
The new deal at the top



Most companies have managers reporting directly to the CEO on a one-to-one basis, with responsibility for their units or regions,” says Yves Doz, who holds the Timken chair in Global Technology and Innovation at INSEAD. The Professor of Business Policy says the result is that “the businesses or regions tend to behave in an autonomous fashion similar to the way a baron would manage his fiefdom.”

“This makes it more difficult to create an integrated corporate value creation logic,” Doz says. “Often the old deal is where the company has a sort of sub unit or divisional autonomy that leads to rivalry, the development of turf battles and separate, well-defined areas of responsibility.”

In an article called ‘The New Deal at the Top’, published recently in the Harvard Business Review, Doz and co-author Mikko Kosonen, a former Chief Strategy Officer at Nokia, look at how companies need to change their business models and, in particular, at how executives should revise the way they work together – ‘the new deal’ -- when their company strives for corporate value-creating logic that brings together the various business units.

In the 1990s, in Nokia's network and mobile integration businesses, Doz says, "each part became more independent, and felt less need for dialogue and collective commitments, or for working together."

"Nokia has been confronting the problem of dealing with the dynamics of a being both a large company and feeding off constant innovation for years - as it has been moving from being a producer of mobile phones and, to some extent, network infrastructure to worrying about services, applications and content of various types. There is also the issue of managing the integration of various technological and shared resources, while differentiating between corporate and entertainment applications."

"Another challenge for the company is the move from voice to multimedia, of internet-based versus telephony-based communication technology. All of this has created a strong pressure both for continuing the growth of the core business, as well as for entering new areas - thus for both decentralized entrepreneurship and integration."

Doz and Kosonen believe that in order to create more integration and corporate value a 'new deal' is required at the top. Doz says "this, in a way, redistributes roles, relationships and responsibilities in a more integrated manner, that means people become more responsible for a set of inter-related tasks that fit within a corporate whole, rather than being accountable for a given business or territory."

This can be in shared corporate platforms and functions, as in the case of Nokia, where there are technology and marketing platforms, along with marketing services, distribution and sales organisations that are common to the various groups "or more abstract as with the Easygroup in the UK, where what they share is business logic - a way of thinking about services, pricing, yield management and internet-based distribution that they can apply across a whole range of businesses."

Over the last three years, Doz and Kosonen have studied the strategy and leadership of a dozen large corporations including Canon, Cisco, Hewlett-Packard, IBM, Nokia and SAP "that wanted to find a way to integrate value creation without losing the benefits of entrepreneurial growth activities."

Their goal was to understand what made a company 'strategically agile' with an ability to change rapidly in response to "major shifts in its market space and to do so repeatedly without major trauma".

What they found is that collaboration in terms of a new deal is characterised by “frequency, intensity, informality, openness and a focus on shared issues and the longer term.” Conventional thinking is challenged and criticism of top management encouraged.

However, it’s not just new technology businesses that are affected by these issues. “No, it is perhaps the industry where they are more salient which is why we studied these companies,” Doz says, “but we also researched the UK’s Easygroup, that is in various types of services, such as travel and leisure, and many others. What you find are essentially companies that have this challenge of combining entrepreneurial business differentiation with corporate value added.”

“I think what is happening in some ways today is that stock market pressures are so great that CEOs are increasingly expected to articulate a corporate value creation logic. And so we basically say ‘how as a CEO do I add value?’ ‘How does the staff add value?’ and ‘how do I achieve more than individual traders could obtain just by managing portfolios of companies?’”

Traditionally top management thrives on rivalry, enjoys competition and treasures autonomy. Doz says “this hits at the heart of the contradiction and it is the most difficult area because typically the ways people get promoted and rewarded at middle to upper management level in traditional companies do not prepare them for whole-hearted collaboration – but the contrary. therefore what we advocate here is an unnatural act for them.”

“For some organizations, however, that have had a robust history and a strong common culture like SAP, it comes rather naturally at the top because most of the key people in SAP were German software engineers who ‘grew up’ together,” Doz says. But among middle managers it's more difficult. For other companies without such a tradition, with no such common origins, this is even more difficult.

“One of the challenges for the CEO is not only to create the usual incentives that are aligned to corporate performance, for instance, which is fairly obvious to do, but also to create a climate and nurture a collaborative culture.” Doz adds. “This should be one of dialogue, exchange, reciprocity, rather than a culture of debate, transactions and rampant self-interest. This is obviously more a set of behaviours that needs to be modelled and led by the CEO, in terms of his/her day-to-day demeanour.”

Doz advises CEOs facing this dilemma to work in three 'wavelengths' initially. One that is intellectual and cognitive, he says, in which "you need to be able to articulate the corporate value added clearly, convincingly and compellingly enough that people start to believe in it. That's relatively easy again for a company like SAP, talking about open platform and applications." It's harder for a more diverse corporation, such as Hewlett-Packard.

"However, if you look at the recent and somewhat tortuous history of HP, it's a search for a value-added across a very diverse range of businesses so I would first tell the CEO, to think very hard and creatively about the value added of the corporation, and obviously the more diverse you are, the more challenging it is."

The second wavelength Doz says would be to change roles, responsibilities and rewards - to make key executives less autonomous in the way their jobs and performance are defined. "Some will leave, as happened at Nokia and you must be prepared for this because individuals who are used to leading independent businesses are not necessarily going to be good at managing a collective decision process and be part of a team very easily. But basically there is no other option."

The third wavelength is "the challenge (that) starts with you as the CEO, because if you keep managing a more comfortable one-on-one relationship individually with each member of the top management then it will never work. But you also need to have the skills, the behaviours and perhaps the guts to take a much more collaborative role and to be a more adaptive leader."

In other words, the new deal has to be built around a collective agenda "that we need to work on as a team. But that starts with you!"

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