3 Question 3: How are different divisional strategies reflected at the business level?

This question was also expanded (Chapter 3) to:

- How are the views, roles etc. espoused by the DMD reflected at business level and in particular to what extent is the divisional commitment to cooperation supported and manifest?

As might be expected from the comments about the autonomy-seeking orientation of business managers mentioned above, the business level managers in the non-cooperative case support the stand-alone orientation of divisional management. i.e. business autonomy is viewed as the sensible, if not the only, divisional approach. Business differences at the product-market level are weighted more highly in terms of value potential than business congruencies at the level of process or capability[1]. The benefits of divisional membership tend to be viewed at *group* level i.e. in terms of size and reputation and general management *guidance* and advice is accepted as valuable with problem-solving but high performing businesses expect to be left alone (and in the main are left alone).

In the businesses of the cooperative division tensions are more manifest between the units and a divisional level operating to reduce stand-alone operating. Despite the

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[1] One business manager from a non-sales background was a notable exception to this view.

acknowledgement of the value of *team* based benefits (shared learning) the necessary horizontal processes are not manifest below BM unless enforced by accountable divisional staff in the way that the DMD enforces cooperative behaviour between business managers. Like their counterparts in the non-cooperative division the BM in the cooperative structure value their stand-alone status. Although espousing and enacting the value of shared learning through ongoing contact or standardised systems, the BMs have difficulty practising this at lower levels in their own organisation. Their functional managers experience a resistance to inter-business liaison and, unless this is divisionally managed, they stay within their own businesses despite seeing opportunities in cross-sharing. Where strategic process and functional divisional staff do have an active role at business level there are manifest tensions between them and the BMs.

The dilemma faced by a BMs is that, although he might recognise the *divisional* value of cooperation and inter-business teamwork, promotion to more senior general positions is contingent on his performance standing out from his peers. 'Performance' here means the performance of the BM's *unit*. In a game theoretic sense then his most rationale action is to defect and not cooperate.

9.4 Questions 4: What practice implications emanate from a deeper understanding of divisional strategy?

The major practice implications derived from this study lie in the importance of divisional managers understanding the divisional benefits they are trying to optimise, having some sense of measurement of this value, developing and maintaining the appropriate organisation to release this value and dealing proactively with the divisional-business tensions created by those organisational processes.

In the non-cooperative divisions in particular, divisional managers give the appearance of managing the businesses as a group rather than having an orientation to managing the division as a value creating whole. Although concerned with *their* value-adding worth they do not give the impression of having a clear, à priori sense of what value the *division* is adding. The guideline categories of *guidance*, *team*, *facilities* and *group* at least give a structured approach to this issue and can help divisional managers develop a subjective sense of the nature of the benefits the division is adding and might plan to add.

A more difficult issue, and one which awaits further academic input, is the question of measurement or an *objective* view of membership benefits. In none of the divisions, including the cooperative ones where concerted (and expensive) effort was being undertaken to manifest *team* based horizontal processes, is there any measurement, even at the most rudimentary "guesstimate" level, of divisional value. *How* the division adds value is one question, how *much* value it adds is the objective extension of this. Intuitively this is a difficult problem but when tackled for particular divisions it has the potential to focus energy in the right areas. Initially at least it may be that such 'measurement' will be in the class of 'highly approximate' but it will at least give a starting point for further refinements. The measurement issue goes beyond divisions to the value-added by all multi-business organisations but is no less important for divisional managers because of this.

Establishing an orientation towards the value of divisional membership enables a more specific organisational framework to be developed to create and manage those benefits. i.e. structure follows strategy. It is not axiomatic that all divisions will imply a cooperative orientation. If *group* benefits of market power (monopoly) for example, are highly valuable then business autonomy with divisional control staff maintaining price discipline might be the most appropriate structure. Where there is a perspective on value based on the inter-linkage of business capabilities, however, a more cooperative organisation needs to be evolved.

In developing a cooperative organisation divisional management needs to align systems and structures with the benefits being exploited. Horizontal processes need horizontal structures, incentives and management and team processes need team structures and management. It is likely that the power of the integrating mechanisms fall off as a function of the distance from direct divisional involvement. The fact that BMs are interacting and sharing with each other does not mean that this is happening at lower levels of their business units even in those divisions with the highest espoused level of organisational sharing. It is not essential that divisional level staff are appointed for each process as individual BMs can be given pan-divisional roles[2]

[2] This seems to be a powerful mechanism to gain divisional commitment.

but it does seem that if the process is not actively managed hierarchically then it will fall into disuse.

The ongoing tensions between hierarchical levels in organisations are as old as organisations. The dynamics of the M-form, however, with its purposive creation of autonomy and separation gives rise to the dilemma of sharing verses stand-alone operation. In a major sense all divisional structures recognise the authority and responsibility of the BM for his own business unit and rewards or sanctions flow on the basis of this orientation. In non-cooperative divisions this M-form philosophy predominates and is consistent with the preferences of the BMs. In turning to a more cooperative, non-M-form orientation, stand-alone responsibility is incorporated with accountability for shared processes and performance. This tends to be against the preferences of the BMs who remain autonomy seeking[3].

9.5 Question 5: In what ways can a deeper understanding of the divisional strategic role develop existing views of the multi-divisional firm?

There are two broad areas wherein divisional strategy has implications for the firm. The first is in the management of *divisions* as components of the firm and the second is the extrapolation from divisions to issues of relatedness within the firm.

In managing divisions the corporate level faces similar questions as divisional management. In particular the questions around the nature of the value the divisions

[3] In a sociological sense this may be a transient, cultural phenomena grounded in the individualistic UK society of today but for the foreseeable business future this dynamic needs purposive management. It is notable in this context that one of the cooperative divisions in this study is made up of Japanese Business Managers and the divisional level still fights their desire for autonomy.

is adding (if any) and the measurement of this value. If the division is regarded purely a response to administrative overload, and divisional management is acting "in loco parentis" to monitor and control a set of related businesses then the value of the division is likely to be in terms of the reduction in complexity at corporate level. This orientation still begs the question of why the businesses are under one corporate/divisional control rather than stand-alone. On the other hand if there is a sense of adding value through divisional membership, then it is sensible for the corporate level to seek to facilitate and not impede the creation and maintenance of membership benefits.

One specific attitude than could be adopted is the perception, monitoring and measurement of the division as a whole rather than as a set of individual units. This is not a foreign concept as individual businesses are monitored in this fashion. The business is primarily seen as a totality at the level of sales, cost etc. but is (secondarily) understood in depth through more detailed variance analysis of its components. e.g. sales by region/customer/product. In the divisions in this study the "variance" analysis, the understanding of the individual businesses, is primary and the totality is the simple sum of the parts. Not only does such a corporate approach militate against viewing the division as a whole it is also a manifestation of wasteful double management of the same information in that the divisional monitoring role is carried out twice.

The question of the measurement of the value added by divisional membership is as vexed for the corporate level as it is for divisional management and, as such, the same comments apply as in 9.1.4. above. Without a sense of the value of its divisions over that of the stand-alone businesses the corporate level has no meaningful measure of one of its most important management layers. It can be argued that it is for reasons of non-measurement (non-measurability) that the corporate level looks so closely at the individual businesses as these are seen to be the only true source of value.

In a broader sense corporations can take lessons from divisional management. Divisions are created on the basis of relatedness and so enable empirical investigation of relatedness in a relatively "pure" form. The dilemmas and tensions between economic and organisational rationales noted in divisions would seem as likely to apply to firms made up of related businesses and, if so, this adds some small insights to the relatedness-performance debate. It is logically unlikely that relatedness between *autonomous* businesses in the same corporation has any more value-adding relevance than the same related businesses as stand-alone entities. It is logically likely that relatedness in corporations only has value-adding relevance if it is appropriately envisaged and managed. Neither is relatedness per se likely to be any antidote to corporate (or divisional) value destruction i.e. a negative M_{div} or M_{corp} (corporate membership "benefits")[4]. By taking a view of membership benefits in

[4] If groups of related businesses do have negative membership benefits (stemming from inappropriate management orientation for example) then the tenuous empirical link between relatedness and performance is understandable.

various categories, a set suggested here are made up of *guidance, facilities, team and group*, corporations can attempt to manage existing related businesses in a value-adding manner and can view acquisitions and divestments against specific hurdles of the membership benefits they will enjoy or enhance.

9.6 Research Limitations

This is qualitative research which derives its finding from a cross-section of divisional cases. It suffers from all the well aired problems of qualitative, case and non-longitudinal studies that have been vigorously debated by well qualified researchers for decades and which will not be re-aired here[5]. There are, however, particular aspects of this study , which although not new, need highlighting as specific weaknesses.

9.6.1 The Cases

Notwithstanding the difficulties of access described in Chapter 4 the set of cases are self-selected, UK based volunteers. The fact that all of them were also "reached" through consultant contacts is a further narrowing to a bunch of willing participants from a population which, in general, were not interested in being studied. Although the research is aimed at generalising to theory rather than populations this is, to some extent, a philosophical nicety, as what is a theory for if it is not to (deductively) generalise to populations? Whilst a small number of cases is a feature of this type of

[5] Bryman, 1988 captures most of the debate between protagonists of different research philosophies. while Pettigrew (e.g. 1985) is a staunch critic of non-longitudinal studies in process oriented research.

research it nevertheless remains a burden rather than a boost to the level of surety that can be placed on *any* generalities theoretical or not.

9.6.2 Respondents

Of the twelve cases in this research ten are drawn predominantly from the semi-structured interviewing of one senior divisional executive. It has been argued that top managers, and particularly the Chief Executive, are valid indicators of the "collective mind" (Weick and Roberts, 1993) of the organisation (Snow and Hrebiniak, 1980; Hambrick, 1981) particularly if the businesses is either small, specialised or not diversified. (Nayyar, 1992; Powell, 1992). Given that a significant amount of strategic management research, and particularly survey research, is based on the responses of a single company informant it is important that this is so.

The two cases in this study which incorporate the views of the divisional team and business managers (after the initial interview with the DMD) offer a small, internal validity check. The several sets of responses indicate that senior manager are consistent with each other in their perceptions of the organisation and hence the views of any individual senior manager can be taken as a good indicator of the overall organisational orientation (enhanced perhaps because of he non-diversified nature of the divisions).

Nevertheless a lot has been accepted and inferred about a complex organisation primarily from the responses of one participant. Despite this, confidence in the overall findings is based on several factors:

1) The themes being pursued by the researcher were not familiar to the respondents which, allied to a non-directive approach, reduced the pressure for purposive self-serving responses to the researcher's interactions.

2) The overall findings are based on aggregating the cases into broader categories. The consistency within the categories suggested that responses were general (indicative of a standard operating climate) and not idiosyncratic in nature. i.e. the thematic consistency between the single respondents from different divisions increased confidence in the validity of the responses as a divisional indicator.

3) The internal consistency of the responses of the individual lend support to the view that he/she was describing the division as other senior managers would also describe it. It would be difficult to operate with others if such a complex, integrated divisional perspective was not a shared one.

None of these "justifications" deny that each individual has some unique perceptions and beliefs. They are aimed to suggest such nuances are more akin to minor differences in colour rather than major reorientations in structure and perspective.

9.6.3 Analysis

Data collection through semi-structured interviewing has an inherently subjective, intuitive element. To this researcher this was highly evident in this study. The structure of the interviewing sessions ended up as a comprise between the agenda of the researcher, the agenda of the respondent and the interference of that day's reality. These were people in high pressure jobs for whom interruption by a management researcher was marginally more attractive than face-to-face discussions with a life insurance salesmen. "Analysis" in qualitative research begins as soon as the interview commences and is reflected in the direction of the questions, prompts and probes. The application of an analytic framework (benefits and systems) serves to reduce the already reduced (i.e. pre-analysed) data[6] to a coherent set of variables which can be compared across divisions. The researcher, a subjective, intuitive, boundedly rational human being is both the instrument of data collection and the instrument of analysis, and data collection and analysis are inextricably linked. While there can be no cogent dismantling of this limitation it can be ameliorated by examining it in broad context of the research and its findings. In terms of general "rules of evidence"[7] it is proposed that the whole hangs together, within the confines of what was researched , in a such a way that the overall findings are "fairly"[8] grounded in data that others could collect and verify.

9.7 Further Research

Three research themes are planned as a continuation of this work; verifying and refining the overall findings, testing the related/cooperative performance link and developing the benefits matrix/ measurement systems for divisional value.

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[6] By this I mean that the cases as written up in the thesis are an already reduced (in terms of content and structure) version of the case data available. In this sense the cases in the thesis are "pre-analysed". The same principle applies to questionnaire research where the questions themselves are a form of pre-analysis.
[7] My thanks to my supervisor Professor John McGee for this term.
[8] i.e. not systematically biased towards a pre-judged outcome.

9.7.1 Verification and Confirmation

It needs to be confirmed that categorising divisions as cooperative or non-cooperative is empirically valid across a wider set of divisions. As with all such classification it is more likely that a continuum exists although the pressure on divisional managers is such that "transitional" states might be less likely to exist than more committed structures. Getting inside more divisions to more fully explore the business-division and business-business relationships is potentially illuminating.

If a cooperative/non-cooperative dichotomy is confirmed then it should be possible to develop a simple diagnostic/classification tool (questionnaire) for divisions and other multi-business groupings. This might be a mix of "signs" (i.e. what outsiders can see) and "symptoms" (what the organisation describes).

9.7.2 Testing the Cooperative/Relatedness Performance Link

This research did not examine performance but an underlying propositional thread has been that cooperative strategic management is the key to out-performance by related businesses. i.e. While the strategic rationale of divisions is economic (relatedness, economies of scope) the realisation of synergistic value is organisational (cooperative structures and systems). Building on the identification of cooperative and non-cooperative divisions performance comparisons are feasible.

9.7.3 Measurement/ the Benefits Matrix

Discussions with managers both during and after the research attested to the intuitive appeal of the creation of membership benefits as the role of divisions and the use of a form of benefits matrix to classify these. But a key element that is missing lies in the measurement of the absolute value of a benefit and divisional membership generally. Further work is needed to refine the benefits matrix in term of its axes, the nature of specific activities consigned to each category and the relative ranking of benefits (and hence how they are most appropriately managed). At the same time absolute measures of benefit and divisional membership need to be developed. This promises to be a difficult but interesting problem.

9.8 Divisions: Dilemmas and Paradoxes

Divisions are large commercial enterprises of related businesses and yet the divisional level is posted at an organisational cross roads. Divisional managers are business-accountable to their corporate superiors but kept out of the business front line by their business level subordinates While the corporate level focuses on corporate strategy, shareholder value, governance, "parenting" advantage, investor relations, portfolio planning etc. and the business level concerns itself with business strategy, competitive advantage, market positioning, capability development etc. no unique strategic role for the division has been generally promulgated or studied. It seems however that, more than other levels of the organisation, divisional strategic management is concerned with the resolution of various linked paradoxes:

- Individualism and collectivism must be optimised within one organisational framework. The organisational and cultural design imperatives of the M-form, of which the typical division is a manifestation, facilitate splitting, autonomy and business optimisation while scope economies, suggested to underpin the potential added value of the division, are realised through organisational dynamics of conjunction, integration and collectivism.

- The divisions must exploit the value of relatedness if is to add value over the sum of the component businesses and yet this value is not measured. Measurement focuses on the individual business.
- The potential value from relatedness ("synergy") is contingent on appropriate management processes and systems but the installation and maintenance of such (costly) systems is contingent on the level of potential value from relatedness.
- At the business level synergy arises from collective, team based dynamics' but perceived outstanding individual achievement is a major condition for internal advancement.

In practice the resolution of such paradoxes is fraught with real-world costs and risks and, while some divisions are confronting the necessary cultural, organisational and psychological complexities, others are staying with a simpler, more clear-cut philosophy.

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Appendix A

Introductory Letter and Outline

Dear Mr.

As the details on the enclosed outline show I am a former executive turned academic who is researching divisional strategies. Surprisingly this is an area in which few authors have shown interest but which is of major importance in multi-divisional companies.

I have interviewed Divisional CEOs from other major companies but need more participants to ensure adequate breadth and depth of the research. GB and I are research colleagues and he suggested that your company would be a valuable one to include and that you *might* be persuaded to facilitate one hour interviews with the appropriate people.

I recognize what an imposition this is on you and and interviewees but I do think the research is potentially useful for companies such as yours and have found that all the executives who have made themselves available have found the questions and issues covered both relevant and interesting. If there is any good news it is that I am not selling time share, insurance or even management education at Warwick!

The university is currently out of term so I have enclosed my personal communication information as I am easier to contact via my home. I will follow up this letter in a few days by calling your PA to find out your response and, in the event that you can help, to get details, arrange contacts etc.

Sincerely,

Chris Smith

The Research Proposal

Strategic Management and Strategic Influence at the Divisional Level

Management training and education teach that there are three levels of strategy: "corporate", "business" and "functional". Consequently books about the multi-divisional firm present the divisional general manager as a "middleman" co-ordinating business units and integrating business strategies with that from corporate.

This view may have been true for multi-divisionals in the 1950s and '60s. Experience suggests, however, that in the turbulent world of the '90s, divisional management must offer something more distinctive to the strategic capability of the company than co-ordination and integration. "Divisional" strategy may need to taken into account as a uniquely valuable fourth level.

The research project aims to develop more sophisticated theory about the *distinctive* strategic contribution of the division and to develop practical managerial implications from this deeper understanding. It will address such questions as:

- What are the key features of the divisional role in developing the strategic capability and orientation of the company?
- How do divisional managers describe this role?
- How do they implement it?
- What factors and circumstances affect this role over time?
- How do these roles vary between divisions?
- How do these roles vary between companies?

The research offers several potential benefits.

- Description of the distinctive role of divisional management should help companies understand the role better and thus support and develop the unique perspective it offers.
- Highlighting the role as being more than a "middleman" will help focus the education and training of potential divisional managers on the more distinctive, value-adding aspects of the position.
- Clarification of the role and various influencing factors will help practising divisional managers understand the impact of corporate and divisional change within their firm and enable them to foresee the adjustments necessary to optimise their contribution.

Research Process:

The research is based on confidential* interviews with divisional general managers. It is envisaged that interviews will take from one to one and a half hours.

* In the publication of the research it is planned to use verbatim comments of interviewees to illustrate themes and issues. The identities of interviewees and their companies, however, will be disguised. All company-specific content and any other matter that will tend to identify the interviewee and the company will be changed.

Warwick Business School.

Warwick Business School at the University of Warwick is one of the UK's foremost business research and teaching institutions. Within the School the Centre for Corporate Strategy and Change (CCSC) has focused on ongoing strategic developments within large companies. Strategy development and management within multi-business/multi-divisional firms and the role of the corporate centre are areas of particular interest within CCSC under its current Director, Professor John McGee.

The Researcher:

Chris Smith is a married, 48 year old who lives near Stratford-upon-Avon with his wife Marlene. He started his industrial career in personnel roles with Simpsons Ltd, a major Australian whitegoods company, and progressed with them to general management in Adelaide and then in Sydney. He moved to Melbourne to work as General Manager (Films) within the Plastics Division of ICI (Australia). Later he returned to consumer goods as Managing Director- Britax Child-Care Products a subsidiary of BSG International plc. With BSG he came to the UK in the role of Divisional Managing Director - Consumer Products Division. In 1994 he left corporate life for an academic one.

He is currently studying, researching and teaching at Warwick Business School.

Appendix B

Consultant's Introductory Letter

Managing Director

Dear A

I trust all progresses well at the company - I have followed recent UK moves in the press with some interest. I believe you will be interested in talking with Chris Smith, one of my research colleagues based at Warwick. He is after an hour with you as someone working at the divisional level - and I have no doubt his findings will be of interest to you. He is particularly interested in the influences between the local people and corporate.

Details are attached but I have given Chris your telephone number and he will contact you.

Best wishes

Appendix C

Interview Guide - Divisional Level

A. Divisional Value-Added:
What is the nature and source of value for a business unit from being part of the division?
What value does the divisional level add?

Probe/prompts.
business value/competitive advantage/business strategy; source of group value greater than the sum of the parts; membership benefits; divisional value to the individual business; loss of value if business left; value to new acquisitions; value added by divisional level; the relatedness of the businesses and how this creates value;; changes ove time; specific examples;

B. Divisional Management Orientation and Practice:
What are the principles and practices in place to achieve divisional value?

- **Managerial Philosophy.**

What are the overall principles of managing the division?

Probe/prompts.
divisional vision; divisional strategy; value achieved; business separate/linked; stand-alone/integrated; divisional strategy; scope of businesses; centralisation/decentralisation; overall divisional level role; teams/individuals; role of corporate; changes;

- **Divisional Functions, Services and Resources.**

What specific value-adding help does the divisional level provide?

Probe/prompts.
role of DMD; other roles/functions of divisional staff; services to businesses; augmenting/replacing business functions; shared activities; distribution; brand; push, plea or persuasion; matrix; behavioural (operational)/outcome intervention; vertical linkages; plans; budgets; changes;

- **Pan-Divisional Structures, Systems and Processes.**

How are the businesses linked to each other and to divisional goals?

Probe/prompts.

integrating mechanisms, horizontal linkages meetings; business level 'divisional' roles; staff translocation; pan-divisional processes/systems; vertical/horizontal; sharing skills; pan-divisional training; IT systems; task forces; matrix; changes;

measurement systems finance/non-finance; group/individual; corporate requirements; changes;

incentive system: link with divisional results; group/individual based; finance/non-finance targets; outcome/behavioural control; changes;

Appendix D

Interview Guide - Business Level

A. Source of Business Value
How does the business aim to create value?

Probes/prompts:
competitive strategy; competitive advantage; differentiation/cost; market position; capabilities/competencies/resources; role of MD;

B. Source of Divisional Value
What are the benefits to the business in being part of the division?

Probes/prompts:
source of group value greater than the sum of the parts; membership benefits; divisional value to the individual business; loss of value if business left; value to new acquisitions; value added by divisional level; the likenesses of the businesses that create value; disadvantages of membership; tensions/difficulties; size; reputation/brand; knowledge/learning; guidance/advice; ***specific examples;*** change;

C. Mechanisms of Divisional Value
How is divisional value-added maintained?

Probes/prompts:
mechanisms; structure; divisional functions/resources/services; centralised activities; training/development; inter-business linkages; common systems/processes; meetings; staff exchange; IT links; change;

Appendix E

Interview Guide - Functional Level

A. Contibution to Business Value

What is your role?
How does the role add to business value?

<u>Probe/prompts:</u>
role description; business strategy; business value-added; links with other functions in the business;

B. Divisional Membership Benefits

- **Value**

What value is added in your role by being part of the division?

<u>Probe/prompts:</u>
membership benefits-business/role; guidance, sharing; added resources; knowledge/learning;

- **Mechanisms**

How is this value added?

<u>Probe/prompts:</u>
Divisional functions/services; links with other businesses; professional development/training; visits; staff sharing; translocation; pan-divisional task forces; best practice dissemination;
structured/unstructured; networking;

Appendix F

Divisional Strategic Analysis Report

Division F2

"...as long as the person running the business is a good all-round performer I don't see that you can add value to that. I feel our job at the centre is erely to put in place the correct person to run that business and don't get involved anymore. And just make sure we monitor the financial activity."

"I just don't think we can capitalise on the our brand name the way Ford can."

"The essence of this job is to run it like it's my own business. It's important that we have that delegation down because you need relationships with the local community, you need to understand how the local community operates, you need continuity in the line management in the dealership because reputation is everything."

"John and Paul come round and say 'you've been a good boy, you got budget',
but how do we know I couldn't have done better?"

CS: "How does being part of the division help with your competitive advantage?"
MD: "........it doesn't really."

Overview

The *divisional value-added* of the division revolves around the market position it is attaining through the movements of the major car manufacturers towards fewer franchise holders. This value is being enhanced by the *portfolio development* activities of the divisional team. This market position is a *group* benefit based on economies of scale as are the gains from centralised, bulk buying of consumables and the cheaper finance available to larger users. Some shared *activity* benefits will accrue when a common computer system is in place. *Team* benefits are ad hoc and not purposively managed and *guidance* benefits based on supervisory management of dealership MDs and the cross-pollination of best practice.
The stategic management orientation of the division is strongly towards unit optimisation with the value adding management role of the senior level lying mainly in the *governance* of dealership performance and *crisis intervention* with under-

performers. The *entrepreneurial* value of the senior role lies in the development of the division as a business and the establishment of performance hurdles for dealerships which are above industry average Other than a competent local Managing Director for each dealership there has been little attempt to manage business capability in a pan-divisional way. The relatively recent 'kaizen' role is unlikely affect this in the long term unless the cultural orientation of the divisional level changes to match the interventionist stance required to make pan-divisional processes successful. This would entail a major culture change throughout the organisation where the value of stand-alone functioning has become a fundamental belief for most MDs.

The apparent relatedness of business units is exceptionally high at product/market and resource/capability levels. The perceived strategic primacy of local markets, however, over-rides the value of business linkages and pan-divisional competences. A pan-divisional orientation is also seen as secondary to the primacy and power of the manufacturers in terms of product supply, brand development and business process improvement.

A divisional sense of stewardship on behalf of more potent 'owners' (i.e. the car manufacturers) militates against a strong divisional identity. A sense of local ownership at business level has the same effect.

Divisional Value Factors:

Business Relatedness

- The dealerships have the same strategic focus in selling the same products and services to the same market segments under the same market, industry and economic forces.
- The same functions, processes and technologies are in use.
- The dealerships report on the same issues and outputs in standardised fashion.
- The critical success factor in the dealerships is seen to be localised customer service and relationships and business opportunism.
- The prime competence is seen to be the dealership managing director.

Linkages

- The prime intra-divisional linkages comprise meetings between the dealership head and his manager.
- On a regular but infrequent basis functional managers from the dealerships meet as a group to exchange views.
- On a regular basis the MDs of the main marque dealerships meet as a group.
- Throughout the division there are cliques of MDs. who network and share information and practice. 'Information' is probably more in line with 'intelligence'.

Membership Benefits:

Group

- Cheaper finance
- Possible buying power

Activities

- Shared computer system planned

Team

- Infrequent meetings of departmental heads.
- Informal networks of alliances predominantly at MD level.
- Pan-divisional sales incentive programme run by one of the business MDs.

Guidance

- CEOs acting as guide, counsellor, director, cross pollinator etc. with a predominantly *administrative* value orientation, i.e. governance and crisis intervention.
- New divisional 'kaizen' staff are yet to have a pan-divisional impact. The mismatch between divisional intervention and the strong stand-alone culture is a major barrier to long term effectiveness.

Chris Smith
30 October 1997