International School of Management

New York • Paris • Shanghai • Delhi

Trends in International Management

ISM Journal of International Business

ISSN 2150-1076

Volume #1 Issue # 4 October, 2012

International School of Management

"Trends in International Management"

ISM Journal of International Business
Volume 1, Issue 4; ISSN 2150-1076

Table of Contents

Management from a Systemic Perspective

Sara Sadvandi
Doctorate of Business Administration student, International school of management (ISM)
Email: sara.sadvandi@gmail.com

Abstract: System complexity is usually due to the recursive intricacy and interactions between the subsystems. In project management, having a wide variety of technologies and methods as a choice and having to understand and manage a large number of constraints from specific organization procedures (e.g. governmental, partial governmental/regional financing for research projects), laws, regulations and cultural aspects, increase the complexity of management of international projects. This paper proposes a method based on a systems approach to handle the complexity of the management process. The systems approach can greatly improve understanding of the potential scenarios and the specification of their relationship to constraints coming from different levels and project aspects.

Keywords: systems approach, management process, management ontology, complexity.

Reference: Reference to this paper should be made as follows: Sadvandi S., Aboutaleb H., Dumitrescu C., (2012) "Management from a System Perspective", The ISM Journal of International Business, ISSN 2150-1076, Volume 1, Issue 4, October 2012.

Biographical Notes: Sara Sadvandi holds a Doctorate of Business Management from the International School of Management (ISM), a Master of Complex Industrial Systems Engineering from the EcolePolytechnique (l'X) in France, and is currently finishing doctoral studies. Engineer offunctional complex systems modelling in PSA_Peugeot_Citroen R&D in France. Since 2011 Sara SADVANDI has held a position of architecture and system engineer at SODIUS system (2009-2011), promoting the engineering system guided by models, tools and methods that underline them. Member of AFIS, INCOSEE, and L'X associations.

Introduction

A system is an integrated set of dependent or interrelated components, routines, methods or processes that accomplish an overall goal. System is usually made up of numerous sub systems with different range of complexity. Almost every, man-made system in the cadre of complex projects covers a wide range of activities, which require know-how transmission between people and disciplines working in different domains. Thus harmonization and integration of the involved disciplines such as science, engineering, human resource and finance, necessitates an efficient management. The project manager often faces complex situations involving multiple actors and stakes; this implies the trade-off analysis based on multiple criteria (system maintenance, component performance, price, availability etc.).

System complexity is usually due to the recursive intricacy and the interactions between the subsystems. However, human behaviour makes a system far more complex and complicated due to its uncertainty. Since management is mainly based on human behaviour and ethics, the outcome is often unpredictable: actors usually don't have the holistic view that enables understanding of the situation and taking into account all the factors and elements that can impact the management process. Moreover, management objectives might be influenced by irrational or emotional aspects of the human psychology. As a result, the increased complexity of the process is due to several factors such as the number of participants, the influence of context elements, reciprocal visibility over the participants 'objectives, interests or constraints, sustainable relation between actors.

This article proposes a formalization of the management process, analyzed with a systems approach, by taking into account managing of the actors and the participants in a given context and evaluating different scenarios.

With careful observation and formalization of all aspects of management, a systems approach allows handling the complexity of the management process in an optimal way, by offering more appropriate means for understanding complex problems - through contextual, holistic views, but combined with a decomposition approach for detail apprehension. At the same time it is based on the fact that different actors may have different viewpoints on the problem and the solution includes successful orchestration of the process by integration of these different viewpoints. This systems approach is based on a simplification of the management process, in order to ensure a global and structured understanding of the whole process.

This article emphasizes on the complexity of the management process by describing our approach to understanding the different layers of a system, applied to a project management. Then it describes the paradigm of management process and identifies the interactions. As in any other system, the increased complexity of management is induced by the increased number of possible scenarios, uncertainty and information. The goal of this systems approach is to greatly improve understanding the potential scenarios and the relation to constraints coming from the environment, to the objectives of each actor, as well as to the optimal decisions taken in the course of the dynamicity of the management process. Several levels (layers) in a system are identified, and analyzed each dimension, taking into consideration the perception (point of view) of each actor. It is expected that this approach could be used for any project, but the analysis order (the order in which system layers were analyzed) might be different from a project to another. Different methods and techniques could be applied in each layer of abstraction, and some useful methods for each level are proposed.

The systems approach

As different aspects become too complex for the mind to easily understand or operate with, different approaches are possible in order to better understand a complex system [3], [4]. Three concepts have been taken into account in this systemic method: abstraction level, decomposition level, and point of views [8].

- Abstraction: holistic view of the system that is relative to both the level of detail through decomposition and the type of information captured. The analysis is based on the principle that each layer has an impact on lower layers, but one does not need to consider these layers to understand a general phenomenon or one that is possible only in certain conditions.

- Decomposition: isolate system components for a detailed analysis, given that all information of the context of the analysed component is regarded.

- Perception: the point of view of each actor that limits or filters the available information, it allows building different models or representations of the problem. In the case of project management each actor has a different perspective of the situation.

While abstraction level allows the observer to have a holistic view of a system but in respect to different aspects that shall be describe further, the level of decomposition partitions the problem space and allows a localized understanding of the different components of a system[1], [2]. As each person understands a given problem in his/her particular manner, it is of common sense that we can analyse a system from different points of view that are perfectly coherent with each other.

Layers of abstraction:

- Structural layer: characterize the form of the physical elements of the system, including actors. Actors, in turn, may be represented by persons, organizations, nation states etc. The same applies for identifying the structures that are in interaction with the system.
- Dynamical layer: characterize changes over time, as well as time-based properties such as milestones in project.
- Behavioural layer: relate to the emergent behaviours of actors resulting from the evolution and dynamism of the process. Behaviour is influenced, led by, steered by the elements in the decisional layer.
- Decisional layer: any decision that has an impact on the overall system, and in consequence future evolution of the process or the following scenario. In technical systems where control physical process is required, decisions may come in the form of a control system, but in this case decisions are taken by the actors involved in the process of system. This renders the situation more complex since none has global knowledge of the other‘s intentions, so the following steps may be characterized by a certain level of uncertainty.
- Conceptual layer: represents the major lines of the process. It reduces the space of the possible scenarios or actions by defining basic rules or constraints. The concept refers to the core elements supporting the actions within the system. For example social systems require communication, but some means of communication can require a certain level of formalism, and others can allow freedom of expression and make the communication skills of the participants a real asset.

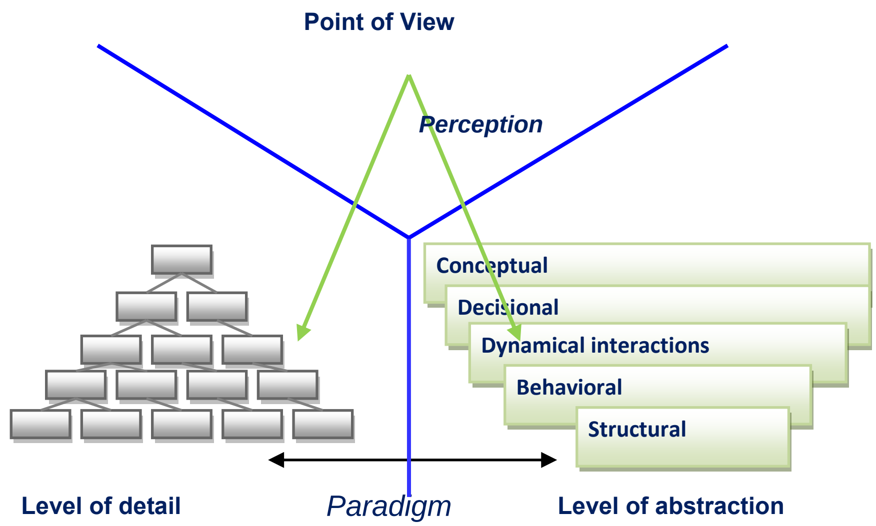


Figure 1 Characterization of complex systems aspects

The figure 1 presents the three different concepts that we take into account in a system‘s analysis. The upper levels of abstraction have an impact over the lower levels, so visibility and understanding of the system in respect to an upper level, does not require understanding of effects on lower levels. For example the system behavior will have an impact of its structure, in respect to a systems design, but the opposite is not true, unless we are outside the process of design. Global decisions can steer the systems interactions and induce a different behavior. At the same time the system is designed in respect to certain concepts. For example project management is viewed as a communication process where constraints and objectives are adjusted in order to reach overall satisfaction; in consequence the communication|| is one of the core concepts [8].

Integrated Management domain

The main project management domain coming from ISO 15288[16] and ISO 9001:2000 [17] are grouped as follow:

Holistic Project Management covers: Environment Process Management, Technical Process Management and Procurement Process Management.

Project Monitoring & Control covers: Configuration Management, Cost (or financial) Management Quality, Risk Management, Quality Management.

Project Support covers: Document and Information Management, Human Resource Management, Knowledge Management, ICT (information and communication technology) Management, development and Implementation life cycle Management, Verification and Validation.

Project management scope represents the triangle interaction of time, budget and quality constrains. Generally the goal of the intended project is to complete on schedule (time), under the predefined budget (money) and meet the requirement (quality) scope. In this triangle relationship, the parameters are scarce resources; it means they have to be considered in interaction with each other. So these parameters have to be taken into account in whole project domains. For example the activities, within the project management, are defined to achieve an aimed quality where they may be related to risks. Beside the unmanaged or unplanned events or process cause the risks that produce the variants in terms of time, quality and money [7].

As it is mentioned in the figure 2, the environment process deals with the legal acceptance of the system within its physical environment by the stakeholders, the specified quality, time, money and risk criteria. The environmental processes transfer the stakeholder requirements and the result of agreements or negotiations to the technical process management. The technical process management assists the environmental process management in all phases of project. The context and the conditions are specified by procurement management by considering the predefined requirements and needs in the Technical process management, indeed the design and the contracting authority produced by market players. The technical process involves project management and control interface.

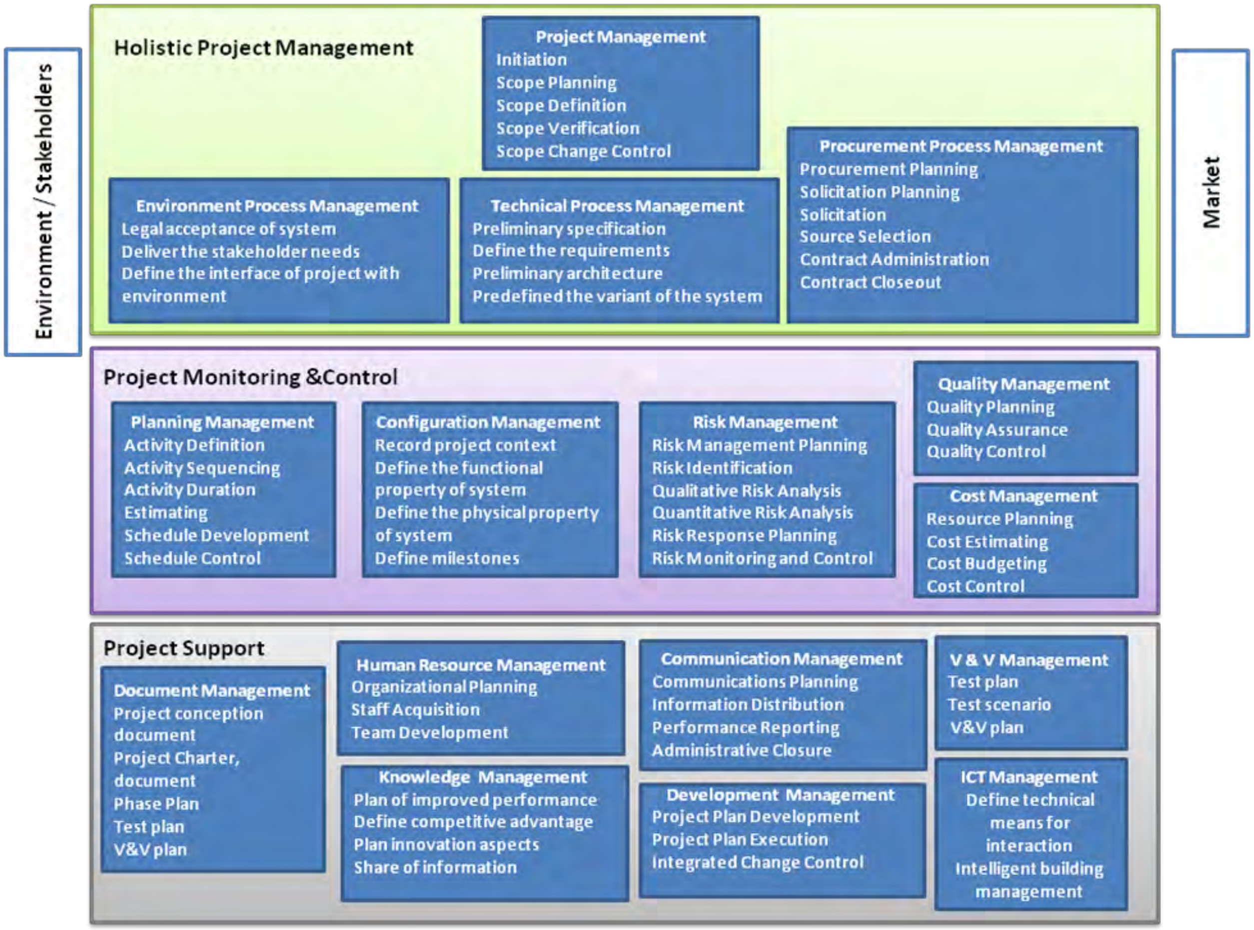


Figure 2 Integrated project management domains

The project management ensures that project manager take into consideration the parameters of quality, time and money at any time of project. Project control and monitoring management includes risk estimation in terms of time, money and quality. As risks are derived from the activities the work breakdown structure is an important element of Project control and monitoring. In other words the WBS (Work Breakdown Structure) can be used to link risk to time and money.

The project support ensures that the actors, resources and processes required to achieve the project goals are available. It guarantees the execution of technical process, verification and validation process to handle the derived risk. The interface between the project management and the project support identify the relationship between the actors, project, and resources.

Project Management Processes

According to the PRINCE 2 (Projects IN Controlled Environments 2) [18] and PMBOK (Project Management Body of Knowledge) [19] the process of management is defined as follow:

- Initiate phase: specifying the feasibility of project and defining the high level system requirements and allowing the start of the project.
- Planning processes—specifying the objective of the project and planning the best alternative and prioritized task for attending the project goal
- Executing processes—coordinating and managing the recourses to run the process allowing achieving the result of the project.
- Controlling processes—assuring the evolution of the project according to the predefined goals by taking into account the constraints and variances related to the project execution.
- Closing processes—verifying and validating if the system or services accomplish its intended requirements.

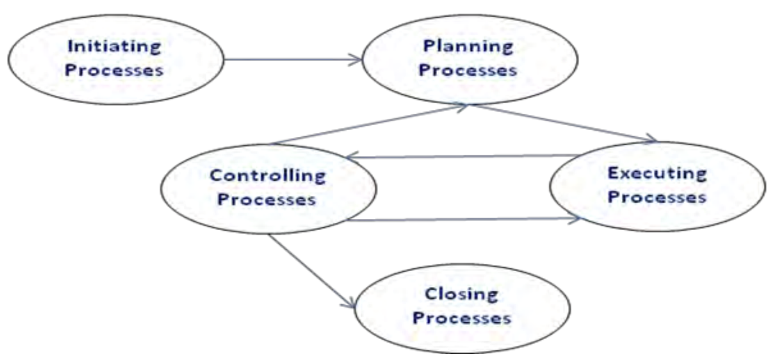


Figure 3 Project Management Processes

Systems approach applied to management

Identification of complexity sources in management

Management complexity is a major issue to carrying out a project and achieving the targeted objectives. These objectives are usually expressed in the form of targeted performance, cost and scheduling of a project. It is thus necessary to identify the types of complexity in a project and their sources, in order to handle it in the best possible way with respect to these objectives. Moreover, a project outcome is not a linear function: small changes might have big effects, and big changes might have almost no effect. [9] Although several sources of complexity are easily identifiable since some complexity issues emerge clearly during a project, other underlying sources of complexity are more difficult to extract.

Here are the main sources of complexity during a project:

- Ambiguity: it is the fact that information is interpreted differently by actors, usually leading to misunderstandings and rework. This might be due to the use of several referential or unclear statements. It also might be due to the facts that actors from different backgrounds might understand a word or a sentence differently due to their different background, way of reasoning, or, simply their —mental map‖.

- Uncertainty: Ability to predict outcome of parameters or foresee events that may impact the project. Uncertainties have a defined range of possible outcomes described by functions reflecting the probability for each outcome. From uncertainty might emerge either a risk or an opportunity, in consequence the following practices are meant to deal with uncertainty issues:

- Risk management: A continuous process to identify, analyze and follow up uncertainties which can lead to negative impacts on the project by implementing response actions to avoid risks jeopardizing a successful response completion of the project.
- Opportunity management: A continuous process to identify, analyze and follow up uncertainties which can lead to positive impacts on the project by implementing response actions to benefit from the opportunities.

- Social structure: the several backgrounds of involved actors: professional background, cultural background (which consists in national, regional, religious and linguistic affiliations), gender, and social class background. It has an impact on the relationship with authority, the relationship between individuals and the group, the concepts of masculinity and femininity and the ways of dealing with uncertainty.

Dealing with people with different backgrounds increase the complexity since all these parameters shall be taken into consideration when managing a project involving these people.

- Dynamics: rate of change, which might be different from a team to another, from a level to another (policy level/operational level). This leads to several consequences:

- Work under stress if the pace is too fast, which might lead to unsatisfactory outcome
- Conflictual paces: teams do not work at the same pace.

Handling the management complexity

We use the following approach to tackle with the complexity. The three dimensions: abstraction, decomposition, perception, allows an understanding of most relevant aspects to a given aspect of the problem.

Management and holistic view

Holistic view of the project management that is relative to both the level of detail through decomposition and the type of information captured. By analyzing the discussed process through the different layers of abstraction, the analysis can be more comprehensible, have a wider view in respect to the process itself and its context [6] while we add the constraint that upper levels have an impact on lower levels.

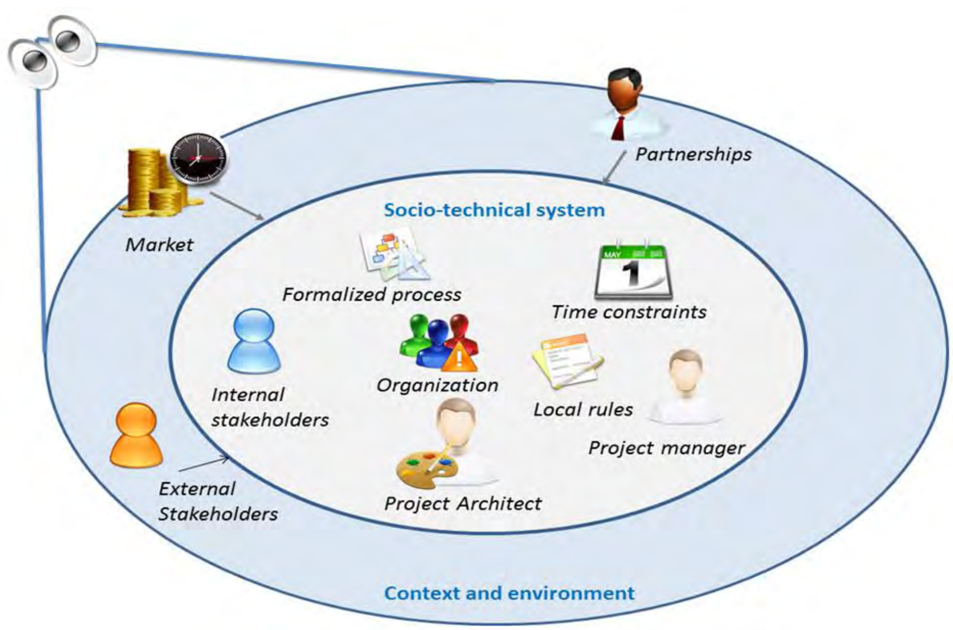


Figure 4 Holistic views

Management and actor perception / point of view

The point of view of each actor that limits or filters the available information, it allows building different models or representations of the project context. Each actor has a limited view angle: apart from publicly announced constraints and objectives, each person is able to observe and anticipate only a part of the information and behavior of the other participants to the project then he can tackle with complexity by decomposition for a detailed analysis [6].

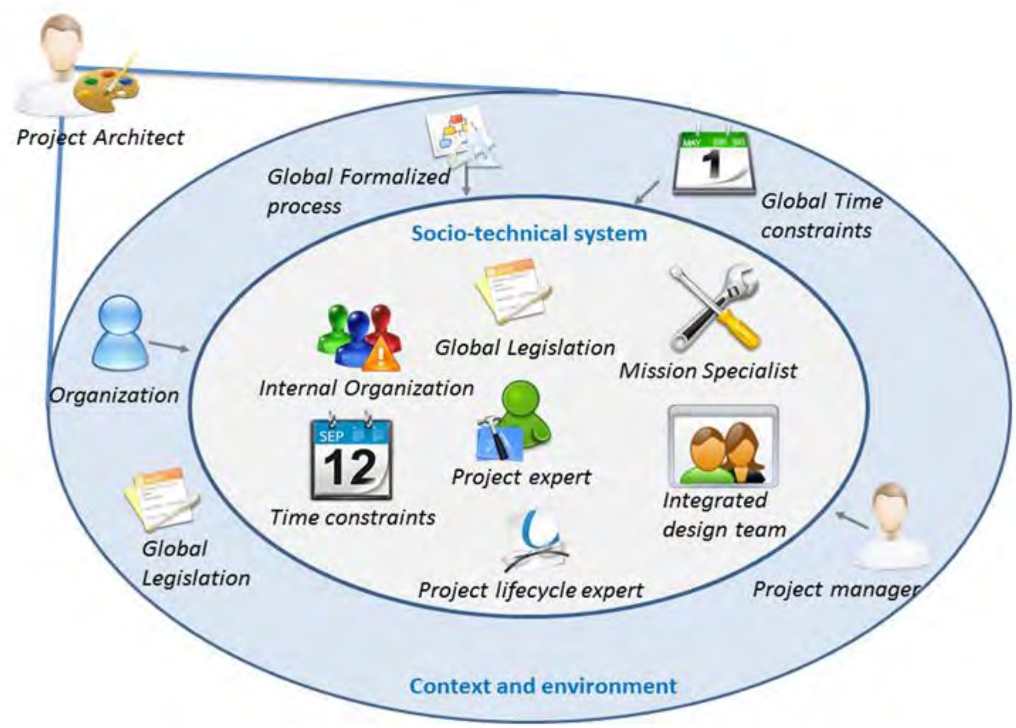


Figure 5 User points of views

Level of details

Structural layer: (physical dimension)

Definition: It characterizes the form of the physical elements of the management process, including actors, resources, infrastructures, organization, etc. By organizing these elements in a well-defined structure, clear overviews of the system and their interface with subsystems are established. For defining the hierarchy of the use cases and functions we can use work breakdown structure (WBS) with top down approach that includes all the activities that have to be executed for a project.

Objective: The goal is to gain an optimal correlation or harmony, between the decomposition of the system and the prevention of creating unnecessary interfaces between the components.

Tools or techniques:

Four —breakdown structures‖ are used as tools for structural layer:

- Functional Breakdown Structure (FBS): define the functional structure of the project.
- Requirements Breakdown Structure (RBS): define the relationship between the stakeholders requirements and their satisfaction with the functional requirements arrived from the functional decomposition.
- System Breakdown Structure (SBS): define the decomposition of project into the systems, where all the components and services to be produced, designed and maintained are presented. For attending this structure the project functions: 'the different functionalities that the system has to perform', physical architecture: ‗'the components, physical resources, and the infrastructure of project, 'and organization decomposition: ‗the actors organization, market segments, and interface of the organization with internal or external environment elements', have to be well defined.
- Work breakdown structure: define the structure of activities that are arranged on bases of time and their location to the derived functions or requirements of the project. In addition the cost estimation can be linked to the activities.

Output: The technical requirements, functions, and subsystems with the breakdown structure.

- RBS output: translate the stakeholder needs to functional requirements, specify the objective of system, define the interaction of project with environment, and define the interaction of system with internal subsystems.

- FBS output: functional and system hierarchy, verification plan of project and the architecture of system is defined.

Dynamical layer: (temporal dimension)

Definition: It characterizes changes over time, as well as time-based properties such as milestones and scheduling. This is to make a precise breakdown of the project into tasks and activities, defined in a structural layer , and a estimation of duration for each task, taking into account its relative complexity. The dynamical layer has a direct impact on the other layers. The

Temporal layer has impact on:

- Preparation of planning
- Periodic inspection of the work
- Estimation of the percentage of each task
- Control of the passage of milestones
- Adjustment
- Definition of the necessary steps or activities (structural layer)
- Definition of delays
- Strengthening of human resources (structural layer)
- Behavioral and cultural restrictions (behavioral layer , for example in some countries the people do not work on Friday)
- Future estimation (decisional layer)
- definition Milestones, baselines, version (structure and decisional layer)

Objective: the main objective is managing time, which leads to schedule the tasks and work to meet deadlines.

Tools or techniques:

Gantt Diagram: is a tool that allows the user to model the planning of tasks necessary to the performance of a project [13].

Effexis software: time management software system that helps you get organized, get focused and get more done in less time [14].

Output: project scheduling over time.

Behavioral layer: (social / human dimension)

Definition: It relates to the emergent behaviors of actors resulting from the evolution and dynamism of the process. Behavior is influenced, led by, steered by the elements in the decisional layer, which may be seen as —forks‖ in the path of the existing scenario.

Objective: The goal is to identify and take into account all social and human aspects that might impact the course of a project, yielding to misunderstandings, and to integrate all these aspects in the management of the project.

Tools or techniques:

Psychological and social models are used for behavioral layer:

Psychological models:

-Two factors theory [10]:

- Motivating factors: factors that give positive satisfaction they are intrinsic to the project itself, such as recognition, achievement, responsibility or personal growth. (two factor theory)
- Dissatisfaction factors: factors that give dissatisfaction from their absence. These are extrinsic to the project itself, and include aspects such as company policies, supervisory practices, or wages/salary. (two factor theory)

- Maslow‘s hierarchy of needs [11]: It is a classification of human needs which, according to the model, consist in physiological needs, safety needs, love and belonging, esteem, and self-actualization.

Cultural models:

- Hofstede's cultural framework [9] [15]: A framework to assess national cultures and their impact on several dimensions which are:

- Power distance: it characterizes how less powerful actors perception of power and of their involvement in decision making.
- Individualism/collectivism: it characterizes how interests of the individual outweigh (or not) the interests of the group (project actors) and how it impacts their perception of loyalty.
- Uncertainty avoidance: it characterizes how actors are ready to accept uncertain situations and how much they feel threatened by this uncertainty.

- Masculinity: it characterizes the perception of genders and how it impacts their role.
- Long-term orientation.

-Religious constraints: It relates to how religious aspects will impact the course of a project and how they constrain the scheduling, the decisions and the organization.

Output: The parameters that impact cost, scheduling and psychology.

Decisional layer

Definition: It characterizes any decision that has an impact on the overall system, and the evolution of the management process. The situation is complex since none of the actors has a global knowledge of the other‘s intentions, so taking the decisions may be characterized by a certain level of uncertainty.

Objective: it aims to support decision making faced with confliction evaluations. In this layer we aim to highlight these conflicts and driving a way to make the best decision in each step of life cycle. As the system progresses in time the structure of the resources and their activities could be changed, updated or modified, leading to increase the complexity of decision making. With this approach the decision layer should have traceability with the activities, the actors and the other decisions. In this case each modification could be traced and its impact could be analysed.

Tools or techniques:

An example of a decisional meta-model is proposed in this section; this meta-model defines the interactions between different concepts related to the decision. In this meta-model the link between the different concepts and the attributes of concepts is proposed.

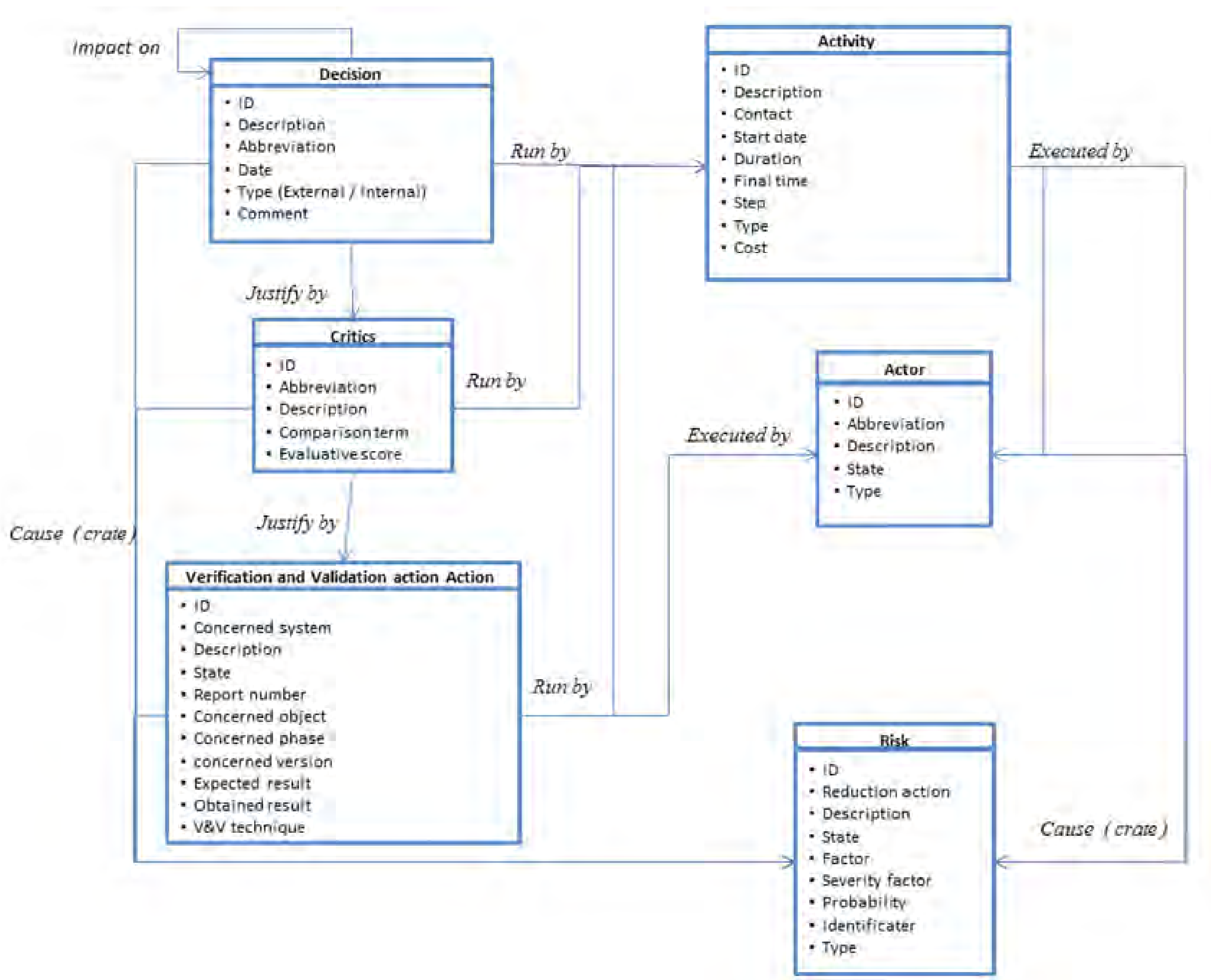


Figure 6 Decisional layer

Output: The best decision and its impact on the whole system.

Conceptual layer

Definition: The conceptual layer captures all rules, constraints, ideas supporting the required functioning of the system. The concepts emerge from the context, environment, trends and support and influence the behaviour of the system in profound ways.

It relates to the emergent behaviours of the super system or the environment and needs to be understood in connection with the context in order to render the possible system scenarios more visible and predictable. The concept is considered invariant on the short term in relation to the system behaviour. Change in this layer occurs only when basic functioning principles are changed: technologies are superseded and replaced in technical systems; a change in perception occurs in social systems or in general when a paradigm shift occurs.

Whatever the nature of the system, changes can propagate and a technological innovation can cause for example shifts in lifestyle, culture, and perception of the environment, as the case of the automobile, digital communication, computing etc.

To be more precise, management deals with complex systems that involve all the above mentioned aspects, so supporting technological, economical, organizational and societal concepts have to be well defined and understood.

Objectives: The objective is, on the one hand, to reduce the range of scenarios within a limited time frame and conditions, by identifying context and system invariants that are critical to the way the system behaves, and, on the other hand, better understand intimate relation between the environment values, trends, and the system itself. This understanding also can have an important contribution to forecasting, anticipating profound changes that come from the global context, but propagate to subsystems through the interconnectedness that characterizes our actual society.

Frontier between layers: The difference between behavioural and conceptual layer maybe somewhat subtle and difficult to perceive. While both refer to constraints that limit possible system scenarios, the concepts are also system enablers, they ensure the functioning of the system.

Tools, techniques, management system concepts:

Several concepts that manifest as management system enablers can be identified: communication support, organizational capabilities, goals and goal quantification.

While there are not too many tools available, the type of analysis that can be performed can be either in respect to long term (very long term)- scenario analysis that involves profound context changes or paradigm shifts, or in respect to a well-defined, limited time frame and context – description and assessment of core concept impact on the system.

For long term scenario analysis, simulation tools that are capable of supporting representation of scenarios under uncertainty can be used. While for understanding the core concepts for management, the following questions can be posed:

1) Which are the critical enabling characteristics of the super system/environment?

2) How do the mean of communication impact the system? What aspects are essential to the way the system behaves in normal conditions? (Technologies, cultural etc.) Ex: voice or text communication, social (Professional) networks etc.

3) What are the general goals and means of quantification of the goals? As stated before, the objectives are usually expressed in the form of targeted performance, cost and scheduling, while cost is expressed in local or reference currencies.

4) What is the complexity of the organizational structures that can be achieved, taking into account technical support and human integration? Without asking this question in relation to current capabilities to document and implement structures and ensure interconnectedness, it can lead to increased latencies and bureaucracy in social systems.

Output: Global organization strategies, change awareness, understanding of limits

Advantages of proposed systems approach

In this proposed systems approach with a main goal to organize scenarios space and handle their complexity. Usually, when using traditional methods to analyze project management, it is impossible to simplify the understanding of the whole management context and its dynamic behavior. System approach for project management has the following advantages:

- Allow freedom of behavior while being able to understand and master the management scenario. While we propose a general interpretation that is compatible with formalized processes meant to close deals between different actors, the formalization can inhibit intuition, creativity, and innovation.

- Understanding the process in general terms and with a holistic view is more important than constraining in order to improve predictability of the process.

Summary and Conclusion

Epilogue : Regardless of the domain in which one is working, the daily tasks that one has to do, the societal context in which we live and are educated puts its print on the type of knowledge that we are used to operate with and most often tasks can be achieved differently by different actors, with comparable results : experience shows that some people need concrete elements to guide them in their actions, while others can reason on ―higher levels of abstraction‖, some feel secure in taking decisions based on vague indicators, others need to touch, feel , see and physically test results in the lab.

Knowledge navigation: In the present article we argue that knowledge about a given system can be characterized by three dimensions: decomposition level (or detail level relative to local problems), abstraction level (or filtering knowledge elements on a system, global level) and the viewpoint (which brings additional elements in respect to how the apprehended information can be interpreted)

Final conclusion: We believe that the present framework allows a better understanding of complex system aspects, where a complex system includes social, technical or economical elements. It equally enables better communication between the manager who masters the use of the framework and the other actors that take part in the work process, by emphasizing on the different ways of reasoning and placing information in the three proposed dimensions. Finally it advocates open-mindedness not only in communication (integration of viewpoints), but also in regard to the environment, through context and global scenario analysis.

We make a parallel with existing approaches in management and tools, showing that the current practices are interpretable through the newly proposed general framework. By having a holistic view of these elements, this is also an opportunity to identify spots that are not yet covered by current tools and methods.

Future work: Future work consists in two different paths: first, a more rigorous formalization of the framework, either using modelling tools or proposing a mathematical formalization, as a basis for developing or seamlessly integrating management tools in a complete chain, with no missing areas; secondly experimenting on a real case study in order to gain more experience and test the ability to reveal significant aspects for project management.

References

[1] D. Krob. (2007). *Architecture of complex systems: why, what and how?*.Stanford University.

[2] D. Krob. (2009). Eléments d’architecture des systèmes complexes, 179-207 CNRS Editions.

[3] H.A.Simon. (1962). the Architecture of Complexity, published by American Philosophical Society.

[4] Sabine Rittmann. (2008). A methodology for modeling usage behavior of multi-functional systems.Book edited in 2008.

[5] Dominique Bériot. (2006). Manager par l'approche systémique, Editions d'Organisation.

[6] H.Aboutaleb, S.Boutin, B.Monsuez. (2010). A hierarchical approach to design a V2V intersection assistance system. CSDM 2010.France.

[7] Guideline Systems Engineering for Public Works and Water Management, for the latest edition of this document go to: http://www.leidraadse.nl Retrieved 2011-07-04.

[8] Donna H. Rhodes and Adam M. Ross. (2010). Five aspects of engineering complexes systems. 4th Annual IEEE Systems Conference in San Diego, California.

[9] Denise Easton and Lawrence Solow. (2011). Navigating the Complexity Space. ICCS 2011.

[10] Herzberg, F. Mausner, B. & Snyderman. (1959). The Motivation to Work, B.B.London,Chapman and Hall,1959. XV, 157 P.

[11] A.Maslow. (1943). A Theory of Human Motivation. Originally Published in Psychological Review, 50, 370-396. Posted August 2000.

[13] Gandt Diagram: http://en.kioskea.net/contents/projet/gantt.php3: Retrieved 2011-07-02.

[14] Effexis: http://www.effexis.com/achieve/planner.htm : Retrieved 2011-07-01.

[15] Geert Hofstede. (2010). Cultures and Organizations: Software of the Mind. for the latest edition of this document go to: http://geert-hofstede.com/: Retrieved 2011-07-01.

[16] ISO 15288 .Systems and software engineering. INCOSE Systems Engineering Handbook.

[17] ISO 9001:2000. Systèmes de management de la qualité – Exigences. Handbook.

[18] Prince2: http://www.prince2.com/ : Retrieved 2011-07-02.

[19] IEEE Std 1490-2003. (2004). Adoption of PMI Standard A Guide to the Project Management Body of Knowledge. IEEE.

Bank Branch Restructuring: Effective Change Management Tool

Henry Ajagbawa
Executive Director, Ecobank Nigeria Ltd
Email: hoajagbawa@yahoo.co.uk

Abstract: The purpose of the paper is to demonstrate the effectiveness of Bank Branch Restructuring as a change management tool while providing some perspective on the challenges faced by the organization, which has an intrinsic change DNA at its core. The spirit of the organization, deriving from the traditionalized founding imprint of the leadership appears typified by the constant execution of simultaneous change programs involving alteration of organizational components in such frequency that presents a challenge to execution effectiveness, business continuity and strategic fit congruence. The paper seeks to explore a specific change process in a bank, relating to branch network remodeling and expansion. The remodeling is to achieve a standard layout and uniform "look and feel" across the branches while the expansion program is to add a predetermined number of branches to its existing network. The Objective of the network remodeling and expansion is to influence organizational effectiveness and transformation. The Change agenda is challenged by issues such as culture and other change programs, which totality of interaction effect may potentially influence planned results

Keywords: Organizational Components, Alteration, Remodel, Expansion, Culture, Effectiveness

Reference: reference to this paper should be made as follows: Ajagbawa, H. (2012) "Bank Branch Restructuring: Effective Change Management Tool", The ISM Journal of International Business, ISSN 2150-1076, Volume 1, Issue 4, October 2012.

Biographical Notes: Henry Holds a B.Sc. and M.Sc. in Economics from the University of Lagos, Nigeria. He is a Certified Chartered Accountant, and at various times had professional training at HBS, INSEAD and IMD. He is currently pursuing his Doctoral studies at ISM. Henry is an Executive Director with Ecobank Nigeria Limited, responsible for the South Geography (Nigeria) with a Balance sheet size in excess of USD1.5B. He has over 25 years of cognate experience, and before joining Ecobank, had worked in the Manufacturing, Service, Audit, and Banking sectors and involved in many turnaround and transformation projects within and outside Nigeria.

EXECUTIVE SUMMARY

In 1985, Continental Bank of Africa (CBA) merged with Broadway Trust Bank Limited (BTB), to become arguably, the largest bank in Africa. As a growth strategy and to dominate the banking space, the post-merger bank set a target of expanding its existing branch network of 500 by a further 200 branches and to remodel and standardize its existing branches by achieving a uniform branch layout across the network. Thus, the birth of “Project Blue” which essentially encapsulates its strategy of expanding and improving the quality of its channels.

Industry growth was driven more by competition and strategic imperatives, and the understanding in the industry at that time was that growth comes from either geography or consolidation. (Growth comes from Consolidation and Geography. 2010. Kenneth James of sterne Agee & Leach). The bank had just concluded a major merger and now focusing on geographical expansion to accelerate the acquisition of customers/deposit in the race to become a clear leader in the banking space.

“Project Blue” was a strategic response to market forces. It was a well-designed process flow which started with the crafting of a project charter, the inauguration of a project team, the development of prototype for the new branch layout, the definition of roles and responsibilities of the various stakeholders to the project implementation, the determination of complementary electronic channel-fit and the respective activity network to the project. The communication of the project theme to management and staff of the bank to galvanize the necessary support given the expected instability expected to be generated by the program implementation.

The internal context of the change project was particularly complex and unique. A project Executive/Sponsor and a Project Manager were appointed. The Project manager was expected to put a team together from internal and external sources and relevant resources were put at the disposal of the teams to enable it meet the time line of 2 years to deliver on the mandate. The actual implementation stage created unplanned challenges that delayed and almost scuttled the program objectives and a great deal of adaptation and re-alignment of project components were done to refocus the change process to its objectives. The assessment, in less than a year of project run, created another round of project component changes which further heightened the “perceived-actual” performance gap position of the project

The study seeks to explore the detail process of managing the change process, the structures that were put in place to execute the change process, the people factor, internal displacements and external

sourcing, how the project was run, the time frame for execution and the internal pressures thereon, the various stakeholder, its impact on operations of the bank, impact on performance, internal friction and conflict resolution mechanisms, institutional hindrances and Support, the level of success/failure of the project. The study captures the activity network of interdependence on the project plan and execution across the organisation. The external influences as a change element is also explored in terms of responses from competitors and how these responses impacted on key variable components of the project. And generally, the alignment of organisational components to achieve best fit for a seamless change process

The paper has been written in 6 sections. Section 1 provides an overview of the context of the paper, covering abridged fact sheet of the organization, background to the change and the internal and external environments. Section 2 dwells on some related theoretical framework and possible change model to adopt in putting the change situation in proper perspective. Given the transformational and leadership-induced nature of the change, The Herold and Fedor model would be applied in the analysis in sections 3 and subsequent analysis. Section 4 deals with the description of the change components in the planning process while section 5 anchors the actual execution of the change. We shall close up with section 5, on Change control and section 7, wrapping up with our conclusions

CONTEXT

FACT SHEET OF BTB (Now Dissolved)

BTB was born in 1977 through the purchase vehicle of a distressed and insolvent bank. Some promoters acquired an insolvent bank by the purchase of majority stake in the bank and injection of fresh capital into the bank. The bank at the point of purchase was distressed, technically insolvent and was unable to meet its obligations to customers leading to the rescinding of its operating license by the Reserve Bank. The Purchasers immediately went on a mission of turnaround. The team was led by a seemingly untested young and entrepreneurial man who before now, at best, played at the middle management level in the banking industry

The Purchase arrangement had the approval of the Reserve Bank and the arrangement was to ensure that no depositor lost funds in the change process from the failed bank to the new entity. Two arrangements were agreed in this direction. The first was for the bank to purchase customers deposit today at a graduated discount (say 50% on the average) for every Dollar deposit held. And for which the new capital injection was well funded to cater for. The second window is to leave the deposit with the bank for a defined period of up to a year, to allow the institution settle down before claims at full/face value. Customers exploited both windows and as the institution stabilized, there were lesser use of the discount window thus stabilizing the deposit position of the institution at takeoff

The turnaround strategy involved several activity networks which would now, in retrospect, appear well orchestrated. The bank did a total rebranding –change of name, Logo, communication of the new entity to the world, redefinition of its strategy and new mission and vision statement and most importantly, organized a maiden strategy session where it charted the course of the new enterprise. A sense of urgency was created and guided every single action in the change process and at that strategy session, it defined the funds flow pattern of the market, it agreed on the relative strength of the major competitors, it agreed on the strength and weakness of the new enterprise and consequently, it agreed on the market segment it should focus on which appeared relatively untested and uncontested. Particular effort was put into building a unique and powerful coalition of young professionals with shared values for free thinking and entrepreneurial expression. It was a motivated and empowered workforce that commenced the change process of the turnaround

In summary, the new management crafted a strategy that would appear to have revolutionized banking in the country in terms of sectoral focus and the value chain mining of business. It also expanded the frontiers of customer service as banking in the Country before now was mostly arm chair business. The specific strategic industry impacting actions it took was in the area of Public Sector banking and channel expansion focus as a strategic growth factor

The strength of its strategic foresight and execution prowess is indicated by the fact that within a space of 7 years of the turnaround efforts, BTB had become the 4th largest bank in the Country amongst over 30 banks

The cultural heritage of the organization was indeed strong and helped to shape the existence, behavior and conduct of the organization and its components thereof. Right from the start, the major promoter influenced thinking and behavior to set pattern which led to setting the standard of values for the organization. The most important and discernible values of the bank was the aggressiveness at the market place and its clear visibility coupled with the can-do spirit which characterized interface with its publics. The Exhibit 1 and 2 below, Schein Cultural Change Model and Greiner’s Five Phase of Organizational Growth Model, describes almost with perfect accuracy the cultural evolution of the enterprise and its temporal state. However, the organization was still at stage 2 of the cultural evolution and stage 3 of life evolution as depicted in the Exhibits, when it took the journey to seek out partner for a merger. This again illustrates the strategic maturity of the leadership of the bank which foresaw scale as a major strategic weapon in the unfolding banking space long before any other saw it. Indeed, it represented the first ever willing merger between two healthy banks in the Country

Exhibit 1: Schein Culture Change Model

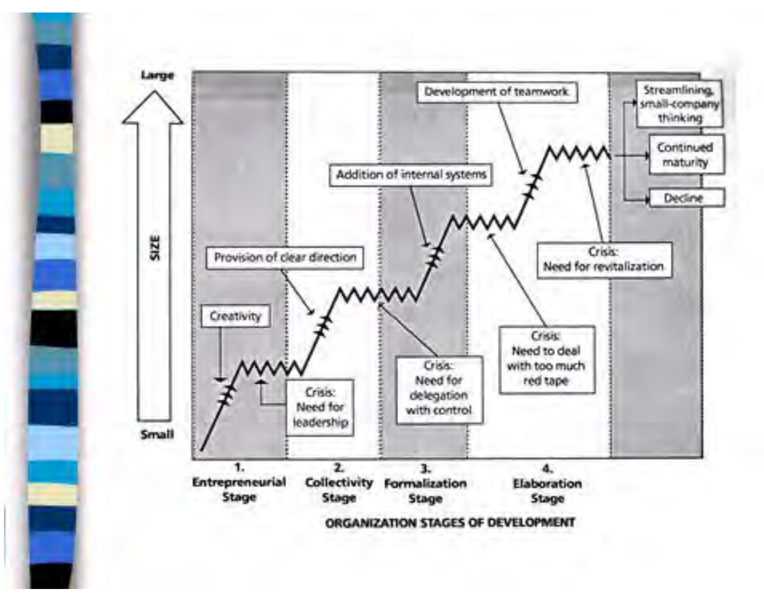


Exhibit 2:Greiner's Five Phase of Organizational Growth

The leadership of BTB was definitely with a mission to become the biggest bank in the Country. Already, by 2006 it had acquired a sister bank where there were common shareholding amongst the two banks and thus had a fully owned subsidiary while it discretely went shopping for a merger partner to enlarge its foot print in the banking industry. The announcement in1985 that BTB and CBA were to merge created a tsunami wave in the banking industry at that time. Eventually, the merger took place and the management of BTB effectively took control of executive management of the new CBA in 2005. The post-merger CBA became the largest bank in the Country at that time.

FACT SHEET ON CBA

CBA was incorporated in 1951 as a fully fledged banking institution in the Country and for many decades, was part of what was referred to in the country as the “big 3”. The description fitted the conservative qualities with which the old order operated banking in the Country. The pre-merger CBA had a rich heritage of many firsts in the industry. It was the first bank in the Country to offer an IPO in 1961. The only sub Saharan bank aside South Africa to have presence in the US, New York and the first to offer a Global Depository receipt (GDR) in 1988. And again, it was the first ever to successfully engage and conclude a voluntary and willing merger of healthy banks in the Country.

The organization was at the 3rd stage of the cultural development process where they had, established and set culture developed over the decades. The culture was strong but anachronistic and could no longer serve the current requirements of the market. The bank had gone through some key strategic maneuvers before the merger which would appear not to have posted significant positive results. Rather the nature and frequency of change in the organization would appear to have left the staff “change wary”

Clear synergy benefits can be advanced, even by the most pessimistic observer, as accruing from the merger arrangement of the two banks. Both had complementary depth in different areas of banking which when leveraged, should result to significant benefits to the various stakeholders. And it is against this background that the market welcomed the merger talk which eventually was consummated within a space of two years in virtually all its ramifications aside the legal combination which was executed about immediately

CBA today is therefore, a product of several distinct merged banks. The new management has piloted the bank into an African force which now places it second only to Ecobank and standard Chartered Bank in its reach within the middle Africa market. CBA has presence in over 20 African Countries, Europe, London and Paris and in the United States, New York, amongst several alliances partner across the world. The bank through its holding structure deliver on its brand promise of being a one stop shop for financial services provision to its over 7m clients across its network of over 800 branches in its operating locations across Africa, Europe and North America.

BACKGROUND TO THE CHANGE PROGRAM

Kenneth James of Sterne Agee & Leach noted that growth comes from consolidation and/or Geographical expansion. This is consistent with experience across the world for growing retail deposit liability for banks. The branch network ordinarily has a positive correlation with the size of retail deposit liability of a bank. However, there is a limit to depending on mergers and acquisition as a growth strategy because finding the right candidate and achieving the synergies of merger can be onerous. Therefore, banks would also have to focus on organic growth as a sustainable growth strategy.

It is in recognition of this fact that the bank adopted the “Project Blue” to grow its channel network by organic means. This growth strategy gave rise to the change program of channel expansion and remodeling. The paper seeks to review the change process and its challenges, the achievement or success of the change process and the restructuring as an effective change management tool in driving the strategy of growth through organic means

INTERNAL ENVIRONMENT

The post-merger CBA was an hierarchical organization that was structured around Geography with each geography having significant business autonomy and the centre retaining critical control over key strategic resources as Human Resources (at senior levels only), IT and risk management and control. Each Regional Head, responsible for the Geography had enormous powers in the decision making process of the bank. And the bank being a learning organization where ideas were free flowing and the bank not execution shy of fresh ideas, there were constant stream of projects on-going at any point in time. The levels of instability in the organization was thus pretty high compared to its competitors

The establishment of a standing project team for the branch expansion and remodeling was anchored centrally from the head office to cater for the various regions. Whereas, the centre, with regards to the project work had significant dependency on the regions as far as local input such as property acquisition, sourcing, Local building permits, sourcing of local labor and expert for the execution/construction work. On the other hand the execution of the project had significant dependencies on IT but yet had to depend on IT at the centre for its procurement and installation of all IT related tasks. The budget and funds use was put in a special purpose committee set up for that purpose with specific approvals coming from a committee that might not be in sync and rhythm with the project taskforce. These dependencies created frictions in so many ways and represents the underlying basis upon which the project execution was to be achieved.

The level of cultural fit plays a critical role for a change process like this. The level of management buy-in into the project is key, the selection of the project manager, the authority levels attached to them and whether the project objectives and proposed execution methodology is in sync with the historical way of doing things in the bank

Stinchcombe (Legacy of Founding Institution on US Commercial Banking Industry. 1956. Stinchcombe) hypothesized that organizations founded in a given external environment "must construct their social systems with the social resources available" and that their social systems (e.g. internal structures processes, cultural features etc) maintain. This founding imprint, primarily because traditionalizing forces, the vesting of interest and ideologies may tend to preserve the structure. Thus the Stinchcombe Imprint Hypothesis regarding the enduring influence of founding environment. This position is consistent with the findings of Boeker, (1988) and Kimberly (1975) which confirms that differences in founding conditions at least partly predict contemporary variation in firm strategies. The summary here is that different internal environments may create different change strategies or different results from the same strategies in different organizations depending on the values imbued in the organization. Demelo, Wagner & Fabiano in a study of Brazilian banks concluded that organizational values are one of the variables that can impact on branch bank performance. The strong cultural values noted for the organization thus impacted on the implementation of the change program and to some extent, from one geography to the other

The organization, being a learning one where everything is challenged and criticized, created an environment where the project execution was maligned almost from the outset by massive criticism and challenges at every point and with respect to different aspects in the different geographies from all and sundry and this had significant impact on the conduct of the work and the result thereon. There was indeed, an invisible resistance to the project execution method

One critical internal issue to the remodeling aspect of the project is the non existence of architectural and engineering plan and drawing. At least 80% of the network did not have 'As Built" drawing. The first step therefore, was to commence a physical measurement of the existing structures with a view to coming up with the "As Built" drawing before any redesign may commence for the remodeling work

EXTERNAL ENVIRONMENT

In a study by Rajiv Krishnan on banks in India (between 1948 and 2003), it concluded that Political pluralism, public policies and organizational choices impacted on bank branch expansion. It maintained that organizations persuade key agents of Government through lobbying and forming coalition to influence public policy as it affects branch expansion and economic viability of the branches. This assertion is particularly correct for the local operating economy where Government dominates the economy and the private sector participation at best is minimal. Therefore in setting up branches, political patronage could be a strong influencing factor. For Example, In the Country where the Federal system of Government is run with 36 states structure, all major banks as a first step would locate a branch in each of these state capitals to curry political patronage and the business thereon before attempting to locate in seemingly more viable economic locations

The Economic Viability of locations for branch sitting is certainly a given save for any special politically induced decision to locate. With regard to the project, the economic viability as contained in a feasibility study is sine qua non to sitting a branch. However, the perceived economic viability of a location is a determinant for the type of branch to be sited. The bank has 4 branch types distinguishable by size and cost content and the economic viability of the location determines the branch type to be built for the location. With regards to the remodeling, similar considerations guided the reconstruction planning and execution.

The social systems in the different geographies came to play in the planning stage of the program. For example, the availability of specialized work force is scarce in some areas of the country owing to levels of education. Therefore, in costing materials and labor for the construction work, due considerations were given to these perceived social differences

Technology is an integral part of the change process. The hardware and software had to be purchased and installed in both parts of the change program. Secondly is the fact that, for the remodeling program, a certain level of retrofitting had to be done in the reconstruction process. Finally, for connectivity, you had to consider the availability and type of internet connection that is workable in the different geographies. Some part of the country was already wired with fiber optic and you could achieve a plug and play scenario while others were not and a combination of radio and VSAT connectivity had to be considered. These technology considerations had huge financial effects on the change program and so had to be well planned for

There are strong regulatory controls over bank branch construction which must be adhered to. Approvals must be obtained before a new branch is built and the approval process was not a finite determinable time process and could be different from one approval to another. This could be of considerable time impact on the change process in terms of time and consequential cost thereof. The remodeling aspect did not require any such regulatory approvals.

But in all, both types require some form of building permits from the urban development authority which must be sought and obtained before construction or remodeling may commence. This again, does not have a determinable time frame and so could impact on the project time and cost

Did the program contemplate any form of competitive response to its channel optimization program? And what could be the effect of these responses? Indeed, the responses were contemplated but the response rapidity and intensity by competitors not imagined. The other top tier banks also embarked on similar project of branch expansion and remodeling of different form. The impact of this level of competitiveness found expression in the rising cost of Commercial property in the major metropolitan locations. The time frame and cost for property acquisition was thus impacted.

THEORETICAL FRAMEWORK

DEFINITION AND MEANING OF CHANGE

David Herold & Donald Fedor, in their book “The way you lead change” defined organizational change to mean “demands placed on organizations or organizational subunits that require significant departures from people’s current routines and behaviors, and the success of which depends upon the support of those affected”

Change therefore, involves the alteration of the usual practices in an organization aimed at influencing positive results on the organization. The above definition by Herold & Fedor is about all encompassing as it captures changes that are planned or unplanned. Cawsey, Deszca and Ingols defined change as “planned alteration of organizational components to improve the effectiveness of the organization. This definition relates to planned change as the aspect of unfolding change is not covered by this definition. Unfolding change is “usually unpredictable and uncontrollable and must be adapted to suit unfolding events

Cawsey, Deszca and Ingols further described four aspects of the planned changes in an organization as ***tuning, adapting, reorienting, and recreating***. These concepts generally make a distinction as to the level or degree of alteration and the response of the changes that happen. A further definitional classification is made as follows;

Continuous and Discontinuous Change: Change is continuous when it is frequent, regular and reoccurring change in respect to competition; for example, regular sales Promo programs. It is discontinuous when it is infrequent, dramatic and episodical. For example, our case under review, bank branch restructuring

Tangible and intangible Change: A change in Payroll is Tangible while a culture change is intangible. There are several theoretical bases for handling the concept of change which we will deal with shortly. Suffice for now to locate the roots of change to;

1. Strategic Change; which are usually competition induced
2. Life cycle change; which are usually time or maturation induced
3. Learning based change; usually derived from knowledge of management and
4. Leadership change; usually transformational and deriving from the far-sightedness of leadership

Change can be categorized under the following ways which represents how we may go about effecting change in the organization;

1. Changes to the mission/vision/purpose of the organization
2. Redefinition of the strategy of the organization
3. Change in the objectives and performance targets of the organization
4. Alterations in organizational culture and values and beliefs
5. Organizational restructuring
6. Task and work content redesigning
7. Changing the people
8. Changes in other organizational components such as channel reconfiguration and optimization

The change process is usually a disciplined process of stage progression of activity network. A typical checklist for change management would entail the following stepwise process flow;

1. Initiating the change-understanding the need for change, creating the perception for change and developing a clear vision for change
2. Planning the change-having an organizational model as a framework, differentiating how to change from what to change, putting systems and structures in place to organize the change, developing adaptive structures, developing contingencies and developing change agents
3. Doing the change-engagement of other stakeholders, developing activity plan, contingency planning commitment planning communicating the change and managing the transition

4. Measuring and confirming the change-measuring the change, changing measures over the life of the change project
5. Celebrating success and planning for the next change-review the change process anticipating the next change programs.

Each of these stages will lead us through a detailed and disciplined process in the change management. The change management process as described by Cawsey, Deszca and Ingols in Exhibit 3 below, best summarizes the totality of the process to be followed during change management. It is instructive and a guide but no part of it are sacrosanct but depend on the unique change environment and the root situation we are confronted with. We shall revisit the analysis of the Toolkit below in describing the other models of change management in due course.

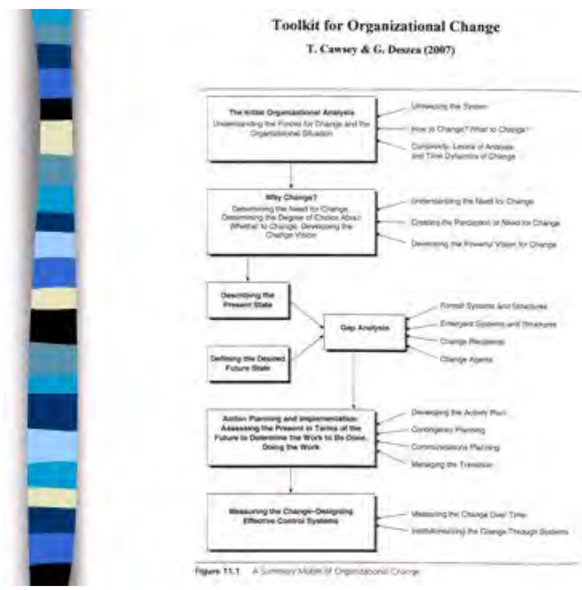


Exhibit 3: Toolkit for organizational Change

MODELS OF CHANGE MANAGEMENT

The literature on change management is replete with frameworks developed to analyze a change situation. Each of these frameworks represents a model or tool for abstracting the change situation, amenable to formal and critical analysis in a disciplined manner. Each model of course has its perspective, strength and limitations and most are adaptable to a particular change situation. Van de

Ven & Poole categorize 4 broad models of Change. The categorization is based mainly on the type or nature of the underlying assumptions of the model;

1. Life Cycle Change which metaphorically assumes the naturalized life cycle of the human race
2. Evolutionary Change which describes the natural selection process from conflict, i.e. Venture capital resource allocation process
3. Debt synthesis Change which assumes the process of achieving equilibrium from instability and conflict and
4. Goal Setting Change defines a gap arising from the difference between the desired future state and the present state and how to achieve the gaps.

Some of the Models we will be describing would basically fall into the life cycle and the Goal setting Change Models especially as it pertains to the relevance of analytical framework for the study at hand. Below are a few working models of change;

1. The Planned change model-Cawsey, Deszca & Ingols

The model handles change from the perspective of a planned process. It suggests that change is the alteration of organizational components to improve the effectiveness of the organization. Organizational components are the organizational mission and vision, strategy, goals, structure, processes and systems, technology and people in the organization. The model approximates a step wise phase progressive actions that appears rigidly presented. The phases are

Diagnostic Phase-This is where the what, how and why question of the change is treated

Forecasting Phase-The desired future state is analyzed and sated

Gap Analysis Phase-the components needing change is identified and stated

Action Planning Phase-The scope and details of actions to achieved the change is identified

Implementation-Doing the work-Execution

Measurement-Assessing the Change impact

Stabilization-Effecting controls, stock taking and AAR;

While the general criticism of the model is that it is too straight jacketed, it presents a useful guide as the circumstances of each change situation could actually indicate which of the phases is applicable and at what point given the change situation

2.The Unfolding Change model-Anderson & Anderson

Unfolding Change model is a competing model for the planned model which assumes that change is usually planned and treated in a stereotype manner. The unfolding change model is usually vision driven, long term strategic change in nature from present to future to reposition the organization. It is usually transformational with a strategic intent to reposition the organization and not just mere cosmetic changes. It is usually unpredictable and uncontrollable as it is amenable to macro environmental stimuli. The change process usually would take several years to complete and would be shaped and adapted in the course of the change process. The model captures 9 phases, 21 specific activity levels and 72 tasks. Exhibit 4 below shows the 9 phases of the model

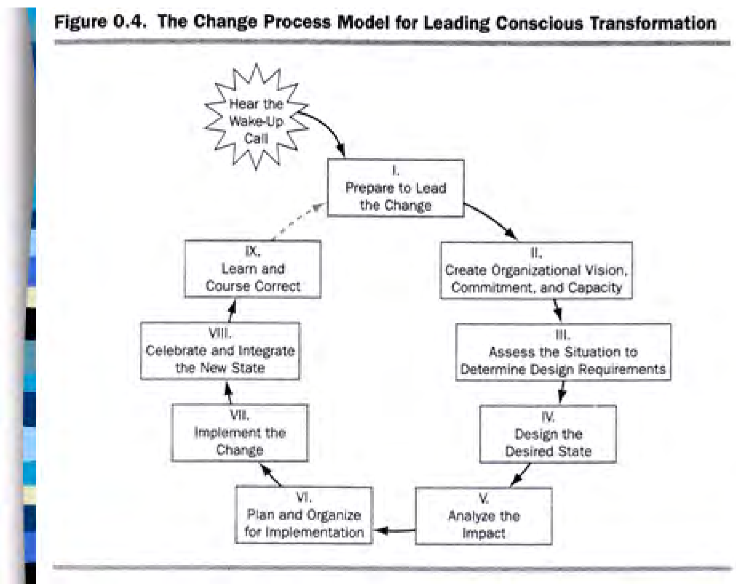


Exhibit 4: Anderson & Anderson Change Model

3.Greiner's 5 Phase model

The model is appealing because of its simplicity and its strong metaphorical comparison with the human life cycle. Exhibit 2 on page 5 details the 5 stages in the life of an organization. Below are the characteristics of each of the stages described in the Exhibit;

Stage 1 (Entrepreneurial)-lots of ideas and information, free flow of the information, a learning organization of sharing and pulling of resources, great entrepreneurial spirit, boundless energy, boundary-less operating environment, little planning and coordination. Concentration of power in hands of prime mover, formation of niches

Stage 11 (Collectivity)- Organization has informal structure and informal communication channels and methods, Great sense of belonging and collectivity, Long hours spent at work, sense of mission, innovation and research spirit is high, High commitment Level

Stage 111 (Formalization)-Formalization of rules, formal and stable structure, emphasis on efficiency and maintenance, conservation of resources, cost control and institutionalization of procedures and processes

Stage 1V (Elaboration)- Elaboration of structure, decentralization, Domain expansion, Organizational adaptation and renewal

Stage V (Maturity) - Continued growth and maturity, restructuring, organizational rebirth and renewal, inorganic growth methods, change programs, Declining

4. Adaptive change model-Herold & Fedor (2008)

The model is a simple but very realistic approach to handling change that may have significant influence from both the internal and external environment. It presents a framework for analyzing change that are transformational and transactional and enables us capture both primary and secondary levels of the roots of change. The change framework essentially answers the;

-What Question– What needs to be changed? The nature of problem or opportunity

-Where Question-Context (internal and external) environment in which the change will happen

-Who Question-Who will lead/follow the change

How Question- How will the change be implemented. The schematic below explains the model.

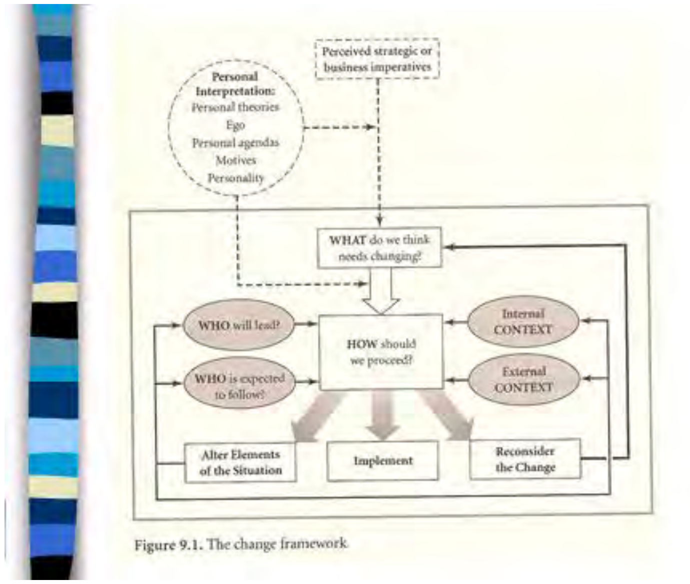


Exhibit 5: Herold & Fedor Change Model

5. Culture change model-Schein

Culture has been defined as a pattern of basic assumptions, invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration-that has worked well enough to be considered valid and there from, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.. The metaphorical strength of schein house more than expresses the deep meaning of culture as a function of learned group experiences in relation to its internal and external situations and rooted on basic assumptions by which it lives and operates;

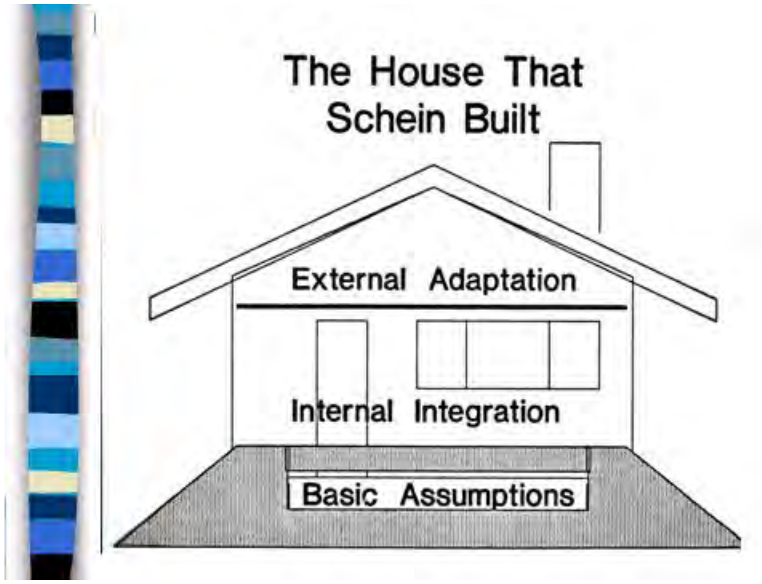


Exhibit 6: Illustrating the components of culture

Culture as a change mechanism is usually a tool as leaders merely see culture change as an agent of retooling organizational components to create a better operating environment and perhaps improved productivity. Leaders embed and transmit culture through, what they pay attention to, how they manage crisis, the behavior they model, the allocation of rewards and criteria setting for personal decisions. By these Processes, they may influence change in the organization. The Schein culture change model assumes three items in the change process;

1. Unfreezing/Disconfirmation

The model assumes that for a change to be contemplated in the first instance there has to be significant disequilibrium in the system. The existence of the disequilibrium creates motivation for the change and that is what is referred to as unfreezing the system. Schein asserts that, unfreezing has three component processes which must all be present in a change situation for the motivation to change even come alive in the first instance. The three processes are are(1)Existence of enough disconfirming data to cause serious discomfort and disequilibrium, (2) The connection of the disconfirming data to critical and important objectives and goals of the organization such that the discomfort must threaten mainstream operation or nerve of the organization and (3) Existence of enough psychological safety that the change would produce reasonable possibility of results than status quo

2. Change Process

The change process means that the person(s) to whom the change is directed must be willing and have capacity to unlearn old practices and imbibe new ones. However, the disequilibrium and instability created by the disconfirming data may create survival anxiety amongst the workers which may not automatically lead them to change. There may be self denial that there is no need to change and blame the reasoned cause of the change to anything logical rather than the real reasons why the change must happen. Learning anxiety is a good reason to resort to self denial. It is critical therefore to create a learning environment wherein the learning anxiety can be reduced to facilitate the unlearning of old habits and practices and the learning of the desired change practices and habits

Schein believes that the interaction of the survival anxiety and the learning anxiety creates complex dynamics of change. The trick to successful culture change is to ensure that the survival anxiety is greater than the learning anxiety while conscious effort must be to permanently and progressively reduce the learning anxiety. The change process begins effectively upon the unfreezing through an environmental scan process, imitation of role models, paying attention to the values consistent with its strategies, and consistent application of fair process in the management of the organization.

3. Refreezing

This is the stabilization of the learned new practices by posting of positive outcome from the change process. Therefore if the change recipient do not see the change process as providing positive results for them it is likely that they will treat the disconfirming information as in appropriate in generating the motivation for change and a new set of change process might continue to address the real object of change. Change indeed is a permanent process and the objective of the change must be well identified and spelt out from the outset so the motivation for change caused by the disconfirming and disequilibria's conditions must be powerful enough to lead the change process.

As we have mentioned before, the literature of change management is replete with different models which is described by the four states we earlier mentioned. The above models simply represent some critical ones amongst which our analysis will be constructed. Some other models however, includes the Creative Change Model by Jacobides, Nadler & Tushman Congruence model of change, the Burke-Litwin Causal model of change and many more

PLANNING THE CHANGE PROCESS.

DESCRIPTION OF THE CHANGE COMPONENTS

There are two aspects of the change process - The new branches (branch expansion) project and the branch remodeling (branch upgrade). Aside a few components, there is commonality of project variables and process flow between both projects. The common components are listed, but not in any particular order, as below;

1. The approval of a Project charter
2. The inauguration of a Project Board
3. The appointment of Project sponsor and executive
4. The appointment of a Project manager
5. The Assemblage of a project team including specialist as
   *Civil & Mechanical Engineers
   *Architects
   *Quantity Surveyors
   *IT Consultant
   *Legal Adviser
   *Accountants
6. Appointment of external consultants to handle building permits, urban development issues and other regulatory approvals
7. The set up of an operational base-Office space and resourcing of the office
8. Pre selection of Vendors for supply of major raw materials
9. Pre selection of civil contractors for the building contracts
10. Induction program for major stake holder
11. Set up of Internal communication medium to reach out to internal stakeholders
12. Commission Consultant for the development of the branch prototype

The two major distinguishing components between the new branch construction and the remodeling are (1) In Branch remodeling, you do not require the financial regulatory authority's approval to start work. Whereas, in the new branches, you require such approval before you may commence any civil work. (2) In the remodeling project, the change project is akin to fixing an airplane while airborne. Banking business cannot be discontinued and so you have to figure out a procedure for doing the reconstruction/remodeling while normal banking activities continues.

In this light, three options of business continuity were implemented while the change process of remodeling was ongoing. All the processes being akin to the analogy of a flying plane requiring serious repair work while airborne. The first is an outright relocation to another physical branch close by for co-location pending conclusion of the remodeling work. The second is partial closure of some section of the property while another section is being remodeled and the substitution of the sections thereon and thirdly is the introduction of alternative banking hall in the form of mobile banking facilities on wheels on same premises while the branch is being totally knocked down for remodeling work

THE CHANGE PROCESS FLOW ANALYSIS

CHANGE PROCESS FLOW ANALYSIS

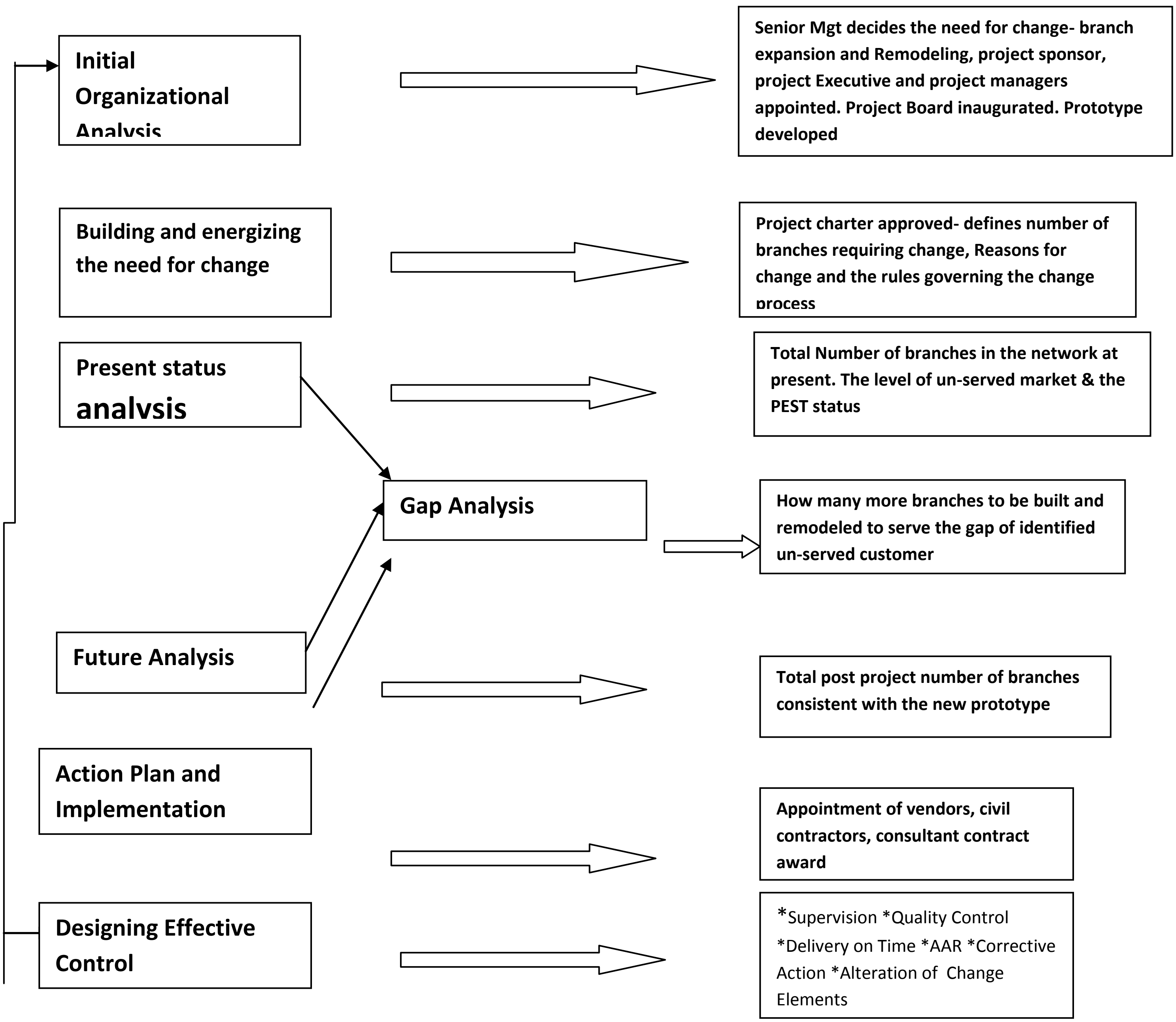


Exhibit 7: Change Process Flow

CULTURE ISSUES

There are two significant components to the change program. One is the hardware which has been defined as Project Blue encapsulating the 200 new branches and the remodeling aspect. What has been silent is a definitional stance on culture change to galvanize the people and achieve an integrated system and processes to a rapid change process. Because, there was no specific project component to address the attitude and behavior of people to the change process, there was significant rejection of the project especially at the regional level which created an 'orphan' situation for the project at the regional level. This perhaps explains some of the issues behind the slow pace of work leading to alteration of some elements of the change process merely after some months of implementation

The nature of communication of the change project was at best an afterthought. On the other hand, the project was wrapped in a lot of secrecy for most part of its articulation and planning stages save for the point of execution. Therefore the communication was more of a handout of what is to be done for which there was no input or buy in by the larger part of executive management and staff alike.

As the Schein Culture model espouses in a simple metaphor, culture change is like a house built on solid foundation of sets of assumptions and beliefs with the other building blocks being the level of internal integration of all its systems and process and the level of adaption of the internal systems to the external environment. The project Blue simply assumes the foundation of belief that supports the change process, whereas, it did not. Evidence also shows that its internal integration process and systems were unable to respond adequately and adapt to the external environment hence competition came from behind and simply took the initiative away and achieved more success` than the initiator of the ideas. Thus, first mover advantage was lost

EXECUTING THE CHANGE

The execution of the change program involves the identification of specific actionable steps required to implement the change project components as identified above plus the preparedness of the organizational support units and processes to make the change happen as envisaged

In preceding sections, we had defined the detailed work plan and specific actions required to make the change happen. The change management process relates to moving from a start of old to an end point of new with the objective of achieving a set of results or improved position at the end of the change process. We shall endeavor to apply the Adaptive Change Model by Herold & Fedor in analyzing the change process and see what insights and learning points might be uncovered;

Recall, the synthesis of the Herold & Fedor model is about providing answers to the questions of;

What, Where, Who and How; and all within the context of planned changes in an organization

THE WHAT QUESTION

As we have described before now, the object of the program is to change the service delivery platforms of the bank by

1. Building 200 new branches
2. Remodeling all existing branches and
3. Equipping all the branch network with alternate electronic channels;

Then, strategic imperative for the need to change can be ascribed to

1. Competitive forces to remain relevant as a big player
2. Strategic imperative to prepare to lead in the future
3. Some level of executive hubris and ego at play
4. The consistency of the need to change with the retail mission and vision of the bank to reach every Nigerian banking need regardless of location and income level

THE WHERE QUESTION

This is the context under which the change is to take place. It relates to the internal and external environment as well as circumstances or history surrounding the institution at the time the change is contemplated. We have spent some time describing the internal and external environment of the` organization and also on the historical perspective of the organization

One of the driving forces for the remodeling was the fact that the institution had completed a couple of mergers and had bank branch with different configuration and outlook. It planned to standardize and achieve a uniform look and feel for its branch network so serving the customer becomes convenient for both its workers and customers.

THE HOW QUESTION

The Prince 2 project methodology was adopted as a means towards doing the job. This is the execution phase. Precisely how do we achieve and get the job done. The project was split into New Branch Construction Project and Branch Remodeling project

NEW BRANCH PROJECT

The project is broken into two levels of work streams; the pre construction or preparatory stages and the actual construction stage. The preparatory stage provides opportunity to prepare considerable grounds for the seamless take off of the change project. At this stage, Standards and uniform practices and components are agreed on. The activities include

1. A prototype is approved.
2. A process is developed for the pre-selection of contractors to be used for the civil work.
3. A pre-selection of vendors to supply critical raw material.
4. A stakeholder meeting with all the vendors and civil contractors is organized to explain and communicate the objectives of the change project and solicit their buy-in and supporting the implementation.

All these items are intended to assure uniform quality in the materials and labor used for the project in order to ensure uniform and consistent quality of delivery of the branches. The expectation from the stakeholders is the need for both qualitative deliveries as much as on-time delivery to meet the tight time-line of the project. The second aspect involves.

1. Sourcing for property through the use of Property agents or internal sources
2. Procure approval from the project Board for the purchase of the property
3. Acquire the property
4. Secure building permit
5. Develop an architectural plan for the branch consistent with the approved prototype
6. Develop the Civil mechanical and electrical plan along with the IT plan configuration
7. Develop a Bill of quantity for the property construction cost
8. Secure approval from the Project Board
9. Award contract for the construction to Civil contractors
10. Engage with the IT consultant to prepare for IT configuration and setup at the planned milestone level
11. Prepare for resourcing the offices in terms of placing order for the furniture and other strategic resources to run the office
12. Conduct regular inspection of the project site to assure the specified quality is being delivered
13. Regular inspection to assure timely and qualitative delivery of work
14. Work with HR in preparing the office for staffing

15. Work with Communications and Branding to ensure on time delivery of Branding items , like sign post logos and others adornment to the offices consistent with the branding culture
16. Ensure certification of the offices for take-off on completion and provision of all take-off resources
17. Handover of the branch to executive management and the branch Manager designate

REMODELING

Remodeling entails all the action steps enunciated above except for the difference that no new property is to be acquired. In addition, it entails reconstruction work while business continuity is assured. Therefore, the following activities are central for the remodeling project

1. Obtain the “As built: building plan from the archives where it exist
2. Where the “As built” plan does not exist, commission the architects to measure and draw a fresh “As built” plan
3. Redesign the property in tandem with the prototype approved for the location
4. Go through the process as highlighted above for the award and construction of the branch
5. Relocate branch operations to alternative location under the three scenario already highlighted above and allow contractors to come to site to commence work
6. Follow the process flow to completion as in under the new construction model
7. However, more frequent control visits are undertaken to ensure a more adaptive response to challenges on site given the simultaneous nature of work on site and business continuity on site, and the need for certain level of retrofitting on site

THE WHO QUESTION

Since the project was executed under the Prince 2 Project methodology, several appointments needed to be made to have the project start off. A project Board was inaugurated, A project Executive appointed, A project Manager Appointed, Senior Project Supplier and User alike appointed.

The interesting part of the appointments to these positions is that, Executive management decided on three critical criteria in making the appointment;

1. Must be of Executive or very senior management level

2. For the Project Manager and user, must be market facing to position the project work to be appreciative of the user requirements and demands in plan and design formulation and imperative for rapid project implementation and lastly
3. Must possess personal traits of self starting capabilities and result oriented

In doing this some senior performing executive management staff were taken off their bits to lead the change process

CONTROL OF THE CHANGE

ASSESSSMENT OF PERFORMANCE/ACHIEVEMENT

Specific measurable project milestones were set up at the inception of the change process. 200 new branches were slated for construction while the existing network was slated for remodeling and all within a space of 24 months. A Gant chart is visible in all the project offices with which achievement was measured on a daily/weekly basis. By the end of the 6th month, very little was on ground to show for all the efforts. As a matter of fact, not more than 10 offices had been remodeled and no new one constructed.

The underlying justification for the branch expansion and remodeling is to put the bank in a superior competitive position in amassing retail deposit liability and outpacing competition to achieve sustained growth over the medium and long term. With the seeming failure to generate the channels as planned and with competition catching up very early to the game plan and actually outperforming the bank in terms of branch network growth, it was apparent, engagement was necessary to review the position and come up with specific change to the midstream change process in order to refocus to the planned objectives of the project. Thus, Strategic engagement ensued by all the stake holders to ascertain some of the causes of the slow pace of work. Some of the reasons adduced were;

1. Delays in obtaining Town Planning approvals
2. Community demands. This is a social issue where hosting community stops any form of work until a separate negotiation is had with the community leaders on some compensation to the community in **both monetary terms and employment for the indigenes of the community**
3. Lack of 'As built plan" for the remodeling work
4. Late delivery of centralized purchased items
5. Slow pace of approvals from the cost committee of the project board
6. Lack of support of the regions to the centre as project was perceived as HQ business
7. Inability of suppliers to meet the demands of the aggressive rollout plans

8. Inadequate synchronization of major dependencies with contract roll out
9. Conflict of interest at the Project Board level and at the operational level of the Project office
10. Competitor's response in terms of price war on prime property acquisition

CORRECTIVE ACTION/ALTERATION OF CHANGE ELEMENTS

Executive management, recognizing colossal failure on the face of the change project, evaluated the extenuating circumstances and decided for a fresh round of change in order to refocus the project and bring it back on trajectory to achieve the planned objectives of the change. Some of the specific initiatives management took to refocus the change program were;

1. Decentralized Execution. Instead of retaining a Single Central project Officer (CPO) at the centre, the job was decentralized and several Regional Project offices were set up and officers appointed to man them. These offices were well resourced with the full complements as the centre was. However, the CPO would still be retained for coordination, policy setting and general control functions
2. Centralized Coordination. Head Office Project office would be engaged only in setup of strategic guidelines and direction. For example, it would be responsible for approving the layout of the different branch types, responsible for defining material and cost standards to be used across the bank. More critical is the responsibility to determine a Linear Pricing Model (LPM) that would become applicable to all the regions. The LPM empowers the regions to approve their contract based on the defined pricing model. It is only in the exceptional event that the cost of construction exceeds the contemplation of the model that it goes to the cost committee of the project board for approval. There was a total process alteration to change the whole focus of the project execution. Below activity overview summarizes the process change that took place in trying to refocus the project to deliver on its mandate;

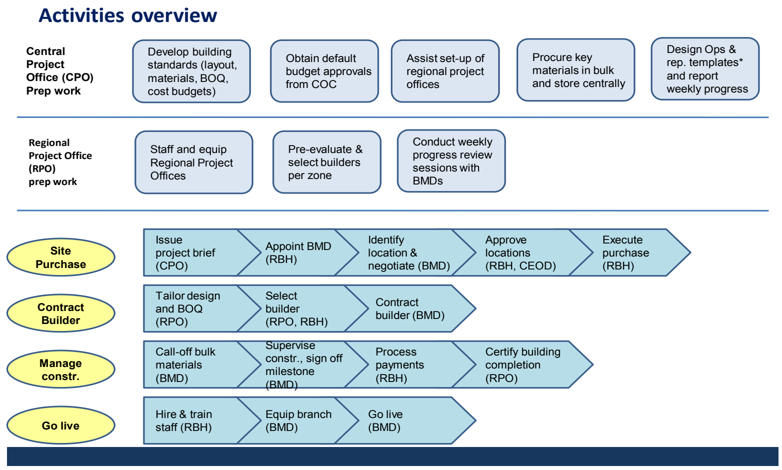


Exhibit 8: Activity overview

Key: CPO – Central Project Office; RPO – Regional Project Office BMD – Branch Manager Designate; RH – Regional Head

The following chart gives a detailed overview of the project organisation. The organisation gives better meaning to the activity flow earlier described above. As the congruence theory says you change your structure after the change in strategy. The structure and organisation of the project office and the related interdependent units needs to be reconfigured to work well once we have changed the manner of plan and position of the project activities.

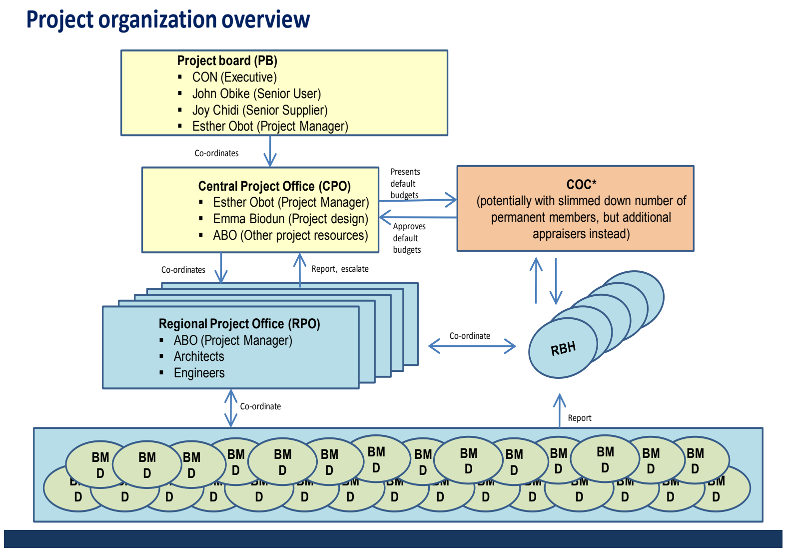


Exhibit 9: Project Organization Overview
Key: BMD – Branch Mgr Designate; CC – Cost Committee

Below represents the next steps as captured by management in leading the refocusing process of the change program

Next Action Steps / Timeframe

The budgeted project time frame per branch should be as follows:

- Central Project Office preparation activities:
    - Provide RHs target areas and types for new branches –*by week 1*
    - where such exist – *by week 2*
    - Compile
        - a comprehensive line-by-line budget format that separately breaks down all cost from land acquisition to go-live.
        - a tight Linear Pricing Model (LPM) that allows the development of budgets for each branch in the format of the budget - *by week 12*
    - Determine what materials to procure and store centrally-*by week2*

- Define a standard project execution guide that will guide all parties involved in the branch rollout of their roles and responsibilities – *by week 2*
- Compile project briefs for the first 150 new branches once type, locations and BMDs are submitted by the Regions. Project briefs shall form the basis of tracking and comprise the type of branch, the location, the name of the BMD, and the budget – *by week 3*
- Define a standard reporting format that will allow proper tracking of milestone achievements and TAT for key processes – *by week 4*

- CC preparation activities
  - Determine composition of team dealing with branch rollout issues (e.g., additional experts required) – *by week 1*

- Region's preparation activities
  - Compile list of new branches to be built and obtain approval from Project board and the CEO for locations – *by week 1*
  - Appoint BMDs for new branches with guidance from HCM on the type of people and terms of engagement, including levels and under advice of the names to HCM, as well as providing the BMDs with resources – *by week 3*
  - Set up Regional Project Offices – *by week 4*
  - Secure all branch locations – *by week 8*

- Progress by location
  - Identify exact buildings/plots for new branches locations to CPO – *by week 4*
  - Secure branch location – *by week 8*
  - Finalise design work – *by week 10*
  - Go live – *by week 26 in case of new buildings, by week 16 in case of existing buildings.*

The Managing Director wrote a mail to the effect

"After the specified period, Performance Management shall begin to provide for expelled P&L from the branches. This branch rollout approach will also be adopted by the ED, GIBD in the rollout of new locations offshore, especially in the location of new branches and a readiness to ensure adequate designs, while awaiting final approvals from the appropriate authorities.

The members of Project Board, CPO, CC, Heads of the Regions, members of RPO and BMDs are by this memo mandated to commence the approved procedures for branch 'roll out' and ensure the proposed 200 branches are rolled out within one year".

The position of Executive management was that of urgency given the initial failure to deliver. It sought to remove perceived bottlenecks by defining respective roles and responsibility with so much clarity as well as putting time lines to delivery. The policies and direction has been clearly stated but what cannot be legislated on are usually the cultural and internal integration issues and to some extent the response intensity and external adaptation of the organization to its various publics.

CONCLUSION

The application of the Herold & Fedor Adaptive Change management Model, as described above, shows that the project work was pretty well planned and organized. The Business imperative and other associated considerations necessitating the change were well articulated and what needs to be changed similarly defined with clarity.

The context of the change in terms of the internal and external environments and the historical background of the institution which might have some underpinning influence on the change were also well articulated. The Prince 2 project methodology was used in a strictly disciplined process in achieving the How of the equation

While the "who question" was particularly astounding in how it was handled. Very senior executives with sterling performance and proven track records and with personal qualities aligning with predetermined project criteria for hiring were brought in to man the project change process.

Yet! The change process failed in alarming proportion in the first run before alterations were made to the change elements. It failed in terms of the deliverables it achieved and compared to what competitors were able to achieve in response to the strategy of the bank. The pertinent questions therefore are

Why did the project fail in the first instance and;

Where there adequate responses to alter elements of the change process to refocus

The change did not achieve planned results because of reasons we had earlier identified including'; Delays in obtaining Town Planning approvals, Community demands/problems, Lack of 'As built plan" for the remodeling work, Late delivery of centralized purchased items, Slow pace of approvals from the cost committee of the project board, Lack of support of the regions to the centre as project was perceived as

HQ business, Inability of suppliers to meet the demands of the aggressive rollout plans , Inadequate synchronization of major dependencies with contract roll out, Conflict of interest at the Project Board level and at the operational level of the Project office.

The DNA of change culture did not help matter. There was visible competition for strategic resources by the various change programs running simultaneously. The IT for example was engaged in various retrofitting exercises arising from the merger and had to manage resource and time sharing amongst the various users. This strained performance

Significant yet is the culture issue. There was simply no cultural reorientation of the leadership of the institution in understanding and accepting to support a project of the magnitude. Most of the seniors especially at the Regions saw the project as HQ business and so paid at best lip service while underground, they silently decimated the gains of the process

Another important consideration in adducing reasons for the poor achievement level is the inadequate synchronization of processes and stages of the project work and the failure of aligning dependencies in a strategic way

It is partly in recognition of this procedural failure that the organizational components of the change process were changed to fit the regional structure. The new change process left the execution with the Regions while standardization and control were left with the Centre. In this manner, the multiple objective of selling the desirability of the project and obtaining the buy-in of the regions as well as achieving rapid execution of the change project were achieved by the redesign or alteration of the change elements which moved execution in all its ramification to the Regions. Similarly, better controls and discipline was put around resource requirements having significant dependencies on external sources whilst the region were basically allowed to control their buy decisions based on predetermined quality specifications

Existing statistics of the branch network thus indicate that the change objective in terms of new branches was not achieved when you compare the pre change number with what they have today. But on the other hand, the world economic disorder also led to some optimization exercise wherein some branches were shut down. The remodeling was however reasonably prosecuted as almost all the channels of the bank have achieved similar look and feel and layout configuration

In summary, we can conclude that regardless of the application of sound theories or models in planning a change process, particular attention must be paid to the communication of intent to the organization, Resource provision, sequencing and synchronization to other change elements and lastly, the culture change process. The culture change process might not be the immediate objective but failure to anchor it into the equation of the change components, might negatively affect the results of the change process as we have seen in our review. Similarly, the interaction effects of the various organizational change components is a key issue to consider to the extent of the sequence and synchronization effect of the change components on the success of the program.

REFERENCES

1. Acquisition as Exaptation: The legacy of founding institution in the US Commercial Banking industry by Marquis, Christopher, Huang, Zhi, Academy of management Journal. Dec 2010, Vol. 53. Issue 6, p 1441-1473

2. Restructuring as an Effective management Tool in Nigerian Commercial Banks by Siyanbola, tejumade Omowumi, Global Business and Management Research, 2011, Vol.3. Issue ¾ p247-257

3. ISM Academic Resource-EBISCO HOST-Stinchcombe, Boeker, Kimberly on the Legacy of Founding institution in the US Commercial Banking Industry

4. www.sterneagee.com Kenneth James of Sterne Agee & Leach on the paper-Growth comes from consolidation and Geography

5. De melo, wagner, Fabiano on the Influence of Organizational values on bank branch performance, , Revista Administracao, Contemporanea ene 2012 (Spanish), Vol76, Issue 1 p137-156

6. Rajiv Krishnan on Political pluralism, public policies and organizational choices in bank branch expansion in India, Academy of Management Journal, April 2012, Vol. 55, Issue 2, p339-359

7 Classroom Materials and Discussion at ISM DBA/PHD May 2012 Seminar in Paris with Prof. Stanley Smits

8 Working notes as an Executive in at least 4 major Commercial banks with presence in Middle Africa spanning 1991 to 2011

9 Organizational Culture and Leadership, 4th Edition by Edgar Schein

10 Organizational Change-An Action-Oriented Toolkit by Cawsey, Deszca & Ingols

11 Change- The way to lead change by David Herold & Donald Fedor

12 HBR'S 10 must reads on Change Management-Contribution by John P. Kotter

13 Prince 2 for Dummies by Nick Graham

14 www.ubagroup.com general overview of history, management and product offering. Accessed in May to July, 2012

15 www.fbnng.com general overview of history, management and product offering

16 www.Ecobank.com general overview of history, management and product offering. Accessed in May to July, 2012

17 www.Standardcharteredbank.com general overview of history, management and product offering. Accessed July, 2012

GENERAL COMMENT: The real names of the institutions used in the paper, the dates, place, and events have been concealed for purpose of confidentiality

Five Star Management Practices in the Kenyan Mobile Telecommunications Industry

Patricia Murugami
Vice Dean- Executive Talent Development,
Strathmore Business School, Nairobi, Kenya
Email: patricia.murugami@gmail.com

Abstract: This paper examines the application of five star management practices in the Kenyan mobile telecommunications industry. It covers key highlights of the players in the mobile telecommunications industry; provides a high level overview of five star management practices applied in various aspects of business management; and looks at how the key players have managed and developed innovation, specifically looking at the impact of mobile money transfer systems such as M-Pesa (Mobile Money). It further looks at talent and people management with respect to managing generation-Y, millenniums and the gender diversity agenda. The paper continues to examine the five star practices applied in the areas of strategy, growth and customer connectedness. Finally, the paper reviews how they have managed succession, risk, information and innovative corporate social responsibility initiatives.

Keywords: Kenya, strategy, Safaricom, M-Pesa, Michael Joseph,

Reference: Reference to this paper should be made as follows: Murugami, P (2012) "Five Star Management Practices in the Kenyan Mobile Telecommunications Industry ', The ISM Journal of International Business, ISSN 2150-1076, Volume 1, Issue 4, October 2012.

Biographical Notes: Patricia holds an MBA in Strategy and Marketing, Bachelors of Commerce Honors degree and is currently pursuing a Doctorate in Business Administration. Mrs. Murugami is responsible for Talent Development with respect to executive programs at Strathmore Business School; ensuring the content and faculty in Executive education meet industry relevance and has a significant impact in developing businesses in Kenya and Eastern Africa. She has experience in consulting, auditing, business performance and is a faculty member in executive education in the area of leadership and management. She has also been an entrepreneur in event management, particularly weddings; and personal growth programs. She further serves as a coach to executives while mentoring younger women in management. She has designed several programs for Women in Leadership.

Introduction

The objective of this paper is to examine the application of five star management practices in the Kenyan mobile telecommunications industry which has seen unprecedented growth and high competitive rivalry. The term five star management is coined from the 'five star' hotel standard whereby it entails management practices that seem far ahead of their time, that ensure that employees, customers and shareholders all attain value and can be benchmarked as world-class management practices. The question that begs to be answered is: are there five star management practices in existence in Kenya's mobile telephony industry?

This paper begins by describing the key highlights of the information and communications sector in Kenya as well as players in the mobile telecommunications industry. The players are *Safaricom*, *Airtel, Yu* and *Orange*, all with foreign investment in their shareholding.

The second section provides a high level overview of five star management practices applied in various aspects of business management in the mobile telecommunications industry in Kenya. It describes how the key players have managed and developed innovation, specifically looking at the impact of mobile money transfer systems such as M-Pesa (Mobile money), Airtel money, mobile money linkages to banking systems as well as how a talent pipeline of innovative ideas for the future is being created.

The third section looks at talent and people management initiatives with respect to managing generation-Y, millenniums and the gender diversity agenda. The fourth section focuses on five star management applications to growth and strategy in *Safaricom,* the dominant player. It also assesses innovative ways of managing dividends. The fifth section examines how customer connectedness, information and risk are managed. The sixth section then looks at the sustainability and corporate social responsibility strategies; while the seventh section reviews how succession has been managed specifically in *Safaricom* the major player in mobile telephone in Kenya.

Finally, this paper the looks at the existence of five star management practices with respective regard to the above players and to clearly demonstrate the application of the five star practices: the company has impacted positively with respect to its three key stakeholders: employees, shareholders and customers.

Background and Market Characteristics

Kenya's mobile telephone industry has seen unprecedented growth from the liberalization of the industry when the Kenya Posts and Telecommunications Corporation (KP&TC), a monopoly was liberalized and new market entrants penetrated the industry resulting in stiff competition (GOK, 1986) and an increase in customer offerings in the area of mobile telephone Industry as well as related value added services. In 2010, while the more traditional manufacturing industries have been adversely impacted by infrastructure and corruption woes, the information and communications technology sector has experienced 20% growth. Kenya and specifically *Safaricom,* are at the heart of a technological boom with Nairobi rapidly being dubbed the 'Silicon Savannah' due to the talents, initiatives and five star management practices. Only five years ago in April 2007 was the technological revolution first felt of *Safaricom's* M-Pesa which now has over 16 million users transferring an average of US$ 7 billion and which has been named by the Forbes magazine as one of the five African innovations that have changed the world.

During the Kenyan unfortunate post election violence in December 2007 and January 2008, M-Pesa was swiftly followed by Ushahidi.com (Kiswahili term meaning Evidence) a system that was in response to the information gap during the violence and which was created to map reports of violence, to collect an collate information sent in by the public through short text messaging (SMS) or the internet and has since then has been used globally to monitor India's elections, gain data on the Haiti earthquake, map swine flu cases, crime incidents in Indonesia and other crowd-sourcing uses world-wide.

Another invention from the Kenyan soil was John Waibochi who won the Nokia Global Growth Economy Venture Challenge of USD 1 million in funding for his Virtual City application, a mobile based supply chain solution designed to improve distribution for small and micro enterprises in the Kenyan fast moving consumer goods market (FMCG). Then in August 2011, Shimba Technologies competed against 100 other East African and won the inaugural Pivot 25 competition which is a chance to present technical ideas to a tough as steel audience of 500 venture capitalists, investors and Information Communications and Technology (ICT) community at large. Its application is geared to help the general population which has little access to health information to develop awareness by providing health advice. Since February, world class technological companies such as Google, Cisco, Samsung, IBM and Comviva have either opened or strengthened their regional presence by entering the Kenyan market through offices or higher investment through their representatives. However, unlike most of the Western world, mobile access in Kenya is through mobile phones as Kenya does not have a national grid that would support standard web browsing, hence the mobile phone is the only way to reach East Africa in a scalable, viable and effective way.

The key players in the Kenyan Mobile telecommunications industry are mainly Safaricom with Vodafone shareholder interest, Government shareholding and public shareholding. Airtel, (formerly known as Zain), with Bharti shareholding. Essar, known as the brand Yu, with Indian interest; and Orange, which has French shareholding and was formerly Telkom Kenya (a parastatal). The regulator of the industry is the Communications Commission of Kenya (CCK) and there are many other value added services companies that have grown due to the rapid growth of this industry providing internet support and other technical services such as Linksoft. In addition, the mobile phone providers are also in existence in Kenya through retail outlets or regional headquarters such as Nokia East and Central Africa, and Alcatel. All branded phones are available in retail outlets as well as mobile telephone outlets such as in the Orange and Safaricom retail and care outlets. The range of branded phones is therefore available. Due to the bottom of the pyramid selling strategy, many copies of the original phones are also sold at lower prices to a multitude of Kenyans, giving the branded phone companies the reason to be vigilant and enhance client awareness and ability to discern whether a phone is genuine or not. Nokia specifically has suffered this risk predominantly due to its large range of phones with features that are attractive to low income customers such as the long battery life and torch feature which is used to provide light for customers who may not have electricity in their homes.

From the onset, each of these players needed to adapt competitive strategies which meant that the process of selecting and deliberately choosing a different set of objectives to deliver a unique mix of value. Porter(1998), said that the essence of formulating a competitive strategy is relating a company to its environment and he goes on to argue that competitive advantage is the ability of the firm to outperform rivals on the primary performance goal. Kotler (2000) said that satisfaction is a function of performance and expectations. When performance exceeds expectations, the customer is highly satisfied or delighted. Value therefore reflects the growing customer concern of getting more for money, time, and effort invested. It becomes paramount then for the mobile telephone companies to maintain closer touch with their customers and adjust their offerings to provide value. Competitive Advantage is attained through any of these 3 strategies: cost leadership, focus or differentiation according to Porter (1998). To gain competitive advantage over its rivals, a firm must either provide comparable value to the customer, but perform activities more efficiently than its competitors (lower cost), or perform activities in a unique way that creates greater buyer value and commands a premium price; (Porter, 1996) which is differentiation or serves to determine a niche to function and operate in as well as providing the services at a distinctive level. The key players in the mobile industry have had to strive to be distinctively superior with respect to various management and business practices as they battle for the share of market, share of mind and share of airtime of each of the Kenyan customers and beyond the borders. Brief highlights of the four players are as follows:

- **Safaricom**

Safaricom began in 2000 and has over 15 million subscribers, accounting for over 80% of the country's mobile telephone market. It has also been Kenya's most profitable company, with 40% of Safaricom being owned by Vodafone UK, while 0.8 million Kenyans became owners through the Initial Public Offering in 2008.

- **Airtel**

Zain Kenya began its rebranding exercise in October 2010, taking up the identity of its new owner, Indian telecom giant Bharti Airtel. The strategy Airtel picked with which to penetrate the market was to enter the market via the corporate social responsibility (CSR) route by focusing on community empowerment as a key part of its branding drive. Zain incorporated the effort and voice of vendors and street traders in rural markets to increase its brand awareness. The shift to Bharti Airtel is the fourth time that Zain Kenya has changed its brand name during its ten year operating history. Historically it entered the Kenyan mobile industry as Kencell in 2000, before changing to Celtel Kenya in 2004 and Zain Kenya in 2008. Now it is operating as Airtel. One distinctive position of the then Celtel Kenya was the access and clarity of its network services and it had also positioned itself using a differentiator strategy at premium prices. Airtel changed the positioning to be more mass market focused and with the number portability and price wars, has increased the competitiveness in the industry.

- **Yu**

Essar Group is an India based large multinational conglomerate in the shipping, logistics, steel, manufacturing and distribution industry worldwide. They are also in mobile telephone and recently entered the Kenyan market under the brand Yu in November 2008. They have entered using a low cost penetration strategy as their offers are lowest at free calls from Yu to Yu subscribers.

- **Orange**

France Telecom SA (NYSE: FTE) acquired a controlling stake in former incumbent Telkom Kenya in December 2007, and launched Orange as the commercial brand for Telkom Kenya in September 2008. It claimed that the new GSM service would make Orange the first integrated operator in the country. Orange, to their name, has launched a low price reliable mobile data network product that operates in a plug and play manner and as Orange has few subscribers, network congestion does not occur often.

Managing Innovation

The Kenyan mobile telecommunications industry has been on the cutting edge of launching innovations that have changed the lifestyles and business practices of Eastern Africa. There have been some key notable ones that are discussed in more detail below:

- **Safaricom's M-Pesa**

  Safaricom's M-Pesa (M represents Mobile and Pesa means money in Kiswahili, Kenya's national language) was first launched in April 2007 in Kenya through a partnership between Safaricom and Vodafone. This mobile funds transfer solution is available country-wide and enables customers to transfer and receive money. It operates in areas without any banking services resulting in rapid growth beyond the key towns in Kenya. M-Pesa customers can access their money through any of the numerous agents as well as at Pesa Point ATM's (Automatic Teller Machines). M-Pesa can now be used to pay school fees, utility bills and even international money transfers (IMT) where one can receive and send money from United Kingdom and in the United States of America. M-Pesa won several local, regional and global awards which demonstrate the five-star rating with respect to managing innovation. The Best solution for Rural Service and Changing Lives Award was its first award at the inaugural Safaricom Awards in November 2009. M-Pesa has also won the Global Mobile Award for the Best Broadcast Commercial, Kenyan Banking Awards' special award for Product Innovation, the World Development and Business Development Award and the winner of Economic Development category in the Stockholm Challenge.

  M-Pesa with its 14 million subscribers can now reach international money transfers from over 55 countries worldwide due to a strategic alliance with Western Union and Safaricom - the largest deal of its kind. As of research done by Safaricom in August 2011, more than Ksh 66 billion is remitted back to Kenya each year through M-Pesa.

Exhibit 1: The World of M-Pesa (The Option Magazine, 2007)

- **Safaricom's Telepresence**

This is Safaricom's video conferencing service that allows one to hold meetings with users in remote locations, while ensuring the experience of a face-to-face meeting. Users can connect with over 32 international locations across several continents: United States, Europe, Africa and Asia. The Telepresence enables users to speed up decision making by engaging with relevant stakeholders and thus reducing travel costs, increases employee's productivity and achieves cost efficiency. The suites are located in the premier Serena hotels in Nairobi Serena and Kampala Serena as well as the Safaricom's Michael Joseph Center in Nairobi and they all offer top range video conferencing tools.

- **Yu Cash with Equity Bank**

Similar to other mobile money transfer products, Yu Cash partnered with Equity Bank to provide customers with a service that allows them to link their Yu Cash accounts to their selected bank accounts. With this service, customers are able to move funds directly from their Yu Cash accounts to their Equity Bank accounts using their mobile phones. This provides ease in withdrawal and deposit of money into one's account at minimal charges.

- **Airtel Money (re-launched from Airtel Zap)**

Airtel ventured into the local mobile commerce business in 2009 under the Zap brand. The service provides e-commerce solutions including online payments, online banking, utility bill payments for electricity, cable television and water. Airtel Money's extensive network has been complimented by corporate agents to enhance availability and reliability of the service across the country. Airtel Money has signed up over 100 business partners who provide various services including bulk payments, collection accounts and super dealerships.

- **Orange and Equity Pesa**

Orange Money was launched in November 2010, combining both the features of a mobile money transfer and mobile banking solutions. By March 2011, there were more than 115,000 registered Orange Money customers with projections that the number will increase in the coming months, as the service moves to sign more partnerships with other organizations driving the new growth.

- **Safaricom's Skiza Tunes Service**

As at September 2011, according to The Option, Safaricom's internal magazine, due to the Skiza Tunes service (Skiza means listen in Kiswahili), four million people (22% of Safaricom's users) have personalized their ringtones using this service. The service is at Ksh 5 per ring tone and one can customize and assign the ringtone to different callers. This is another five star practice that enhances customer connectivity to Safaricom.

- **Creating a future talent pipeline of innovative ideas**

One of the critical new initiatives that Safaricom has recently launched in conjunction with Strathmore University in Nairobi is the setting up of the Safaricom Academy which will provide scholarships and two year training leading to a Masters degree in Telecommunications, Innovation and Development (Msc. TID) accredited by Massachusetts Institute of Technology (MIT). Some of the key innovations will be available in the Safaricom Application Store under the banner 'Proudly Kenyan' as Safaricom wants to be the mobile operator who supports innovation and applications and particularly homegrown ideas. Some examples of innovative applications include Digilaw which is a mobile internet application that maintains the Law Society of Kenya – accredited list of lawyers as well as a simplified easily understood explanation of Kenyan laws and their effect on society. Another application is Chagua Plus (Kiswahili for *Choose* plus) which allows students to query the results of the national Joint Admissions board university selection. An award winning application was iShopper that facilitates shopping, ordering, payment and optional delivery of supermarket products all towards easing the convenience of Kenyans doing their regular domestic grocery shopping.

One of the three women selected for the pioneer group of scholarships in Safaricom Academy is Ms. Diana Kasemi who created an application that turns a mobile into a baby monitor such that sounds from the baby can trigger a phone call or text message to the mother and operates over a wider range than normal baby monitors. This application is unique because it can be used by the rural woman as she goes about her gardening and outdoor tasks using her phone. This effort to tap the innovation timeline is what Mr. Bob Collymore terms as 'Safaricom growing its own timber'.

Exhibit 2: Advertisements of Yu Mobile and Orange Money

Managing people

The mobile telephone industry until very recently has had a negative employer brand image due to the radical cultural change initiatives that were originally undertaken in the different organizations. Change management has been a turbulent experience for all the players. For instance, Safaricom and Orange Telkom originally had a bureaucratic public sector mentality which was hampering its strategy execution. As a result, heavy downsizing had an adverse effect on the employer brand. In addition, the numerous takeovers of Airtel, previously Kencell, then Celtel, then Zain all happening in 10 years has diluted the employer and product brand of Airtel. Essar group also entered the industry with the cloud of negative legal exposure rendering it to enter the market under the brand Yu.

In terms of recruitment and exit processes, the experience of the initial recruitment procedure for a senior management position entailed a six hour psychometric test to assess various capabilities of the potential employee. This was followed by a case analysis and presentation as well as personal interview before the negotiation stage. This was to ensure that Safaricom got the best talent the market had to offer. The initial challenge was balancing the expectations from the market on remuneration and reward in addition to the resources demanded for a fast growing company with a young ambitious workforce.

Managing Generation Y and beyond

In a recent Institute of Human Resource Management (IHRM) Annual Conference, two senior Safaricom managers, Mr. Japheth Achola, Head of Employee Services and Mr. Samuel Kariuki, Senior Manager, Recruitment presented their experience in managing Generation Y. Generation Y is clearly a fast growing segment of Kenya's workforce composed of employees who are between the ages of 20 and the early 30s. 66% of the respondents of the PricewaterhouseCoopers 2009 National Human Resource survey reported that they already make up between 25% and 75% of the workforce and are also the next generation of consumers. Safaricom has had to adjust to this reality by providing opportunities for career progression through job enrichment and growth. They have developed an evolving employer brand which aims to make Safaricom the employer of choice, innovation leader, recruiting the smartest and rewarding while recognizing staff achievements.

One of the first things the second CEO of Safaricom, Bob Collymore did was to connect with this generation by holding the first quarterly recognition ceremony where the Group Vodafone CEO was in attendance and all employees were able to participate through a webcast. The citation of key achievers was read, a certificate was awarded coupled with a handshake to each of them, a small token and a photo. The level of motivation that arose from this event makes it a quarterly event championing employee engagement. Generation Y want to speak directly to the CEO and have direct access to him. A staff climate survey has been done annually and the management focuses on the top 5 aspects to develop and improve to create positive change. Consequently, the employee engagement has grown in leaps and bounds resulting in excellent client care.

Safaricom's call centers employ 1,400 employees who are primarily in Generation Y and millenniums and a high percentage are young women. As a result, the key question is how to keep them all constantly engaged. The solutions include job enrichment such as having social media customer care representatives, relaxing the dress code to increase innovation and creativity, a fully equipped gymnasium with steam and sauna facilities, board games such as table tennis and pool as well as the day care facilities. Other innovative practices are the TGIF- Thank God it's Friday and birthday celebrations, on–boarding, whereby an employee (also called a work-buddy) is assigned to a new employee to enable ease in settling into the Safaricom culture, creative design of office space (for instance, the customer care center in Mlolongo on the outskirts on Nairobi have aquariums and a water theme as the area tends to be extremely hot with harsh weather conditions).

Increased flexibility such as hot-desking whereby employees in the customer care center do not have designated desks and can exercise flexibility in using any desk available as all have been set up ergonomically and technologically to enable efficient working. Safaricom has also enabled, for specific roles flexible working locations through the *My Work, My Way* – one does not have to be in the office for several roles that can be performed from elsewhere as long as the employee has internet and mobile communication. *My Pay- My Way* is one of the more creative five star employee services whereby the employee is not bound in a straight jacket of benefits and rewards that do not suit him or her. Depending on his or her needs, the employee selects the pension investment that he or she needs based on his or her risk appetite. For instance, one can request for their funds to be invested in an aggressive, moderate or conservative fund. In addition, as medical cover for dependants and school fees is a benefit, Generation Y employees may have no immediate need for these benefits and request for them to be converted to a more relevant type of benefit. Sabbaticals and skills portability are also a growing trend.

The Safaricom Choir

As a brainchild of the former CEO, Michael Joseph, the Safaricom Choir was formed in January 2009 to create a platform for team building and boost the morale of employees who enjoy chorale music. Its choir director Ken Wakia is a well known choral musician and a Fulbright scholar from the University of Miami. The choir performed its first concert at the 2009 Safaricom Classical Music Festival and has continued to perform at the annual Classical Fusion and for charity concerts. One of its trademark songs has been *Niko Na Safaricom* (I am with Safaricom) which was produced in 12 days as part of an iconic commercial in the scenic Kenyan landscapes which included Mt Longonot, Kericho, Suguta Valley, Mt Kenya, Galu Beach, Diani, Nabuyatom Crater, Turkana, Aberdares and Mudanda Rock.

Exhibit 3: The *Niko na Safaricom* Advertisements.

Managing Diversity and the Gender Agenda

Bob Collymore, the CEO of Safaricom reckons he is deeply intolerant of gender bias and as 50% of their clients are female, the human capital organization in Safaricom should also have a similar mix. To do so, all sectors have had to add at least one additional woman to their managerial boards. They have tried to create an environment where women are comfortable working which includes adjusting the language in the business and working conditions, childcare facilities in their call centers as they do not want to penalize people for being parents. What makes this initiative five star is that Safaricom is not only looking internally but also externally. With respect to the female clients who are M-Pesa recipients, in the rural areas, many women do not have the economic ability to own a phone and in some cases may be the second or third wife. Hence, when the funds are sent to her through the M-Pesa number provided for microfinance purposes, research has shown that she does not receive the funds. Safaricom is working with women's microfinance groups to resolve this route to market issue with respect to their members receiving the much needed funds. The Safaricom Foundation deals with female specific problems as heavy grant funding goes to girls' primary schools and to provide an appropriate learning environment. This follows the old adage that when you educate a girl, you educate an entire community due to the far reaching positive impact of her education on her family and society at large.

Strathmore Business School in conjunction with Doha Institute of Family Studies, Qatar and the IESE Business School, Spain carried out a Family Responsible Survey to determine the most family responsible organization in Kenya. The research findings showed that Safaricom came second due to its strategy with respect to young mothers providing the crèche facilities, gym facilities and other social amenities in the call centers which operate 24 hours a day. The top ten women in Safaricom are on the high performance, high potential list with key growth and learning opportunities being provided to them as this is a key leadership agenda.

Managing Strategy and Growth

From Safaricom 1.0 to Safaricom 2.0

As the year 2010 began, Bob Collymore, the CEO of Safaricom upon holding critical conversations with the key stakeholders, decided to focus on a new strategy - Safaricom 2.0 which would entail two key aspects: fixing the network and improving customer experience particularly at the over 35 Safaricom shops countrywide. This would be to proactively respond to the dynamic market conditions and will be the key focus area in the next 9 years. In the past, Safaricom 1.0 was more static and now Safaricom 2.0 is an organization that engages its stakeholders consistently, listens and responds effectively. His aim is that Safaricom becomes a humble organization that recognizes that it is not the key domain of answers and that the customer is constantly seeking new solutions for a never ending range of consumer requirements. This required a cultural shift and with it, a right sizing occurred with several senior managers being asked to leave to pave the way for the cultural shift. This strategy has already borne fruit with the congested network challenges reducing and the use of multi and social media to de-congest the customer care experience. The Safaricom 2.0 is totally aligned with the Safaricom Way, their cultural change program whose main pillars are speed, trust and simplicity so that this becomes a way of life for the critical majority of stakeholders.

Growth and strategy has been managed by enhancing responsiveness and investing in infrastructure, people and trends to ensure that Safaricom remains market leader. Hot on its tracks are the other players Airtel and Yu who have chosen the price war route to enable market penetration into the Kenyan customers.

Diverse products

Safaricom has continued to make great strides in its data offering such that it now has better speeds, lowered prices and more options including time based billing. It currently has 21 Mbps and is now the fastest and widest mobile data network in Kenya.

> ***Get it-411*** is an information service that allows subscribers to request for information with a single SMS and receive the data they need instantly via SMS.
>
> ***Security 911*** is another emergency service that uses Safaricom's network in conjunction with rapid emergency response units from Cartrack and as over 50 vehicles are located strategically around Nairobi, the response to any emergency is prompt. The value proposition is giving customers peace of mind as it accessible anywhere in Nairobi throughout the year.
>
> ***Skiza*** (Kiswahili meaning *Listen*) is a creative service that allows subscribers entertain callers with their favorite music instead of the regular normal dialing tone while waiting for one's call to be answered. The range of service includes music, jokes, famous quotations and more.
>
> ***Safaricom's Switchon*** is a broadband service that has been introduced to enable customers download movies, connect to online games, stream internet TV with round the clock internet access and free installation, Safaricom is branding it as a getting ready for Christmas product.
>
> ***Okoa Jahazi*** is an innovative new service that allows Pre-Pay subscribers to get airtime on credit in emergencies or when they are not in a position to purchase airtime. It in effect a loan that enables you make urgent few calls and then pay back the loan as quickly as possible. Failure to repay promptly means that interest and penalties accrue to the subscriber.
>
> ***Kama Kawaida,*** (Kiswahili meaning as normal) is a service that provides easy affordable roaming services within East Africa and South Africa whereby Safaricom has entered into agreements

with the mobile telephone providers there such as MTN Uganda, UTL Uganda, Vodacom Tanzania and MTN Rwanda to enable instant connection with these networks to ensure consumers are accessible as usual even if they are out of Kenya.

Safaricom's Easy Travel is another way of ensuring subscribers can book and pay for their local and international travel through the internet and M-PESA.

Brand building, events and communications

In September 2009, Safaricom launched the inaugural Safaricom Classical Fusion Festival which is an acclaimed musical extravaganza which seeks to entertain Kenyan families with a medley of classical and Kenyan music by local and African talent. The concert has been held annually in three locations, Great Lake Butterfly Pavilion in Mombasa, Nairobi Arboretum and Impala Club Grounds in Nairobi. Over 400 musicians showcase their talent including the Safaricom Choir and the Strathmore Chorale group. This has become a key brand building and elegant event for families and individuals alike who enjoy classical music. The five star practice is the ability for Safaricom to connect telecommunication with music which is the universal language.

Another creative brand building initiative was to start the Michael Joseph Centre, an area that has been set aside at Safaricom House specifically for Safaricom activities, events and exhibitions. The Centre comprises four functional areas which are The CSR Space which demonstrates the spirit of sharing; the Art Space for Events and artistic exhibitions; The Technology Space demonstrating the never ending pace of innovation and the Telepresence Room for video-conferencing facilities.

One way in which Safaricom has connected with the patriotic agenda is by using the scenic landscapes of Kenya in its billboards and marketing communications.

Exhibit 4: Advertisement of Project Sanaa of Safaricom Michael Joseph Centre.

Managing Information and Managing Risks

The move by Safaricom to join hands with Kenya Prisons Service to fight fraud by inmates in the ***mobile money market*** in Kenya was long overdue. The move came in the wake of a rise in crime involving fraudulent money transfers most of which originate from prisons. In the third quarter of 2011, a substantial number of Kenyans had fallen victim to fraudsters targeting Safaricom's M-Pesa mobile money transfer users. This service, which has over 16 million subscribers, had seen customers lose over Ksh 10 million by then.

Dividends Payout management

Dividends from the Initial Public offering that saw Safaricom sell shares to individuals and legal entities can now be received through M-PESA, a move that was unprecedented and clearly demonstrates how innovation can be used not only to grow products but to reach one's shareholders easily, safely, fast and promptly. This also enabled the investment office in Safaricom reduce the occurrence of stale cheques which are either not banked promptly or do not reach the intended owner due to change of address details which have not been communicated to Safaricom.

Exhibit 5: Registration notices to receive Safaricom dividends.

Managing Customer connectedness

Safaricom has customer care representatives focusing on social media as it provided online support through Twitter and Facebook for over a year and in June 2011, a dedicated online customer support channel on Twitter (@Safaricom_Care) and Facebook was launched in an effort to provide yet another way for them to connect and serve their customers. Interestingly, research has shown that the profile of Twitter queries is from across the generations and corporate customer while Facebook is from the youth. The challenge is that urban slang made of a combination of English and Kiswahili (Kenya's national language) means that the social media customer care representatives must understand and know how to effectively communicate in this 'slang' otherwise called *sheng.*

Managing the Sustainability Agenda and Corporate Social Responsibility (CSR)

Bob Collymore, CEO of Safaricom was recently interviewed by Shalini Gidoomal about his sustainability agenda as Kenya's leading mobile telephone operator. Bob responded by saying that sustainability is not only about being green but about corporate governance, ethics, human resources, products and services and corporate giving. Safaricom has been one of the top corporate givers and giving in a sustainable manner through their legal entity Safaricom Foundation and through key national and global events such as the Lewa Marathon.

Safaricom's Lewa Marathon

This Marathon is reported to be the wildest and hottest race that was conceptualized by Charlie Mayhew, CEO of Tusk Trust UK, when he visited Lewa Wildlife Conservancy in Laikipia and thought it would be fun and worthwhile to hold a marathon to raise money. He mentioned the idea to Michael

Joseph, the then CEO of Safaricom, who was also visiting Lewa at the time. The first race was held in 2000 and is now an annual event on the last Saturday in June. The runners have grown from 180 in 2000 to 1,250 this year and funds raised have grown exponentially from Ksh 4.2 million in 2000 to a staggering Kshs 48.8 million in 2010 which totals to Ksh 150 million raised so far (USD 1.5 m). Some of the 5 star practices that are associated with this marathon are the event preparation and planning. Mike Watson, CEO of Lewa Wildlife Conservancy spent six fist clinching hours during this year's marathon in a helicopter following elephants, lions and rhinos to ensure that the safety of both runners and animal was assured. When an animal came too close to the runners, he would swoop down and drive it back to the bush or swamp it came from. Some of the critical questions he and his team battle with include how to ask a lion to move away from a zebra it has killed on the course? How might thousands of water bottles be better distributed over the 20,000 kilometers terrain? The British Army and volunteers erect thousands of tents for water stations, accommodation, catering, and registration areas. Lewa staff offer over a thousand gift bags with key-rings and kikoys (Swahili shawls) which are made in Kenya and symbolize Kenyan heritage. Several motorbikes, a helicopter and an aero plane are fuelled; ready to support participants during the marathon as this is the hottest, highest, hilliest and wildest marathon in the world- the only one where lions run free on course.

And there are more reasons why this is 5 star management from a CSR perspective. Safaricom does not only provide funding for the marathon but also provides healthcare facilities in the Safaricom village such as breast cancer screening, sponsorship and fundraising via M-PESA, coordinating hundreds of journalists, providing 3G network coverage all over and presenting a music festival and donating prizes. In terms of impact, 2010's marathon raised Ksh 48.8 million and eight schools have received support so far such as Rigusu Primary School which received $100,000 to improve its facilities and for the first time, its pupils are sitting for the national exam. A borehole has been sunk, 2 classrooms have been built and 3 more are in progress. For the first time in twenty years, teachers have received training and the school now offers wildlife education, a bursary program and adult literacy classes. This initiative has had a significant impact in resolving the human-wildlife conflict.

Exhibit 6: Advertisements of the Safaricom Lewa Marathon as well as a photograph of the actual race in the Wild

Safaricom Foundation

Safaricom Foundation was established in August 2003 and is a registered charity funded by Safaricom Limited and the Vodafone Group Foundation. The Foundation provides a formal process for charitable contributions to communities, community groups and Non Governmental Organisations (NGOs) in Kenya who are key partners in responding to social and economic development issues in the country.

The Foundation supports initiatives / projects that provide sustainable solutions to the most pressing social challenges. Its specific focus areas are Education, Health, Economic Empowerment, Environmental Conservation, Arts and Culture, Music and Sports. The Foundation also responds to disasters and humanitarian emergencies and contributes towards Kenya's development agenda and the Millennium Development Goals. One key five star practice is the World of Difference initiative whereby employees of Safaricom volunteer their time and expertise to organizations and charities of their choice. This builds the spirit of service and giving within Safaricom. Some recipients of initiative have been Kianda School which has since had a change of their accounting system.

Exhibit 7: Safaricom's World of Difference staff initiative

Kenyans for Kenya initiative

Earlier 2011, when 3.5 million Kenyans were facing starvation in northern Kenya's worst drought in years, the Safaricom Foundation, The Kenya Commercial Bank (KCB) foundation and Kenya Red Cross Society, in conjunction with the Media Owners Association (MOA) announced the initiative to raise Kshs 500 million to feed them. The fund was open to all Kenyans with the minimum contribution through M-PESA pegged at Kshs 10, with service charges waived. The five star aspect of this initiative is that it galvanized all Kenyans and made it easy for all to contribute and come together as one.

Safaricom Sakata Ball Challenge Championships

In terms of searching for youthful sport talent, Safaricom initiated the Safaricom Sakata Ball Challenge which is a campaign that has broached the 8 provinces in Kenya looking for soccer talent in youth between the ages of 17 and 23 years. In this year, 2011, it was the first time girls were incorporated in the challenge with the diversity and gender agenda in mind. Safaricom has partnered with UNICEF's National Youth Talent Academy who has talent scouts at every level of the challenges tournaments. The idea behind this initiative is to enable the youth engage in constructive and positive activities which will enhance their standard of living and as a result, 36 young talented people join the Academy in 2012. They have been offered six- month scholarships to allow them to undergo specialized training and have opportunities to participate in high profile African youth tournaments such as the Liberty Professionals in Ghana. The goal is that the very best could end up playing for the big clubs either locally or internationally. For instance, in 2010's academy, Abdi Malik Mohammed has since returned from trials that saw him go to Sweden with the clubs MIFK Varnamo, Matola and Goid Solvesborgs and was awaiting a potential contract with a Swedish team. This initiative is an application of the five star management concepts. This has been strengthened by the global partnership with the UNICEF Talent academy.

Managing Succession

From Michael Joseph to Bob Collymore

Michael Joseph had been the CEO of Safaricom for over 10 years and many equated Safaricom with him as he was the iconic face of the company. As he announced his decision to retire and leave the mantle to Bob, Kenyans were doubtful as to how successful the succession process would be. His argument was that Bob came with invaluable experience in the global telecommunication industry and that the existence of the right structures and processes and if the teams have bought into the entire vision, cause and values would ensure that Safaricom continued to grow to great heights.

In his communications, Bob has consistently responded to the initial anxiety by recognizing the key milestones Safaricom had achieved and how they will focus on building on these strengths. He argues that transitions especially at the leadership level, can be a period of much anxiety and apprehension and that the cell fabric of Safaricom remains unchanged albeit subtle differences in style, tone and manner which will become apparent with time. The results of his effort together with the management's efforts have proven that succession, when carefully managed can be successful for the organization. The same has not been the case for transitions seen in the Zain to Airtel.

In an interview, Bob said in his own words before taking the helm that he would not want to discard the Kenyaness of Safaricom in terms of its ability to develop Kenyan home grown solutions for Kenyans which can then be shared with the rest of the world such as M-Pesa. The other aspects that he would not want to change are the contribution Safaricom has made to community uplifting through Safaricom Foundation as well as the people- their diversity, talent, commitment and ability of Safaricom to retain above average staff. The last thing he would want to retain is the loyalty of their dealership network as well as to continue keeping a spotlight on innovation as it is Safaricom's distinctive competency.

In terms of things he would like to change, he keeps developing the data proposition as the key one so that the person who is in the rural Kenya can use it so as to bridge the digital divide between Manhattan and Kenya. His other key agenda is connecting closely with the fastest growing element of their market and employees: the youth. And true to his word, several months later, Bob has been keenly effecting what he said, in his own words. Widespread access to information is what will move Kenya forward as a nation and he has been playing an active role in achieving that through Safaricom.

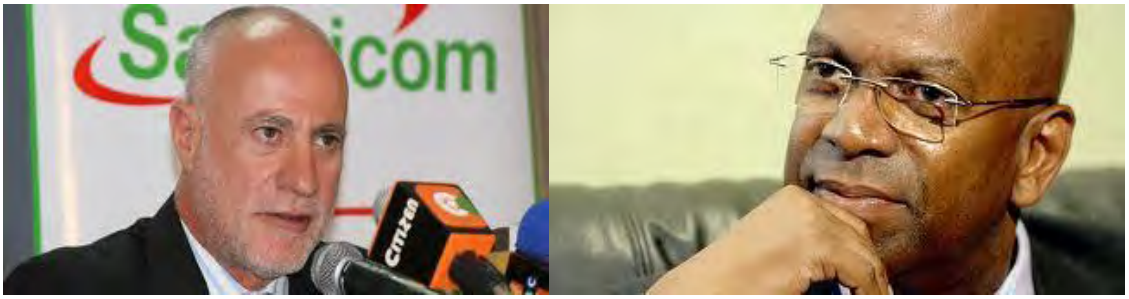


Exhibit 8: Photographs of the first Safaricom CEO Michael Joseph and his successor, Bob Collymore

Summary and Conclusion

It has been seen clearly that the more strategically responsive a company is and the more it takes care of its employees, they then take care of the customers who then take care of the shareholders. This is the virtuous cycle of value creation in an organisation and from the research findings in this paper, Safaricom the dominant player in the mobile telephony industry has demonstrated its five star management practices across several aspects of business and people management resulting in its ever growing financial and business performance. Safaricom, the leader in the mobile telecommunications industry is constantly re-inventing itself to ensure that it applies five star management practices. Critical to its success has been listening to its customers and being responsive so as not to cause elongated pain and hurt to its stakeholders and achieve long term sustainability in the face of stiff competition and price wars. Its ability to think outside the box, innovate and invest in future talent and from the CEO's perspective, this will continue to make Safaricom stand head and shoulders above many players not only in the mobile telephony industry but across other fast moving consumer goods.

It remains to be seen how the other players and new entrants into the industry will apply five star management practices into the core of their strategy execution and the impact this will have on Kenya's economic and technological progress.

References

African Telecom Market. Retrieved in September 2011
http://www.moviuscorp.com/a-report-from-light-reading-that-spotlights-the-african-telecom-market-1.aspx

Achola. J and Kariuki. S. (2011) Managing Generation Y in Safaricom Limited. (13 October 2011). *Institute of Human Resource Managers (IHRM).*

Akumu. W, "In his own words," *The Option, Safaricom,* December 2010 –February 2011, 10.

Editorial team "Stay Connected", *The Option, Safaricom*, December 2010- February 2011, 29

Editorial team "Stay Connected", *The Option, Safaricom*, December 2010- February 2011, 31

Editorial team "Stay Connected", *The Option, Safaricom*, December 2010- February 2011, 32

Every Shilling making a difference for Kenya effort, *The Option, Safaricom,* Sept.- Nov. 2011, 7.

Government of Kenya (1986), '**Adjustment to external shocks:' Liberalisation 1986,** African Development Review

Kotler, P. (1999), **Marketing Management** Millenium Edition, New Delhi: Prentice Hall

Kotler, P. (2000), **Marketing Management**. 10th Edition, India Prentice Hall

McKenna, R. (1997), "**Real time. Preparing for the age of the never satisfied customer"**, Harvard Business School Press

Message from Bob, The Option, Safaricom, March- May 2011.

M-PESA International Money Transfer, The Option, Safaricom, September – November 2011.

Niko Na Safaricom article in The Option, Safaricom, December 2010- February 2011.

Pearce, J. and Robinson, R. (2000), **Strategic management: Formulation, Implementation and Control,** 7th edition: McGraw Hill

Shalini. G, "Download the Revolution," *The Option, Safaricom,* September- November 2011, 18-19

The Option, Safaricom, March to May 2009.

Washington Akumu, "In his own words," *The Option, Safaricom,* December 2010 –February 2011.

Wireless Federation, Retrieved in September 2011
http://wirelessfederation.com/news/tag/kencell

Applying Project Management Approaches To Achieve Value Creation In Post - Acquisition Integration

Reena Patel
VP & Head of Alliances, Digital Ventures, Playboy Enterprises Inc.
Email: reenavpatel@gmail.com
Phone: +310 498 8630

Abstract: The popularity of mergers and acquisitions (M&A) activity as a corporate strategy designed to tackle increasing costs, new markets, new technologies, growth creation and globalization, is certainly no secret. In fact, changes in the global economy has spurred an increased interest in M&A as a means in which to find quick fixes for the improvement of shareholder value, and often, to save companies from financial crisis. It is no surprise therefore, that many executives look to M&A activity as a key strategy in their ability to foster and create value out of corporate growth. Unfortunately, often times, well conceived deals fail to lead to value delivery due to inadequate integration processes that include excessive delays; loss of key talent, customers and/or a clash in cultures; and ineffective communication across teams. This paper examines the effects of the implementation of formal integration project planning utilizing the Process Groups described in A Guide to the Project Management Body of Knowledge (PMBOK™ Guide), the necessity of formal human resource and communication plan development, and the presence of a formal project management office to define, manage and measure the integration project and sub-project management life cycles, remove obstacles, and ensure compliance and risk management functions, as critical features to the realization of value from an acquisition transaction.

Keywords: Project Management, Mergers and Acquisitions, PMBOK™, Integration Planning, Value Creation

Reference: Reference to this paper should be made as follows: Patel, R. (2012) "Applying Project Management Approaches to Achieve Value Creation in Post - Acquisition Integration", The ISM Journal of International Business, ISSN 2150-1076, Volume 1, Issue 4, October 2012.

Biographical Notes: Reena Patel is a Digital Media Executive based in Los Angeles, California currently overseeing New Digital Ventures, Global Mobile and Online for Playboy Enterprises. She holds an MBA from Plymouth State University in New Hampshire, USA, a B.Sc. in Basic Medical Sciences from the University of Toronto, Canada and is currently pursuing doctoral studies.

"A merger is always based on a financial proposition, but success invariably rests on the human proposition (Pritchett, 2009)."

Introduction

The popularity of mergers and acquisitions (M&A) activity as a corporate strategy designed to tackle increasing costs, new markets, new technologies, growth creation and globalization, is certainly no secret. In fact, changes in the global economy has spurred an increased interest in M&A as a means in which to find quick fixes for the improvement of shareholder value and often, to save companies from financial crisis (Jacintho, 2009). It is no surprise therefore, that many executives look to M&A activity as a key strategy in their ability to foster and create value out of corporate growth (Knowledge@Wharton/KPMG, 2011).

Recent Mergers & Acquisitions Activity

After many years of dampened M&A activity due to a depressed economy and the sovereign debt crisis, worldwide M&A have shown an increase of 55% in Q1 of 2011, it's strongest quarter since Q2 of 2008, totaling $799.8 billion (Reuters, 2011). The M&A market is expected to remain robust through 2011, although restrained from Q1 results, due to the presence of a higher level of executive confidence, improving economy and credit environment, and motivated sellers (Hall & Howley, 2011).

Reasons for M&A

Past years have shown a number of contributing factors towards the increase in M&A numbers including the entrance of emerging markets, interest rate decreases and ease of credit, international liquidity and currency benefits (Jacintho, 2009). Recently however, M&A have been spurred by business crisis and subsequent economic or governmental pressure (Jacintho, 2009).

A 2011 KPMG survey described the following results for the motivation by global companies for acquisitions.

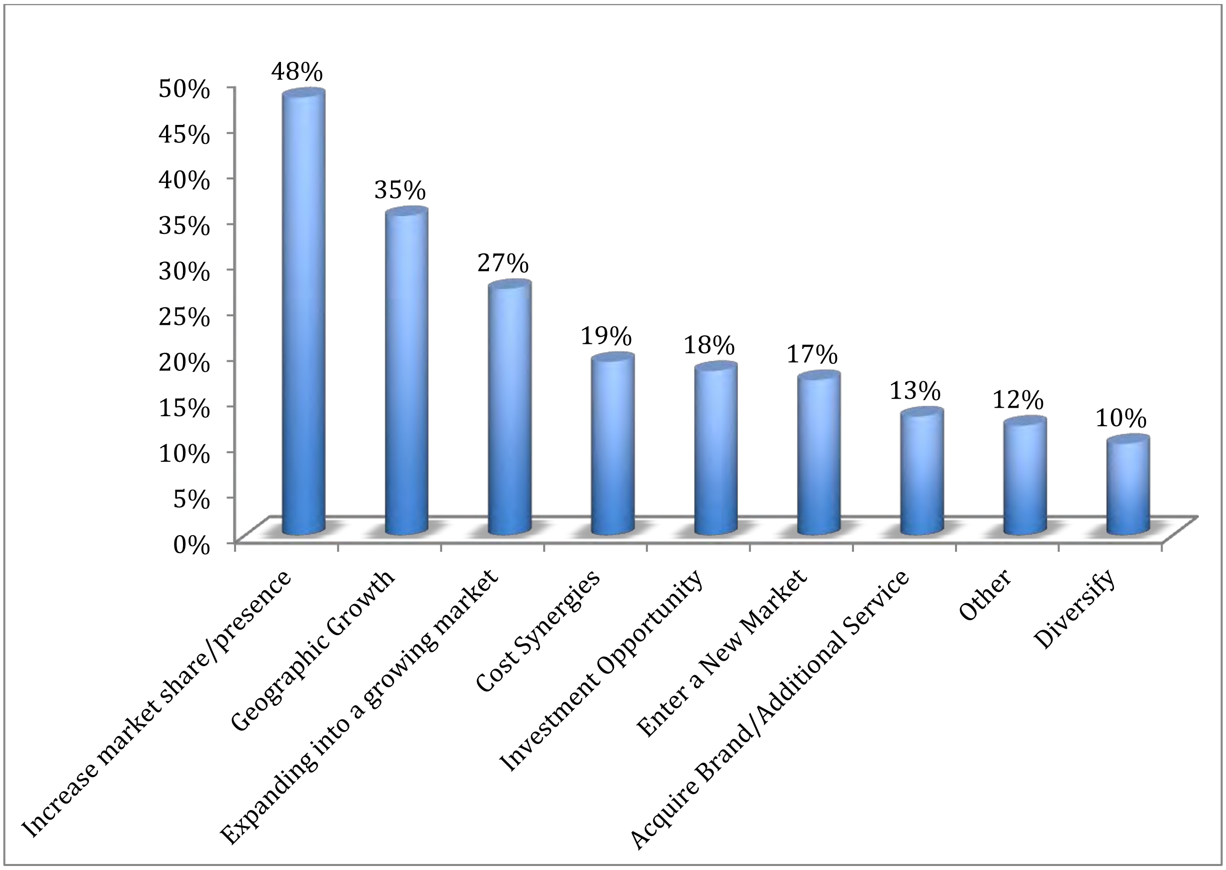


Figure 1: Corporate Rationale for Acquisitions. (Adapted from: A New Dawn: Good Deals in Challenging Times. 2011, *KPMG International.*)

Evan, Pucik and Barsoux (2002) have summarized all M&A motivations by companies as falling into the following three categories:

- Maximization of Value: increase of shareholder value; volume, scale and market position gains through recognized synergies; acquisition of experts and technology.
- Steering Body Motivation: perceived opportunity; ego/ prestige/ power/ honor needs.
- Shareholder Profiles: financial market pressure; strategic needs; addressing competition.

Success and Failure in M&A

Recent KPMG data finds that 69% of M&A fail in their goals of increasing value with 32% destroying shareholder value (KPMG International, 2011).

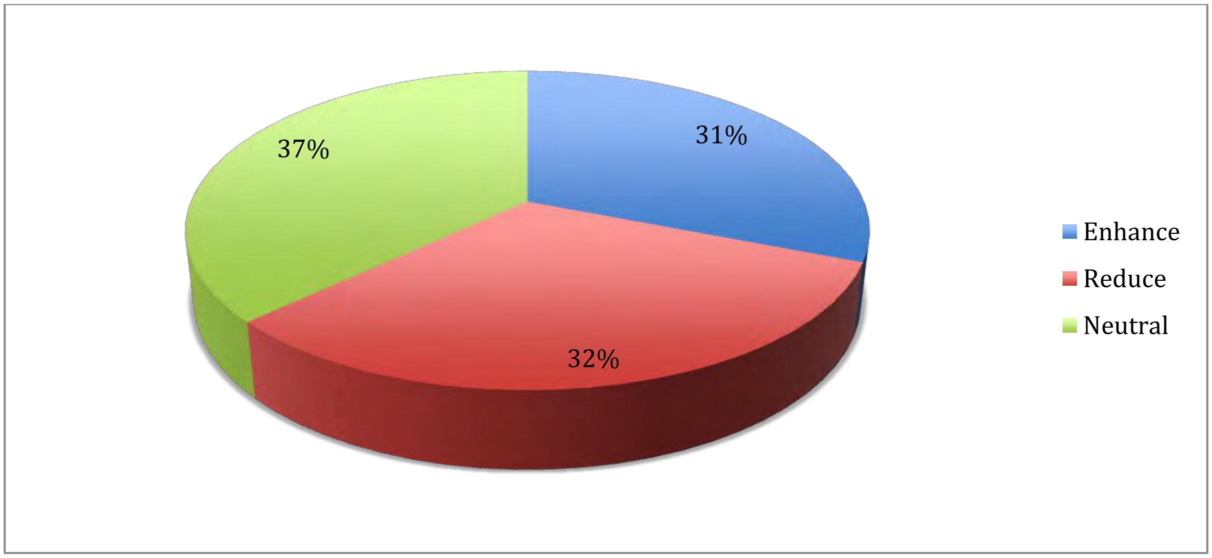


Figure 2: Was Value Created By The M&A Transaction? (Adapted from: Taking the Pulse. 2011, *KPMG International.*)

All to often, executives and lawyers have prematurely declared a deal "closed" successfully at the point at which negotiations have ended and the deal points have been approved and signed off on. However, typically this is where the real deal work should begin, with ultimate success or failure riding on the ability to successfully integrate.

Studies have identified some of the key reasons for the failure of integrations and overall success of M&A as follows (McDonald, Coulthard & Lange, 2005; Jacintho, 2009):

- Mismatch of cultures
- Difficulties in communication and leadership
- Poor planning and execution
- Disputes of power
- Lack of executive buy-in or support
- Loss of employee morale and key talent

The ability to identify and address the intangible aspects of the reasons outlined above rely significantly on the ability to plan, implement and execute integration projects that specifically address the human, cultural, risk and communication areas related to them. These projects must run alongside, in a synergistic fashion to, more tangible projects related to the integration of the various business areas, functions, technology and policies.

Although, the successes of M&A rely significantly on perceived strategic benefits, due diligence and appropriateness of the deal, companies that realize positive outcomes are invariably those that develop a "well-designed and carefully implemented integration strategy" (Pritchett, 2009). Those that are able to apply lessons learned from past projects into current activity are even more likely to produce a positive outcome (Jacintho, 2009).

While these actions may not remove the high risks involved in M&A, many of the risks can be reduced and even eliminated through the implementation of a solid, experienced project team, put in place to design and execute on a formal integration program plan. A 2011 KPMG survey published as *A New Dawn: Good Deals in Challenging Times* revealed the following results that support the value of this in-depth integration planning where fully planned projects have been showed to meet objectives in full most frequently (KPMG International, 2011).

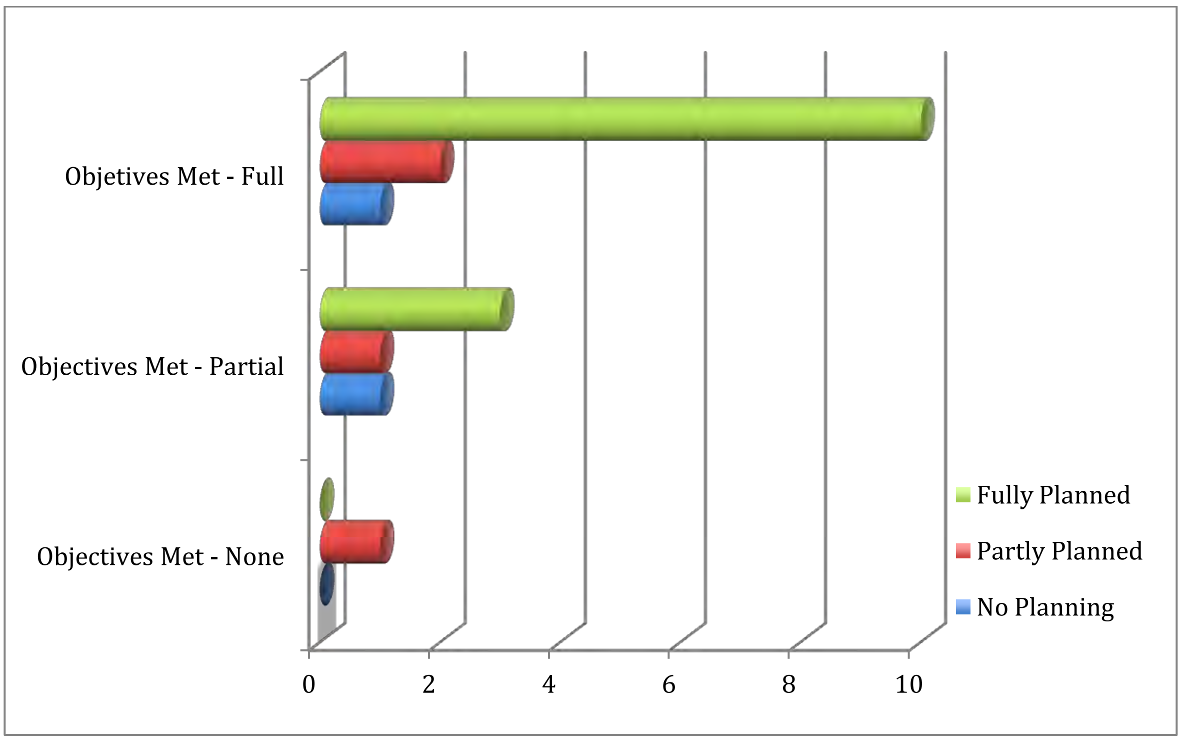


Figure 3: Successful M&A/Objectives Met vs Level of Planning. (Adapted from: Taking the Pulse, 2011, *KPMG International.*)

As integration work falls into what can only be defined as "projects," it is imperative for companies to treat them as such in order to secure success (Blanton, 2002).

Business Problem

For many companies, M&A represent a means to fulfillment of a corporate strategy to increase revenue, offer new products, enter new markets, or to capitalize on combined synergies to ultimately create value. Unfortunately, often times well conceived deals fail to lead to value delivery due to inadequate integration processes that include excessive delays; loss of key talent, customers and/or a clash in cultures; or overall ineffective communication across teams.

It is posited that implementation of formal integration project planning utilizing the Process Groups described in A Guide to the Project Management Body of Knowledge - the PMBOK™ Guide - (Project Management Institute, 2008), formal human resource and communication plan development, and the presence of a formal project management office to define, manage and measure the integration project and sub-project management life cycles, remove obstacles, and ensure compliance and risk management functions, will improve the ability of a company to effectively bring to market the actual perceived benefits of the acquired entity.

Goal Of The Study

This case study will attempt to examine why and how traditional project management strategies using PMBOK™ Process Groups and a formal Project Management Office can be integrated into acquisition strategies as a means to ensure successful integration and value creation. It will also attempt to emphasize the requirement and importance of establishing communications and human resource projects within an integration program with respects to the management of culture, morale and other human elements inherent in M&A transactions and to their success.

To support this concept, the case study will examine the integration strategy of General Electric (GE) and the failure of its Kidder Peabody acquisition as well the formal project management strategy created by GE subsequently and its effectiveness in the context of PMBOK™ Process groups and traditional project management methodologies.

Effective M&A Integrations

Challenges

Not all companies are excited by the idea of having to invest precious time and money into committing to a formal integration plan. Not only has a significant amount already been invested pre-deal activities, leadership is often anxious to start reaping the benefits of the deal immediately. The excess time, work and resource allocation involved in post-deal activity can feel like extra obstacles to a swift integration.

Research has shown however, that the success or failure of M&A integration is dependent on specific processes selected and followed post-deal (Jacintho, 2009). Amongst these processes are overall program planning, integration projects of various business units, communication, human resources and risk management (Jacintho, 2009).

Coupled with this data, recent KPMG research reveals a link between planning and communication to merger success. This study clearly shows that early planning pre-close, and good communication, are key to a good outcome (Pritchett, 2009).

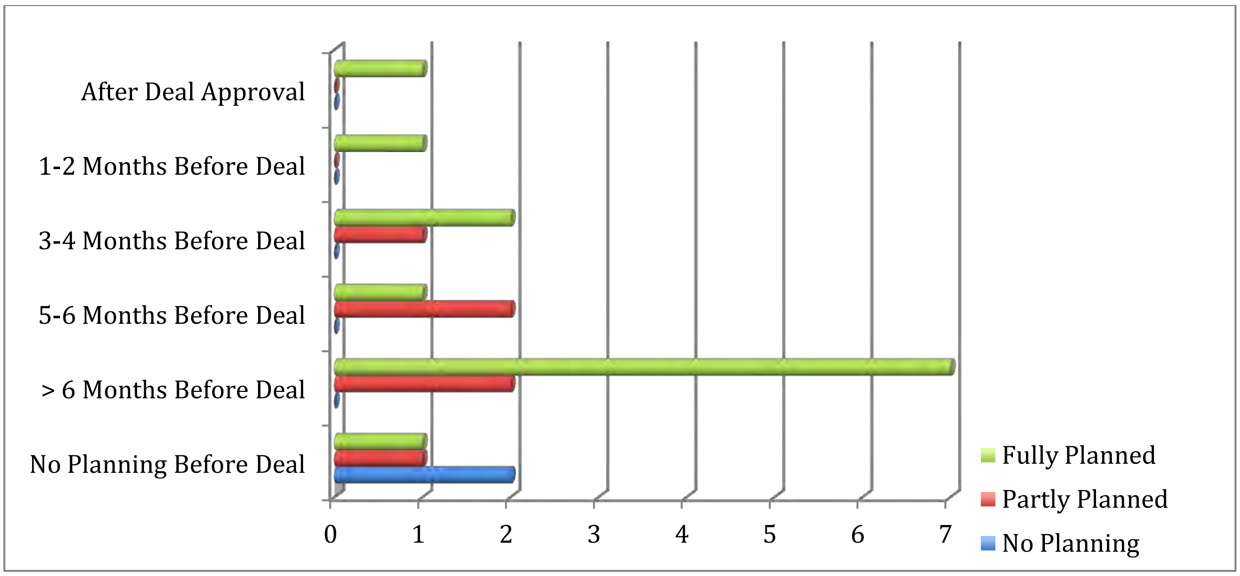


Figure 4: Number of Successful M&A vs Pre-Close Planning (Adapted from: Taking the Pulse. 2011, *KPMG International.*)

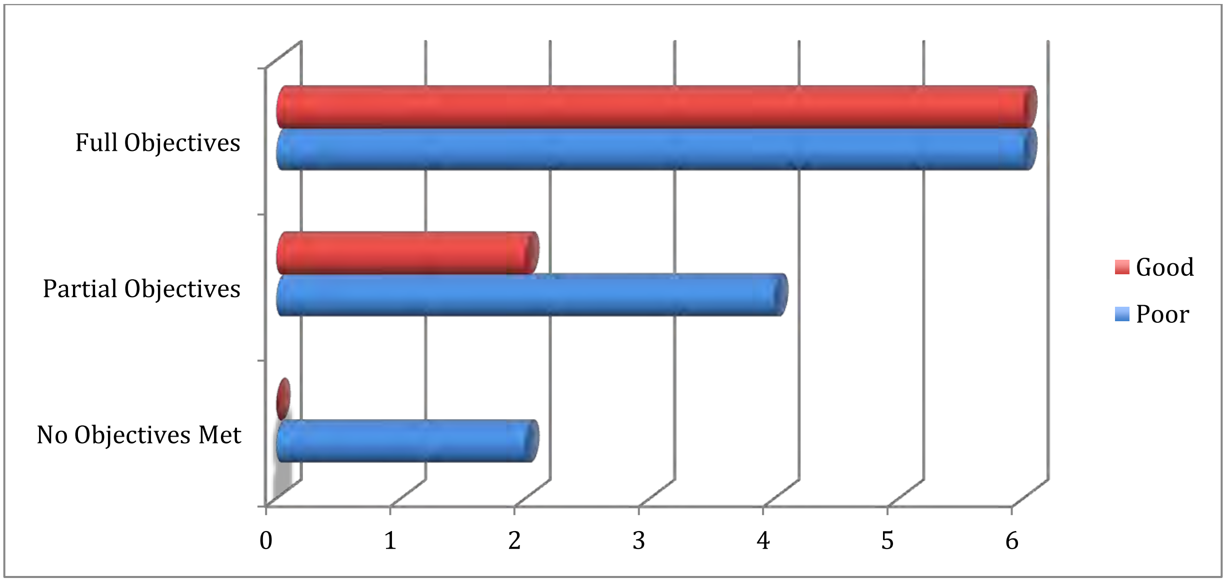


Figure 5: Number of Successful M&A vs Communication Quality (Adapted from: Taking the Pulse. 2011, *KPMG International.*)

Often overlooked in failed integrations is the influence of human elements of all M&A deals. Whilst business and operational integration plans are obvious components of any well-planned integration plan, addressing intangible factors are critical to creating a successful integration strategy.

That is, problems with morale, negativity, retention of key talent and productivity can, and are likely, to occur as soon as the scent of a potential deal is picked up internally. In this situation, a solid plan for communication, retention, and navigation through the uncertainty is integral to keeping the deal progress on track towards not only a successful close, but also a successful outcome (Pritchett, 2009).

Success Factors

Price Pritchett (2009) describes five key ground rules necessary in creating an integration strategy that removes obstacles, foresees problems and therefore, enables a smoother, less risky path towards success. It is imperative that these rules be considered early on in the deal negotiation phase in order to be able to be effectively evaluated and considered in integration planning efforts. Pritchett's rules are as follow (Pritchett, 2009):

1. *"Me" is the first word in merger:* There is a lot of uncertainty for employees and managers in any M&A deal, therefore the quicker the closure, the more likely you will be able to get the

best level of productivity and commitment from the staff. Emphasize cultural, social, geographically and other human aspects of the integration.

2. *Integrate swiftly:* The longer you integrate, the more you are in the front line of organizational challenges, competition, loss of management buy-in and other risks with potential to derail the integration.
3. *Anticipate and be upfront about problems:* With any merger, criticism and negativity quickly surface challenging the suitability of the deal. These views are further fueled by the onset of typical issues and challenges that are bound to come up in any deal. By anticipating, expecting and explaining such problems, project teams can address negativity and setbacks in productive ways that support the deal and management.
4. *Teach and lead your workforce on merger performance:* Mergers are not business as usual and are typically periods shrouded in much instability, confusion, uncertainty and stress. It is imperative that management and staff are provided tools, knowledge and meaningful work on what to expect, how they can contribute to the deal positively, and how to best weather the challenges and changes inherit in these types of deals.
5. *Communicate:* Without clear and genuine communication by those involved in a deal, rumors will take over. These can be more harmful to the deal process than anything else, and can infiltrate all areas of the business. It is important that any communication is respectful of the listeners and genuinely represents the good and the bad. Insulting anyone's intelligence with false propaganda can lead to more harm that not saying anything at all.

Beyond Pritchett's rules, other research indicate additional factors that lead to successful post-acquisition integrations including the importance of establishing trust (Stahl, Kremershof & Larsson, 2004), the management of the integration through utilization of well-planned project methodology (Morosini & Steger, 2003) and the establishment of a shared vision (Krattenmaker, 1999).

Structuring An Effective Integration Program

Given the potential deal-breaking severity of not addressing the outlined challenges and M&A integration requirements, it is clear that pre-planning and creation of a robust and solid integration plan which outlines detailed directions for functional, asset-based, HR and communications integrations is required to safeguard deal success.

Amongst the many detailed and descriptive definitions of a project, Toby Elwin's seems to best encompass the true nature of business related projects: *"Projects are how organizations realize their* *strategies" (*Elwin, 2010). To realize a strategy, companies must act in ways to ensure synergies, targets, budgets, time, and scope aspects are defined and delivered in a way to protect and maximize value – essentially, that the project delivers successfully on the strategy.

The size and nature of M&A transactions in today's economy show the popularity of this corporate strategy, which utilizes M&A deals as a means to gain game-changing advantages, synergies and value for companies quickly and effectively. The size and complexity of these deals also present great risks from even the slightest mishaps in planning or implementation. To have a chance at a positive realization of a merger or acquisition strategy, integration must be looked at and treated as a project, where the success of the deal relies ultimately on the successful delivery of the integration project.

Integration Process Using PMBOK™ Process Groups

Although projects can differ in scope, type, size or complexity, the fundamental structure presented in the Project Management Body of Knowledge Guide (PMBOK) Process Groups provides detailed process guidelines that are essential to the implementation of a successful and thorough integration project program, while accounting for both business tangible and softer, human and culture focused aspects. Not only do these groups provide a general framework for developing a comprehensive project plan, and better clarity for the core integration team on action items, they provide detail on the mapping of 42 project management processes into directly relevant process groups accounting for all key aspects of integration planning (Project Management Institute, 2008). As can be seen in Figures 6 and 7 below, the PMBOK™ tools can prove invaluable for addressing complex, multi-layer M&A projects requiring attention to detail, speed, transparency and an emphasis on culture, social and communication factors.

Figure 6: Comprehensive Integration Program Management through PMBOK™ Process Group Phases.

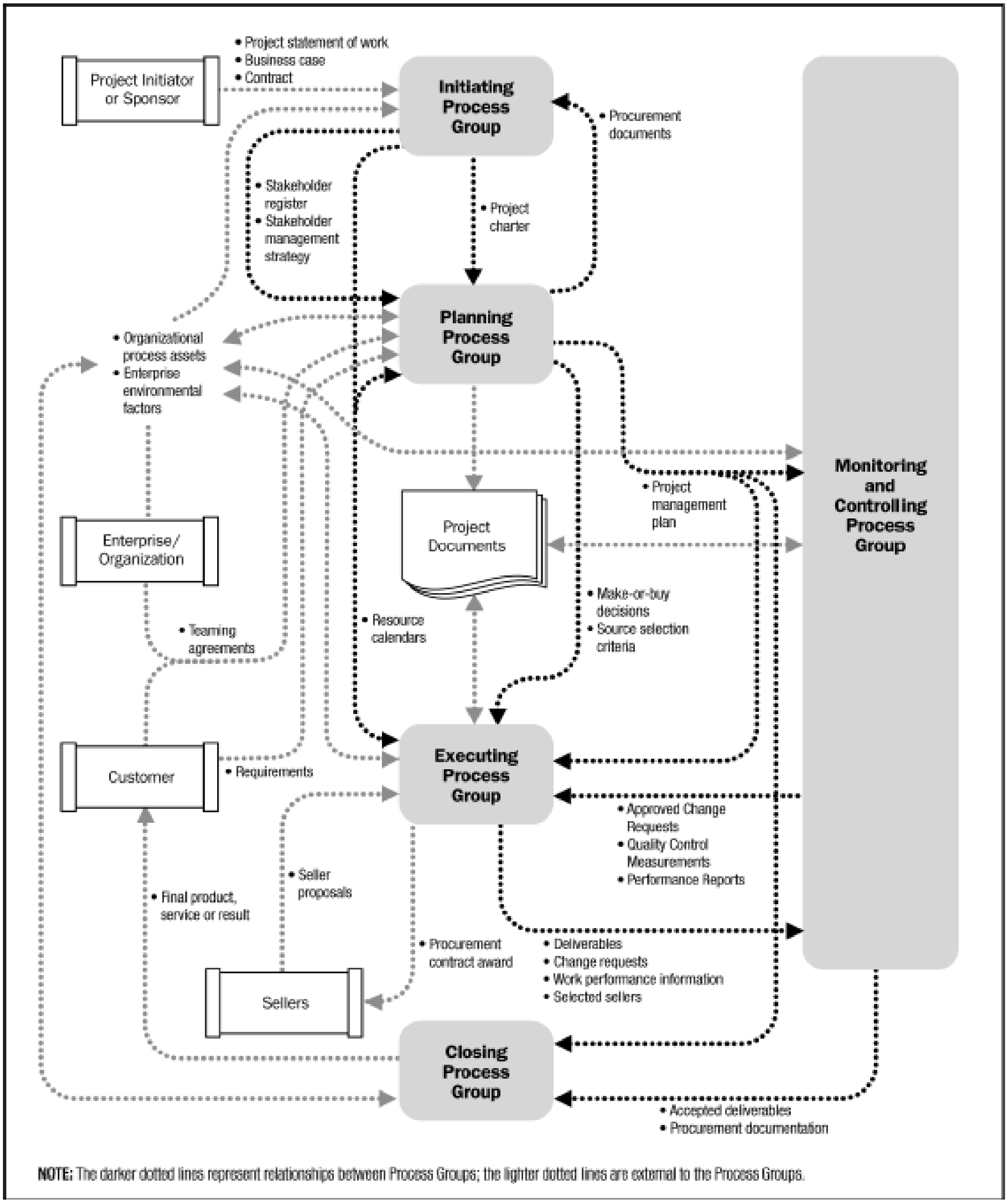


Figure 7: Mapping of 42 Project Management Processes in PMBOK™ Process Groups.
(The PMBOK™ Guide, 4th edition. 2008, Project Management Institute.)

The following recommended outline of integration strategy application within PMBOK™ process groups, utilizing the 42 project management processes, is proposed with a view towards high-volume transactions (Project Management Institute, 2008). However, these principles can also be easily applied to small or mid-size transactions with simple modifications and reduction in team members and/or resource allocation.

Initiating Phase.

M&A deals can take many months of negotiations, due diligence and financial review prior to getting close to a final approval. However, as discussed previously, problems can surface as soon as the news of a potential deal is spread both internally or externally. These unique deal-related problems require unique reactions that are outside the scope of day-to-day business and can set the stage for the entire integration process and its success (Pritchett, 2009).

In order to address and be prepared for these pre-close aspects, it is imperative that the initiating phase begins soon after deal negotiations start, and prior to public knowledge of the potential deal spreading.

Key to the success of an integration project is the identification of a proven, experienced Integration Program Manager. This individual should be of a senior level, have a solid understanding of the business, be a good communicator and strategist and be made responsible for managing all aspects of the integration plan and implementation (Pritchett, 2009). This Integration Manager should also be a part of the main Steering committee, which ideally consists of individuals from both companies party in the M&A deal, and key senior representation from each of legal, finance, HR, communications and the executive team. This team is likely already involved in the overall deal process and negotiation, and in this capacity is also responsible for high-level design and approval of the integration strategy and targets, and establishment of a shared integration vision. They are responsible for responding to sensitive issues, approving expenditures and setting timelines.

With the Integration Manager and Steering committee formed, and scope agreed on, the Integration Program Manager is then responsible for gathering high-level requirements and developing a Project Charter for approval. The charter includes the scope, project background, objectives, resources and roles, objectives and milestones, high-level schedule, key stakeholders and outlining of authority of the Integration Program Manager and project teams. Essentially, this document is used to gain approvals and establish authority for the project.

Due to the complex corporate and cultural implications of high-volume M&A deals, it is necessary that a formal Integration Project Management Office (PMO) be established to ensure successful integration. This office will consist of a small group of integration project team members tasked with supporting the Program Manager in overseeing the integration and in managing individual project teams, setting and managing schedules, work flows, priorities and overall project integrity. This team may be formed as a permanent function of a company; be established prior to Project Charter approval and utilized to assist in the creation of it; or after charter approval, depending on the need. Once established, this team should meet regularly (usually daily) to overview progress related to the integration project at hand. The role and need for this office are discussed in further detail later in the paper.

Once charter resources and roles are approved, individual integration teams and project managers, responsible for evaluating and planning the integration projects for individual business functions, should be identified. Other teams would also need to be created, with project managers responsible for company-wide human resources and communications related areas.

Planning Phase.

The planning process group consists of the development of the detailed integration project plan and project documents to include total scope, objectives, time schedules, quality, resources, costs, human resources and plan communication, risk analysis, risk responses and proposed synergies. The planning process group is typically the most time-consuming yet important aspect of any integration process. It is important to recognize, that as additional information or challenges are encountered throughout the project, the plan may need to be revisited and re-evaluated. Therefore the more detailed, complete and thorough the plan is in its original development, the more prepared teams can be for unexpected obstacles down the road. This detail is best accomplished by considering and accounting for each aspect of plan creation as outlined in the PMBOK™ Guide as follows:

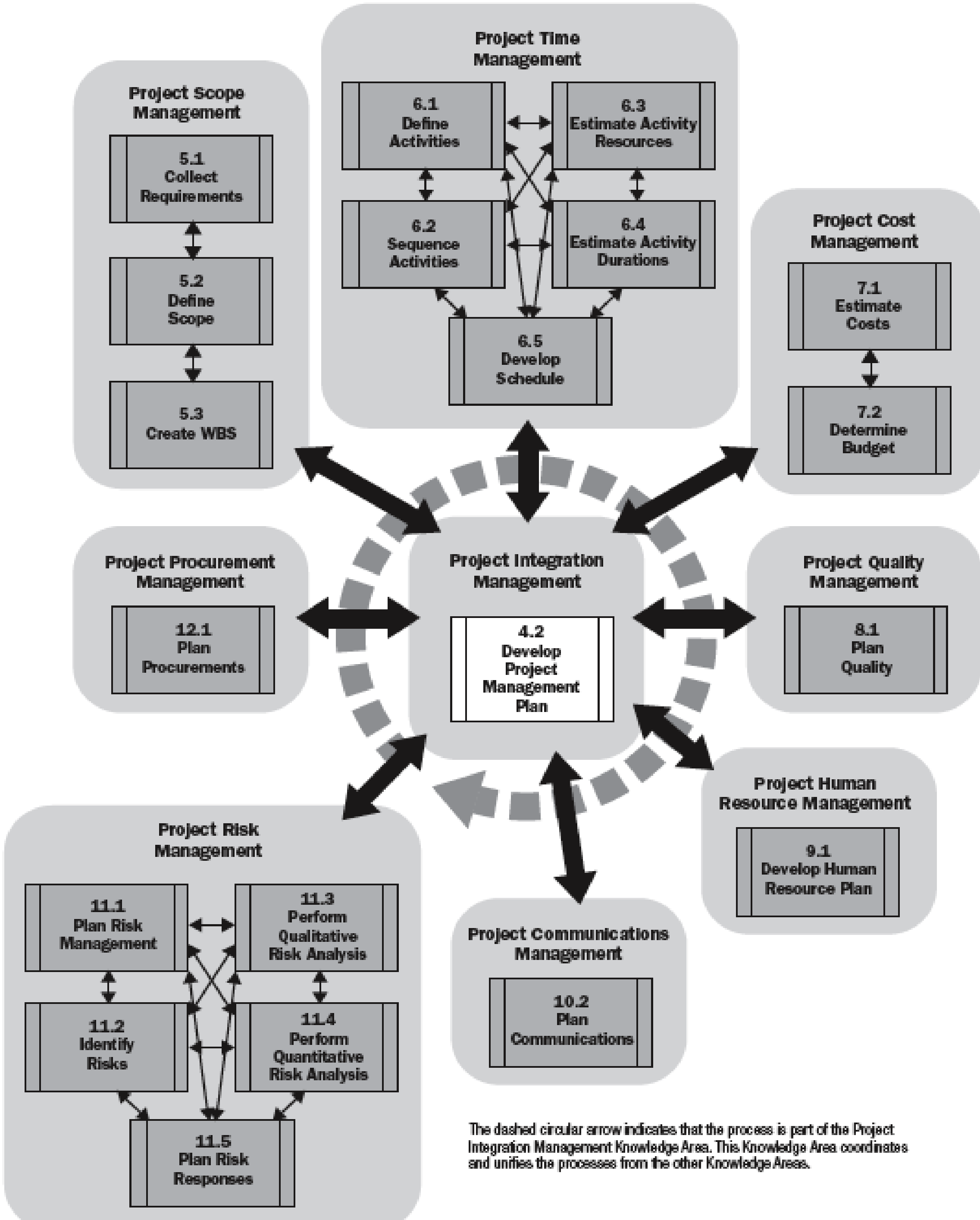


Figure 8: Planning Phase Process Group Components for Project Plan Creation.
(The PMBOK™ Guide, 4th edition. 2008, Project Management Institute.)

This project plan will become the *"primary source of information for how the project will be planned, executed, monitored and controlled, and closed*" (Project Management Institute, 2008). In the case of M&A, the Integration Project Manager, PMO and individual project managers should work together to share knowledge, define/ refine the scope, gather detailed requirements for defined deliverables, and create a Work Breakdown Structure (WBS).

This Work Breakdown Structure captures and organizes requirement tasks into a subdivision of project tasks and deliverables, which then fall into sub-projects teams. For most M&A activities, these sub-projects are most ideally placed into the individual business assets, functional units or business-wide areas of the company affected by the integration. For example, retention plans for key talent, culture related aspects and communication areas should also be incorporated as aspects within communications and human resource area projects. A typical M&A WBS diagram may look something like this:

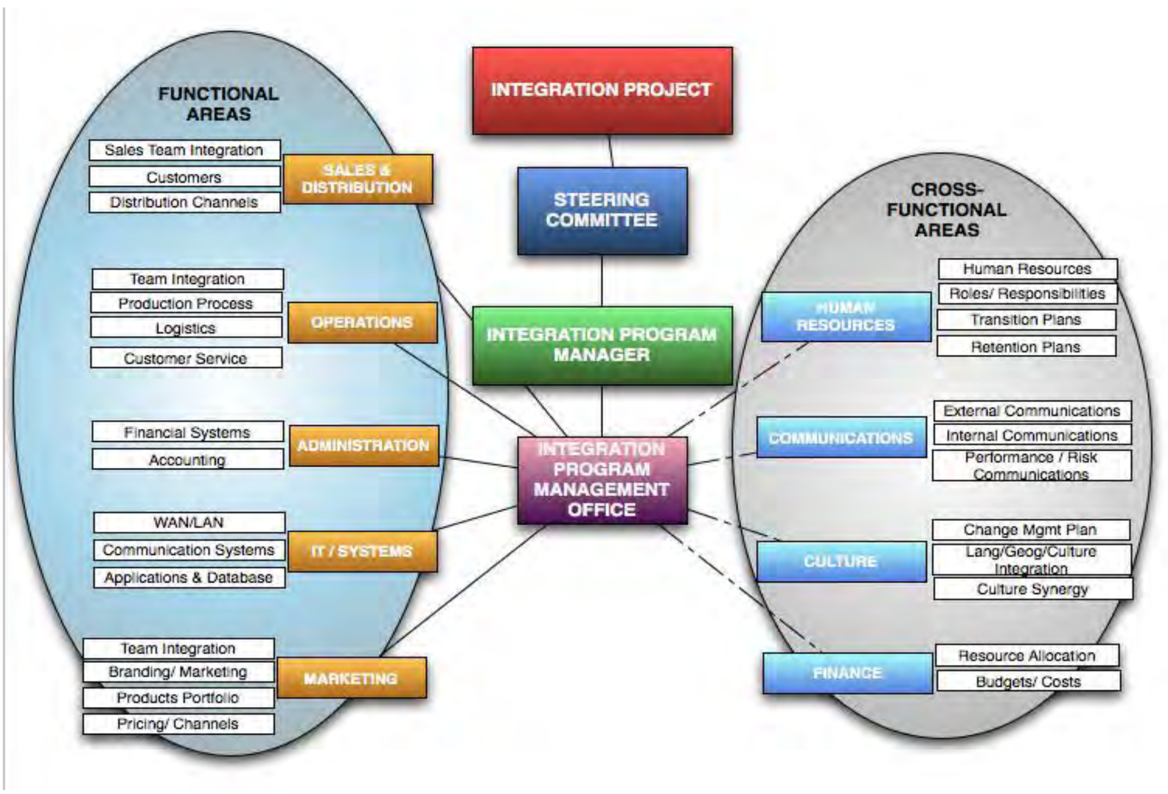


Figure 9: Possible High-Level Work Breakdown Structure for Integration Program

Execution Phase.

This process group consists of the execution of the plan's specifications and completion of the work defined. It involves the direction and management of the project's action items, the securing and management of project teams, the governance of the project plan and ensuring that standards and plan elements are being met, clear communication, and transparency with stakeholders and staff, the management of expectations, quality control, and preparation for unexpected changes which can require plan updates.

Changes that may appear in the execution phase include changes in resource availability or productivity, cultural or communication risks, loss of key talent etc. These types of changes can require actions that may modify the project plan, however adequate response strategies built into the original plan can help lessen the impact.

Especially relevant in M&A activity is the heightened level of risk that exists during the execution phase due to human elements such as cultural issues, loss of morale, increased negativity, loss of key talent and lack of information. It is incredibly important for M&A execution to be swift and transparent wherever possible. Without a firm and risk-responsive communications and human resources plan, the integration can go from moving smoothly to falling apart. The integration team must be able to make decisions quickly, respond to risks and changes, and provide valuable knowledge, education and information to all employees.

Monitoring and Control Phase.

This phase consists of the monitoring and controlling of the overall project and project processes and risks; monitoring and controlling of costs, quality and schedules; the identification of changes and implementation of change management controls; the verification and management of the project scope; the tracking, observing and reporting of performance against the plan and identifications of any variances.

Mainly this phase allows for oversight, anticipation of and influence over deviations or risks to the successful completion of the approved project plan. From this position, the Integration team can assess the overall health of the project and identify areas requiring extra attention (Project Management Institute, 2008).

Closing Phase.

The closing phase of the project consists of activities required to complete the project, define and report on events and achieved milestones, and the codification of best practices and lessons learned. Critical to M&A transactions is also the closing phase process of documenting and recording these results and challenges. This documentation can be key in planning and establishing replicable models for future transactions, as well as in highlighting areas requiring modifications or changes.

The Establishment of Integration Project Management Office

M&A transactions are complex in that the integration project of an acquired or merged company itself consists of many sub-projects that must also be integrated for a successful project close. Most times, these sub-projects must be defined, resourced, tasked, scheduled and implemented simultaneously within the overall integration program to ensure efficient and successful delivery of target performance. This is even more relevant in high-volume transactions where the risk and complexity are vastly larger.

As projects are typically staffed with a project manager that is responsible for running a specific individual project, it is apparent that a multi-project integration program would require numerous facilitators and project managers to effectively implement and run the various sub-project integrations. Obviously the smooth execution of this activity dictates the necessity of the establishment of an Integration Project Management Office (PMO) to support the Integration Program Manager in managing and overseeing the individual teams.

This group serves as a multi-functional group that implements projects using accepted project management methodologies (ie PMBOK™) to provide guidance and education, as well as to address overall adherence to schedules, plans, standards and best practices of the project. Furthermore, their role is to vastly improve the efficiency, accuracy and speed of transactional integrations.

Without this office, this level of engagement, governance and oversight is not possible and therefore, the implementation of the project plan, project speed, completion and overall success rely heavily on this type of organization and are at great risk of failure without.

General Electric And Kidder Peabody

Engaging acquisitions activity as an aggressive corporate growth mechanism is nothing new to a company like General Electric (GE) that has at times “consummated” up to two acquisitions a week (Knowledge@Wharton/GE, 2001). This level of experience, however, did not shield GE from entering into one of the worst deals in US acquisition history – the 1986 GE acquisition of brokerage firm, Kidder Peabody, sought for its institutional and investment banking capabilities (Heffernan, 2005).

Despite scandal and insider trading woes, the corporate cultures of both organizations were worlds apart. Disciplined, strategically focused and cost conscious General Electric was up against entitled, freewheeling, independent Kidder Peabody (Carr, Elton, Rovit & Vestring, 2005). These factors not only led to GE becoming engrossed in cumbersome and expensive political and regulatory cleanup, the loss of talented leaders from both GE and Kidder, and insurmountable morale issues that seemed to only get worse with time, the initial $600 million investment only resulted in $250 million in earnings before they ultimately sold the company to Paine Webber in 1994 (Knowledge@Wharton/GE, 2001).

In his book, Straight From the Gut (2001), former General Electric CEO Jack Welch describes his enthusiasm for this deal (despite much dissent from his board and executive committees) in a way that indicates that it was doomed from the start (Welch, 2001).

> *At an April 1986 board meeting in Kansas City, I had argued for it – and unanimously swung the board my way.*
>
> *It was a classic case of hubris. Flush from the success of our acquisition of RCA in 1985 and Employers Reinsurance in 1984, I was on a roll. Frankly I was just full of myself. While internally I was still searching for the right "feel" for the company, on the acquisitions front I thought I could make anything work.*
>
> *There's only a razor's edge between self-confidence and hubris. This time hubris had won and taught me a lesson I'd never forget. The Kidder experience never left me. Culture does count, big time (Welch, 2001).*

Despite the obvious personal embarrassment of the deal's failure, there are a number of key factors to the General Electric deal that warrant further examination.

- General Electric had a history of successful integrating companies already, so what went wrong?
- Was the outcome of this deal something that could have been avoided with effective diligence, planning and communications and was there a misstep in the integration that deviated from prior transactions?

- What best practices did General Electric establish in response to this failure in order to protect future transactions from a similar outcome? How do these practices tie-in to project management strategies?

What Went Wrong?

Based on the underlying scandal of deceitful and illegal practices that emerged after the transaction closed, some felt the deal was doomed regardless of any lack of planning, integration process or foresight on the part of GE. That said, after the GE acquired Kidder Peabody was sold to Paine Webber for a stake in the combined company, and Paine Webber's sale to Swiss Bank UBS which made GE $2 billion (Welch, 2001), it is apparent that Kidder Peabody possessed much unrealized value in its GE acquisition. So what went wrong?

General Electric Integration Project Failures

Examining this deal from purely a post-deal integration strategy against the PMBOK™ process group phases, one can see that GE's failures in a successful integration stemmed directly from its failure to initialize a formal project integration strategy. Coupled with this was the lack of an integration team or PMO representing key stakeholders at both companies, whereas in its place, narrowly focused executive committee staff took on the role of implementation and decision-making as oppose to relying on integration experts (Heffernan, 2005). Additionally, the glaring omission of any emphasis on cultural, HR or change management aspects the deal created an integration path that was flawed beyond repair.

In examining the key elements and omissions of the deal process against the PMBOK™ Process Groups (Figure 10), seven key reasons for deal failure appear including:

- Strategic Misalignment
- Failures of Due Diligence Activity
- Sluggish and slow-moving Integration
- Cultural and Power Conflicts
- Loss of Key Talent and HR Issues
- Inadequate Resources
- Lack of buy-in and Shared Vision

These reasons directly correlate with studies that indicate failure of M&A as related to specific transactional missteps including poor communication planning and lack of well designed project plans

HOW DID IT FAIL?	WHAT WAS MISSING?					REASONS FOR DEAL FAILURE
	Initiating Processes	Planning Processes	Executing Processes	Monitoring & Control	Closing Process	
Without a defined strategy, scope, governance or authority protocol, no formal integration plan was formulated. This deal was also outside the historical scope of GE acquisitions and its business expertise.	No Project Scope, SOW, Shared Vision, Authority, Steering Integration Manager					Not Inline with Strategy
Due diligence failures: only evaluated potential functional and financial opportunities while ignoring cultural, communication and HR aspects of the organizations.		No PMO, HR, comm. integration plan, risk analysis	No plan. QA process. Risk, HR, Comm Plan	No process to monitor or control risks. Reactionary.		Due Diligence Failures
Without a clear outline of challenges, requirements and due diligence, no clear integration plan was in place. Lack of structure created a reactionary response to integration issues as opposed to a planned, methodological approach.		No gathered req., risks etc. failed to recognize unique aspects of this deal.	No change, risk or culture plans or responses. Delays.	.	Deal failed / KP sold	Slow Integration Process
By avoiding to factor in the opposing cultures of each organization, GE was viewed as nitpicking, rigid and cost conscious while instituting its culture onto a fiercely independent, high-stakes and competitive firm. Kidder viewed deal as a loss of freedom. Resulted in vastly inferior glory and compensation potential against finance industry standards.	Failed to recognize unique features of KP culture. No Scope, shared vision, or key Integration team. No shared representation.	No HR, Communications or Culture related planning was recognized	Execution was riddled with QA, scheduling, cost and other mishaps.	No ability to monitor performance Deal riddled with conflict and scandal		Culture Conflict

Kidder Peabody was a high-stakes environment, with an employee based who overvalued their worth and maintained a loyalty tied to leaders that were removed, thus many left. As well the premature placement of GE 'executives into freewheeling Kidder Peabody caused their demise.	Failed to allocate resources required to retain key talent.	No HR, Communications or Culture related planning was recognized	Execution was riddled with QA, scheduling, cost and other mishaps.	No ability to monitor trues performance, scandal and conflict		Loss of Key Talent
No formal resource procurement process; no key leadership / personnel replacement/ risk mgmt. plans. This led to much confusion, conflict, morale issues and misallocation.	No scope. Failed due diligence and buy-in	No gathered reqs to anticipate additional resource needs.				Inadequate Resource Allocation
Buy-in was not secured in a formal way. Kidder Peabody continued to operate independently and irresponsibly and GE authority was balked at.	This ultimately created a gap in both developed and lacking project management elements as without buy-in, none could be fully and effectively executed.					Lack of buy-in, shared vision or clear authority

Figure 10: GE / Kidder Peabody Deal Failure Reasons In The Context of the PMBOK™® Guide.
General Electric's Response to this Failure

which follow project management methodologies and structures (Jacintho, 2009; Maria & Collerette, 2010).

Another key observation that is apparent from the failure of the Kidder Peabody integration is the lack of focus on the human, social, cultural and speed of the integration that rely on the ability for a project team to clearly define and execute change and risk management principles that address these areas in any deal (Marie & Collerette, 2010). A PMO would have been key in this effort as a means to facilitate the management, empowerment and engagement of various business functions and people towards working within a shared project management life cycle.

GE, based on its many previous years of successful acquisition experience, processed integrations using a very rigid implementation strategy similar to change-intolerant, traditional project management methodologies. While these methodologies may be appropriate for use in some transactions (ie, those with companies of similar cultures, product offerings and/or strong synergies), complex, high-volume and high-risk transactions such as that of GE with Kidder Peabody require the implementation of adaptive, agile methodologies for flexibility and quick adaptation to last minute challenges.For example, while a traditional project management methodology may be appropriate for use in integrating some of the functional areas of Kidder Peabody, the unique features of the deal, culture and organization better suited adaptive methodologies to address challenges related to cross-functional integration of human resources, culture and resource allocation. After the ultimate unloading of the Kidder Peabody franchise, Jack Welch (2001) stated that no amount of money, glory or "hubris" would ever make him want to go through that type of integration again, specifically stating that the Kidder experience left him realizing that culture did count and things needed to change.

In the years between 1993 and 1995, GE made over 100 acquisitions leading to a doubling of net income, speeding up of globalization and increase of its workforce by 30% (Davies, 2003). This was all during a time where global M&A activity was showing over an 80% failure rate in creating value (Davies, 2003).

Obviously, GE had experience over the years in conducting acquisitions, and therefore had developed a replicable model to ingest core and standard functions. However, this was hardly enough to save the Kidder Peabody transaction and was therefore inadequate as a sole device to be used in realizing successful acquisition integrations.

What truly differentiated GE's acquisition strategy from industry practice were the lessons learned from the Kidder Peabody failure and their commitment to the development of a comprehensive integration model (Davies, 2003). As a first step, GE recognized the necessity for developing acquisition integrations into a core competency of the organization and as a means to realize a competitive advantage (Ashkenas, DeMonaco & Francis, 1998).

In 1995, GE hired consulting company Robert Schaffer & Associates to assist in to achieving this transition and in developing a replicable integration process to be used for future transactions and the assurance of a better path to success (Ashkenas et al, 1998). After extensive initial interviews, discovery and analysis, an initial model for acquisition integration was created that has since been fine-tuned and successfully applied to several GE integrations (Ashkenas et al, 1998).

To understand the goal of the model, the first step in its creation involved the analysis of previous acquisition success and failures in order to develop a clear outline of integration lessons learned. For GE, the results were organized into four key lessons, which were first published by Ashkenas, DeMonaco and Francis (1998) in their Harvard Business Review case study.

1. Acquisition integration is not a discrete phase of a deal and does not begin when documents have been signed. It is a process that begins during due diligence and continues through the ongoing management of the new organization.
    - Unique features of deals require development of new and inventive ways of thinking.
    - The more acquisition planning is handled earlier in the process, the more prepared and efficiently the integration can move while taking advantage of speed from the inevitable pitfalls and value losses that can be realized from delays.
2. Integration management is a full-time job and should be recognized as a distinct business function, similar to functional areas such as marketing or operations.
    - Executives, leaders of functional units, due diligence leads are not appropriate to manage an integration project due to lack of time, conflicting responsibilities and / or lack of authority. The set up, support and assignment of dedicated integration offices and managers are a requirement for every integration project.
3. Decisions about management, key roles, reporting relationships, restructuring, redundancies, layoffs and other career-affecting aspects of the integration should be made, announced and implemented as soon as possible after the deal is signed - ideally within days. Creeping changes, uncertainty and anxiety that are prolonged are debilitating and can drain value from the deal.
    - Culture conflicts, power struggles, lack of direction or responsibilities, restructuring are all emotional triggers for any individual that can ultimately bring down a business. Planning for these types of human factors require attention to time and speed, sensitivity, communication and respect.
4. A successful integration not only brings together technological aspects of the business but also different cultural aspects. The best way to address the cultural aspects is to get people working together quickly to solve business problems and produce results that may not have been achieved before.
    - Get people working together quickly using the following four steps: meet and greet and plan; communicate, communicate and communicate; address cultural issues head on; to move from the few to the many, cascade the integration process.

From these lessons, the acquisition-integration had the foundation in which to establish a model, which after many years of discussion, debates and revisions, was codified into what was called the GE "Pathfinder Model" (Ashkenas et al, 1998). This four-stage model serves as a guide for the effective sequencing, planning, implementation, responses and processes for those involved in the integration process. This model is depicted below:

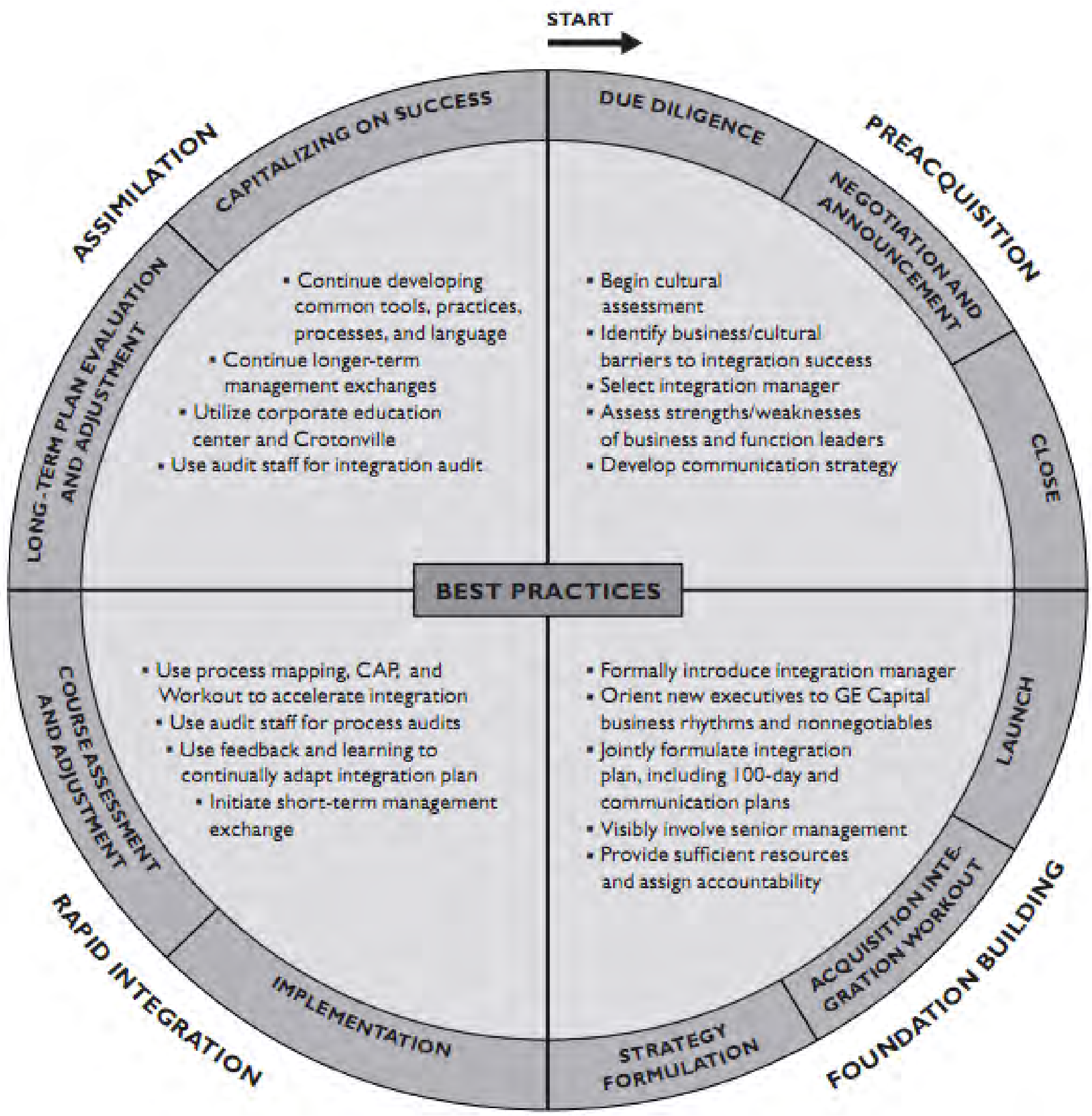


Figure 11: General Electric "PathFinder Model" for Integrations. (Making the Deal Real: How GE Capital Integrates Acquisitions. 1998, Ashkenas, DeMonaco & Francis)

Applying the GE model towards the PMBOK™ Process Groups show many similarities to the application of a comprehensive integration program management project into PMBOK™ as displayed in Figure 6.

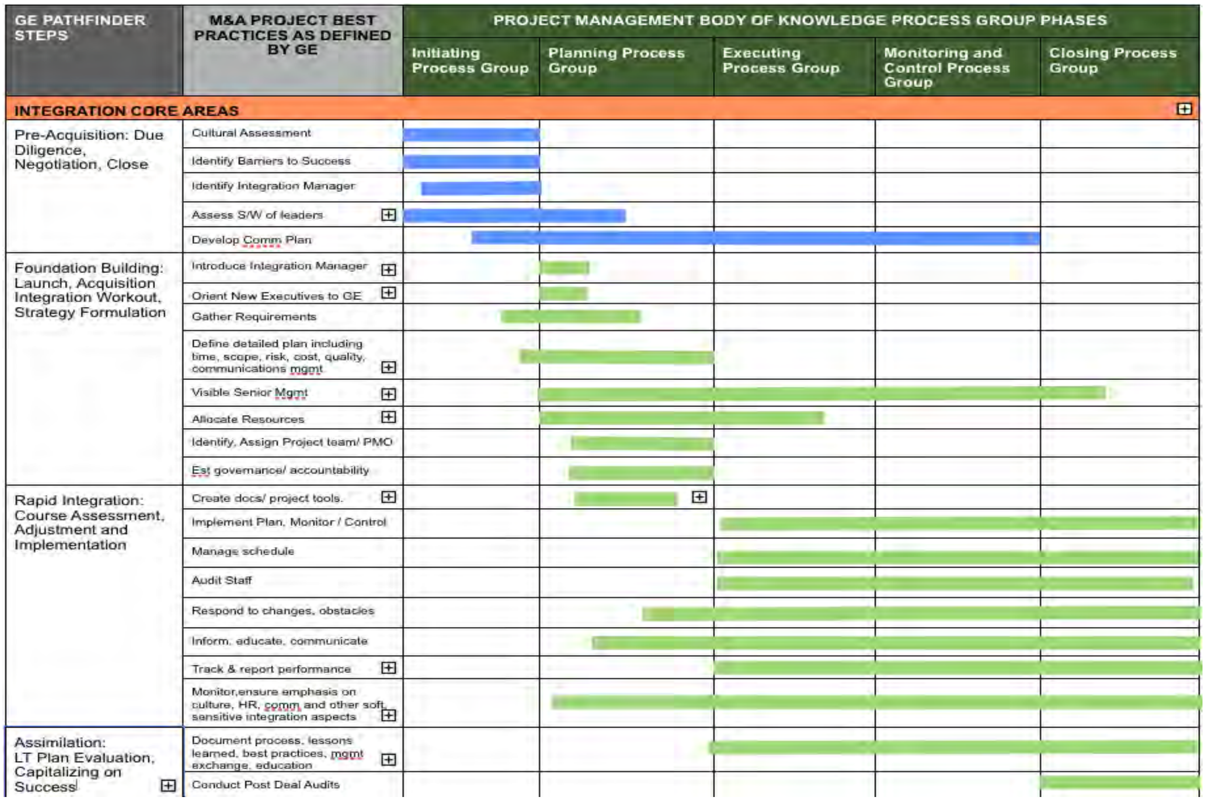


Figure 12: GE PathFinder Model Integration Management through PMBOK™ Process Group Phases

The alignment between the model application into the PMBOK™ framework as well as the consistency between lessons derived from GE's previous failures to the research discovered integration failures outlined earlier, clearly shows that the GE model is consistent with application to the PMBOK™ process groups. Furthermore, traditional project methodologies, supplemented with agile aspects are revealed as necessary to react to feedback and issues that may be unique to a particular transaction. Success is further supported by the establishment of acquisitions as a core corporate competency, which dictates the establishment of a formal integration program office, as well as dedicated integration program managers for every project and acquisition leadership group.

Summary

Every acquisition transaction is unique and riddled with unknowns. Differences in size, scope, strategy and money are only a part of the puzzle, with culture and personality making up a good chunk of the rest. Nevertheless, the large possible payoffs stemming from a successful acquisition cannot be ignored and therefore, M&A strategies are growing in popularity and comprise some of the highest value transactions found in business today.

Even with this rampant activity and popularity, successful value creation is achieved by the few and far between, with a large portion of all deals leading to disappointment for the organizations involved. Over the years, most of these failures, however, share core characteristics of lack of adequate planning and lack of attention to “soft” human, cultural and nonfunctional deal aspects that, if appropriately addressed, may have saved the deal.

Integration programs which apply a traditional project management methodology through the use of the principles of the PMBOK™ Process groups allow for attention to all aspects of the core integration process, while use of agile principles can help diminish the effect of the unknown elements, while also improving the effectiveness of responses to surprises and unique elements. Effective integration practices addressing these elements have been codified within the GE Pathfinder model, which has been implemented many times successfully following the integration failure of Kidder Peabody. However, it is also apparent from research and the GE experience, that application of a methodology is insufficient without equal, if not more, attention to the integration of non-functional and human areas, as to the integration of functional areas such as operations, technology and marketing. Further, clear authority, management and responsibility for the development, planning and implementation of a integration should be assigned to a dedicated Integration Manager with the support of a formal Integration Program Office, to enable appropriate governance, oversight, knowledge, information, risk management and performance.

Recommendations for further research

- Case study evaluation (interviews and analysis) related to other successful and failed integrations across different organizations and industries and their application to PMBOK™.
- As cultural impact plays a key role in globalization efforts, M&A transactions with a strategy towards globalization should be examined for appropriateness for PMBOK™ Processes with Agile methodological focus.

- Examine the real-world application of PMBOK™ Process Groups and the 42 Project Management Processes directly into a high-value integration project in progress.

References:

Ashkenas, R., DeMonaco, L., and Francis, S., (1998). Making the Deal Real: How GE Capital Integrates Acquisitions. Harvard Business Review. Boston. Retrieved from: http://hbr.org/product/making-the-deal-real-how-ge-capital-integrates-acq/an/98101-PDF-ENG.

Blanton, J., (2002). Mergers and Acquisitions: Successful Integration with Project Management. PM Network. Retrieved from http://www.pmi.org.

Carr, R., Elton, G., Rovit S., and Vestring, T (2005). Merging on the Miraculous/ Mastering Merger Integration. Business Strategy Review. Retrieved from: http://bsr.london.edu:lbs-article:285:index.html.

Confidence Grows for M&A in 2011. (2011). Knowledge@Wharton: The University of Pennsylvania. Retrieved from http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Emerging-markets-Latin-America/Pages/confidence-grows-for-ma-in-2011.aspx.

Davies, R., (2003). Operational Strategies For Success in Acquisition Planning and Integration.n VentureHaus White Papers. Retrieved from: http://www.venturehaus.com/pdf/Operational_Strategies_in_MA_Integration.pdf.
Elwin, Toby. (2010) Mergers and acquisitions failures are project management failures. Retrieved from: http://www.tobyelwin.com/mergers-and-acquisitions-failures-are-project-management-failures/.

Evans, P., Pucik, V., & Barsoux, J.L. (2002). The Global Challenge: Framework for International Human Resource Management. New York: McGraw Hill.

Freedman, R and Burke, R., (2001), Kidder Peabody & Co. New York University Stern School of Business. Retrieved from: http://www.stern.nyu.edu/mgt/private_file/mo/rfreedma_ca/kidder.pdf.

Gale, S., Good Company. (2008). PM Network. Retrieved from: http://www.pmi.org

Hall, J., and Howley, V., (2011). Global Crises To Soften M&A Near-Term After Strong First Quarter. Reuters. Philadelphia/London. Retrieved from: http://www.reuters.com/article/2011/03/25/us-mergers-idUSTRE72O00K20110325/Insights/ArticlesPublications/Pages/confidence-grows-for-ma-survey.aspx.

Heffernan, S., (2005). Modern Banking. London: John Wiley & Sons.

Jacintho, D. C. A., (2009). Challenges of Project Management for the Integration of Organizations into Mergers and Acquisition Process. Project Management Institute: PMI Virtual Library. Retrieved from: http://www.pmi.org.

Jonsson, N., Lillieskold, J and Eriksson, M., (2000). Project Management Requirements in Multi-Organizational Projects. Proceedings of the Project Management Institute Annual Seminars and Symposium. Texas.

Knowledge@Wharton for GE Capital. (2001). The Right Way – and Some Wrong Ways – to Make an Acquisition. Knowledge@Wharton: University of Pennsylvania. Retrieved from: http://www.cefcorp.com/commequip/documents/TheRightWay-andSomeWrongWays-toMakeanAcquisition.pdf.

KPMG International. (2011). A New Dawn. Good Deals in Changing Times. KPMG.COM. Retrieved from http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/a-new-dawn.pdf.

KPMG International. (2011). Taking the Pulse. A Global Study of Mergers and Acquisitions in Healthcare. KPMG.COM. Retrieved from http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Pages/taking-the-pulse.aspx.

Krattenmaker, T., (1999). Performing Cultural Due Diligence. Harvard Business Communication. Boston: Harvard University.

Krasnov, V., (2010). Business Consulting Project Life Cycle. Project Management Institute: PMI Virtual Library. Retrieved from: http://www.pmi.org.

Marie, S., and Collerette, P., (2010). International Post-Merger Integration: Lessons From An Integration Project In The Private Banking Sector. International Journal of Project Management. 29 (2011) 279-294.

McDonald. J., Coulthard. M., & de Lange. P., (2005). Planning for a Successful Merger or Acquisition: Lessons from an Australian Study. Journal of Global Business & Technology. 1:2.

Meckl, R., (2004). Organizing and Leading M&A Projects. International Journal of Project Management. 22 (2004) 455-462.

Mergers & Acquisitions Review: First Quarter. (2011). Thomson Reuters. Retrieved from: http://online.thomsonreuters.com/DealsIntelligence/Content/Files/1Q11_Global_MA_Legal_Advisory_Review.pdf.

Morosini, P and Steger, U., (2003). Managing Complex Mergers. Prentice Hall.

Pritchett, P., (2009). Merger Integration and Transition Management: A New Slant for Financial Executives. QFinance. Retrieved from: http://www.qfinance.com/mergers-and-acquisitions-best-practice/merger-integration-and-transition-management-a-new-slant-for-finance-executives?page=1.

Stahl, G., Kremershof, I., Larsson, R. (2004). Trust Dynamics in Mergers and Acquisitions: A Case Survey. INSEAD. Paris: Working Paper Series.

The Project Management Body of Knowledge Guide: 4th edition. (2008). Newton Square: Pennsylvania. Project Management Institute.

Welch, J., (2001). Straight From The Gut. New York: Warner Books.

The Path to Five Star Management – "A Retail"

Julian J. Rossig
Director of Corporate Communications and Fundraising
Johanniter-Unfall-Hilfe e.V. Sachsen
Email: jj@rossig.net

Abstract: Current management theory vigorously defends the view that customer-friendly, ethically conscious companies will thrive and survive in the long run. In fact, a dedicated phrase has been coined to describe this management style quite unambiguously: "Five Star Management."

But is the reverse also true – are all successful companies necessarily following Five Star Management principles? To address this research question, this paper analyzes a German retail giant with outlets on three continents (termed "A Retail" for all purposes of this paper). A Retail has been extraordinarily successful, primarily – as even critics acknowledge – because the firm continues to follow an extraordinarily consistent and straight-forward management style.

The paper highlights the different aspects of this management style and compares it to the Five Star approach.

Keywords: Five Star Management, retail

Reference: Reference to this paper should be made as follows: Rossig, JJ. (2012) "The Path to Five Star Management – 'A Retail'", The ISM Journal of International Business, ISSN 2150-1076, Volume 1, Issue 4, October 2012

Biographical Notes: Julian J. Rossig holds a Dipl.-Kfm. degree (equivalent to an MBA and a B.A. in Economics and Management) from Otto-Friedrich University Bamberg, awarded in an international program taught jointly with Oklahoma State University's Spears School of Business, and is currently pursuing doctoral studies.

After gaining much insightful experience in the international retail environment, Mr. Rossig is now responsible for major donors, corporate social responsibility, and project development at Johanniter-Unfall-Hilfe e.V., Leipzig, one of Europe's leading not-for-profit organizations in the humanitarian sector.

1 Introduction

Five Star Management has won wide acclaim as "the" principal management theory applied by many of the world's leading companies such as FedEx, McDonald's, and Amazon. It is generally credited with providing a holistic approach to treating all stakeholders well, most notably customers and employees, which results in superior loyalty, sales, and ultimately financial performance. But is Five Star Management really the only reason why these companies have thrived?

One of the largest players in European food retail, A Retail, has shaped an entire industry around its own management principle. Developed in the early 1960s and never changed since, this management style that may well be termed "the A Retail approach" has been greatly beneficial to 'A Retail's tremendous growth in many of the world's most competitive markets. In fact, many other retailers have adopted similar management practices closely modeled after "the A Retail approach".

Thus, the research question to be posed here is whether and where A Retail's management approach resembles – or differs from – Five Star Management principles. What made this company so successful? Where could A Retail add even more value by slightly tweaking its management style? Or did A Retail possibly invent a "European flavor" of Five Star Management that is actually superior to the commonly proposed model?

2 Analysis

2.1 History of A Retail

In 1946, two brothers inherited a small grocery store in the West German city of Essen. At that time, Essen was a busy industrial town in the metropolitan "Ruhr" area, home of Mr. Krupp's steel enterprises and countless coal mines, hit severely by the bomb raids of World War II. Initially, their store operated in the traditional set-up, selling unpackaged foods and small household items across the counter. However, the brothers soon grew frustrated with the then-popular principle of awarding each customer little loyalty points, or "stamps", which could be redeemed at year's end for cash (a very early form of today's loyalty card systems). Instead, they lowered all prices in their store by an average of 3%, which loosely resembled the savings at year's end but saved them the trouble of awarding and administering the loyalty stamps. This approach was termed "discount" and later shortened to "A Retail". By 1950, the brothers had opened 13 stores in the region; ten years later, that figure had risen to 300.

By late 1959, however, the small A Retail empire found itself in a crisis: Other chains had successfully implemented today's "supermarket" system where the customer helped himself from the shelves, drastically cutting employee headcount while boosting sales. And customers loved it. A Retail started a half-hearted test, converting 25 traditional A Retail stores to the new layout, but failed spectacularly because the tiny outlets (often averaging less than 900 square-feet) felt crammed and awkward to navigate.

In 1961, the A Retail brothers tested a revolutionary idea: They intended to introduce an entirely new dimension to retail – what's today known as the "discount" approach. Essentially, their idea is centered on a radical price leadership strategy, striving to always provide the very lowest price on any item in their store. Key to this strategy is a reduction to the absolute basics, eliminating any form of customer service and reducing employee headcount to an unheard-of minimum. Even more radically, in order to gain independence from powerful national food conglomerates, the new concept would carry only house brands. The newly created purchase department would seek out tiny manufacturers, shower them with contracts promising surprising volume, and demand the very lowest price at the very highest quality. Under this approach, each product needed to be offered in one variety only, drastically reducing shelf space and rental expenses. The early A Retail stores carried an average of 250 high-volume products. Costs were cut at all levels, including cooling systems (the stores focused exclusively on canned goods) and even the managers' vehicles: The founders proudly drove Volkswagen Beetles and prohibited any of their employees from purchasing larger cars. (It was not until the late 1970s that A Retail managers finally got to drive larger vehicles, and even then all company cars were to be black because this was the only color that came without additional surcharge.) One of the more visible examples in the brothers' radical pursuit of cost-cutting measures was their sell-from-the-box approach: Employees would no longer unpack boxes but simply rest them on the shelves. Customers could help themselves directly from the boxes, and when they were empty, an employee would simply go around and pick them up. Particularly fast-selling merchandise was rolled into the store still on its shipping pallet – a revolution. And employees were trained on all jobs in the store, so whenever one task was completed (i.e. closing one cash register in the off-hours), they could swiftly move on and help somewhere else (i.e. collecting empty boxes).

In late 1961, early tests had been so successful that one brother decided to convert all his stores to the new concept. At this point, the two brothers had one of their more serious quarrels; T., who had been running his own show for several years already, proposed to split up their stores. Since that time, A Retail has formally and legally been separated into a Northern branch, run and owned by T., and K.'s Southern branch. Although both firms continue to cooperate closely in vendor negotiations, they act entirely independent in all other realms, including human resource policies such as wage negotiations, store design and layout, range of products, and advertisement. This lack of cooperation is why A Retail has never run advertisements in national media such as magazines and TV. The brothers also split up international markets, with most of the highly lucrative Northern and Western European countries falling to the younger brother T. (including the then-Communist German Democratic Republic, or DDR, in Eastern Germany that remained a theoretical possibility until 1990). K. gained exclusive access to small Southern European countries such as Austria, Switzerland and Greece, as well as to the more remote but highly lucrative markets of Great Britain, Australia, and the U.S.

However, despite their spectacular lack of cooperation, both firms continue to move surprisingly similar in many important realms of strategic management. Apparently, this is due to the two brothers' almost religious dedication to their unique management style that continues to live forth in today's leadership. Thus, for the purposes of this paper, both companies – although legally separate and clearly distinguishable to the customer – can be treated as one. In fact, competitors such as L Stores – which adopted the discount principle in 1973 – copied A Retail's corporate culture so closely that employees frequently switch from one firm to the other with minimal adaptation.

2.2 A Retail today

As of 2010, A Retail operates about 9,000 stores in 16 countries, with 4,200 of them located in Germany alone. The Northern branch runs slightly more outlets than the Southern branch, both domestically and internationally, but is thought to be less profitable in an increasingly competitive market environment. Further growth is practically impossible in Germany, where no citizen lives beyond a 10-minute-drive to a discount store (competing discount store chains all following the same basic principle include Lidl, Netto, Penny, and others). In 2008, A Retail is believed to have achieved gross revenue of about € 41 billion, or $58 billion, with an averaged 1.9% rate of return (down from about 3% in the early 2000s), about 1.3% for the Northern branch and 2.8% for the Southern branch.

Both firms continue to be privately held by their respective families, utilizing the uniquely German concept of combining a limited liability corporation with a non-tradable asset holding structure (GmbH & Co. oHG). Through a complicated network of sub-structures that are partly held by current and former senior executives or family-owned trusts, A Retail has carefully avoided publishing financial data. At the same time, this structure makes a buy-out or merger practically impossible. Both companies have long been proud of carrying no liabilities whatsoever, objecting even to every-day-style leasing or renting arrangements. (Even the company cars were paid for in cash.) As the Southern branch continues to push aggressively into the Australian and U.S. markets, however, new stores are now rented rather than owned. In a 2009 coup, A Retail South even closed a surprising sale-and-lease-back deal with Allianz Real Estate that transferred 80 of its German properties into three real estate funds.

This accelerated expansion comes not without risks: In mid-2010, A Retail South announced that for the first time in history, it would withdraw completely from a national market. Apparently, its 38 Greek discount stores had failed to excite the local population even in a time of severe financial crisis. Internal critics pointed out that A Retail management had entered the market prematurely, failing to scout out profitable expansion options. Any market with less than 100 stores is commonly thought to be unprofitable; especially when a completely foreign language is involved that requires substantial investments in computer software, paper manuals, and advertisement artwork.

Today, the average A Retail store covers a sales floor of 7,200 (A Retail North) to 7,800 square feet (A Retail South), with new stores occasionally approaching up to 9,000 square feet, and carries between 800 and 1,100 products. Produce, meat, cooled and frozen food sections are now widely available, with a bake-on-demand bread section being rolled out to all stores till 2013. As much as 35% of total sales are from non-food specialty sales which A Retail advertises twice a week in mature markets (such as Germany) and once a week in markets it only recently entered (such as Australia). On each of these occasions, up to 45 exclusively produced household items ranging from coffee machines and vacuum cleaners to recipe books, door mats and air mattresses are sold for substantial markdowns and in limited quantities. In the 1970s and 1980s, many people would postpone purchases for several months until the desired item came on sale at A Retail's, simply because the firm was so famous for the great value. One of A Retail's greatest successes was its cooperation with Medion computers, selling thousands of high-quality personal computer sets for less than 2,000 Deutsche Mark ($1,400) within the first hour of store opening. In recent years, however, these sales have attracted less popularity as customers are less willing to postpone necessary purchases for many months until the item becomes available in an A Retail special sale. The internet and other discount retailers have made most consumer goods readily available, greatly reducing demand on "Magic Monday".

2.3 The structure of A Retail

Each national A Retail organization has one centralized "purchasing headquarter" that is responsible for national food sourcing, marketing, and strategy. The German headquarter is additionally charged with global strategy, information technology, and overseas buying for electronics and textiles. Until the early 2000s, A Retail famously had no financial controlling – relying only on each manager's common sense – but has recently moved to implement centralized controlling structures in most countries.

Below the leadership of this lean, tight-run "purchasing headquarter" are regional distribution centers (67 in Germany) with attached "regional offices" that enjoy broad autonomy. These offices, usually at the center of about 40 to 90 stores, decide independently on store expansion, human resources, and local sourcing for items such as produce, bread, and regional specialties. Within limits, they also decide on store architecture, store layout, and the line of products offered; however, national headquarters usually tend to give strong "suggestions" on these topics.

Each regional office is run by a manager pompously termed Vice President (which he legally is, seeing that each regional office is formed as an independent corporation, with the national headquarter being the majority stakeholder). At the next level, five Directors take responsibility for Real Estate, Administration, Logistics, Purchasing, and Sales / Operations. (With many regional offices now owning in excess of 70 stores, A Retail South has recently begun installing two Sales Directors, on an equal footing, in each office.) The Logistics Director has three deputies, each responsible for the receiving department, the outgoing goods department including trucking, and the transfer storage including picking and intra-center logistics. The Sales / Operations Director(s) are responsible for five to fifteen District Managers, each of which is responsible for about four to eight stores. He is the direct superior to the stores' managers and first assistant managers, who run the entire store including all regular employees. There is no further distinction within the stores; aside from the store manager and his assistant, all other employees are equal. Compared to other retailers, this five-step hierarchy is surprisingly flat: For instance, competing discount chain Netto (owned by Edeka, one of Europe's largest retailing giants) that operates on a largely similar concept knows an additional hierarchy within District Managers. Here, the (lower) District Unit Manager is responsible for administrative issues only, while the more superior District Manager exclusively deals with human resources decisions such as hiring and firing.

A key component to A Retail's structure that is crucial to its tight organization is the separation of powers within this hierarchy: Only the immediate superior is authorized to command his direct reports. Low-level employees are actually encouraged to politely refuse orders from top executives. The idea of this seemingly radical concept is that each manager, on all levels, is supposed to be independent in his decisions and assumed to be highly competent. Any executive interfering with the manager's decisions by directly directing one of his employees will undermine the manager's authority and confuse the employee who might be faced with a dilemma: Comply with the direct superior's order (and potentially enrage the more superior executive), or comply with the executive's order (and enrage his direct superior). However, this concept can occasionally become cumbersome and time consuming, i.e. when a Sales Manager directs his direct report (the District Manager) to direct the store manager to direct the cashier…

At the same time, the immediate superior is not authorized to hire, terminate or promote any of his direct reports, thus protecting the employee from unfair treatment or personal sympathies. In consequence, while a Sales Director is not authorized to direct a store manager in any of his actions, he is perfectly authorized to fire him. The District Manager, on the other hand, gives orders to the store manager (who is his direct report) but cannot take any legal action. This concept is followed with absolutely no exceptions and almost religious dedication throughout the company and continues to provide clarity in many crucial moments.

All other tasks that are assigned neither to national headquarters nor to the regional offices or jobs that require a specialized skill or knowledge are assigned to dedicated "project committees" consisting of regional managers. In this early concept of a matrix organization, a District Manager in Nuremberg might be responsible for all cooling systems nationwide, while an intra-center logistics manager in Frankfurt takes responsibility for purchasing picking software or fork lifts.

2.4 Guiding principles

A Retail is fundamentally based on the founders' strong work ethic that rotated around a belief in frugality, hard work, and a never-ending pursuit of perfection. In his 1998 landmark analysis of A Retail, former senior executive Dieter Brandes claims that A Retail may in fact be the original "inventor" of the Japanese Kaizen principle: Always pay attention to the details, always improve, never be satisfied. This principle is still alive today, with managers occasionally taking off their ties and suits to experience the stocking of shelves and gain insights into how this mind-numbing task could be improved. In fact, all District Managers – which are usually hired right out of college – must pass a mandatory 10-months program that includes three 6-week-sessions as a store manager, allowing them to fully experience the art of running a store hands-on (the full-time store manager is usually sent on vacation during this time). Since A Retail follows a strict promote-from-within policy, the goal of this program is to mold these young managers into the A Retail way: Quick "trial & error" decisions based on a pragmatic hands-on mentality are considered superior to time-consuming, scientific over-analysis.

This wariness of analysis and scientific methods goes so far that A Retail, in fact, does neither budgets nor any serious cost controlling. Budgets are regarded as a waste of time, considering how much effort it usually takes to prepare them, as well as a potential measure for overspending (such as wasting any money left in the budget in December to avoid future budget cuts). Instead, all managers are trained to strictly spend "whatever is necessary" – be frugal when the issue at hand is relatively unimportant, and be generous whenever quick solutions are crucial.

Instead of using various measures for profitability or return, A Retail focuses all of its number crunching on one fundamental figure: Costs relative to total sales. For each category of expenses, these results are rigorously ranked among stores, regional offices, and national markets; and managers are given clear goals by how many ranks to improve. For instance, total wage expenses for one particular store may be 6.5% of total sales, which ranks the store #55 out of 60 in that region. In the assessment of the responsible District Manager's job performance, his Sales Director will not focus on total wage expenditures (i.e, $50,000 a month) but question the store's relative position within the ranking. This leads to superior transparency and comparability, for every little detail of the firm is easily graspable, but often neglects unique differences in store location, customer base, or employee structure. In the above-mentioned example, said store with above-average wage expenses may have had a slow month with very disappointing sales, which obviously drives up any measure relative to sales. Likewise, regional offices in areas with high unemployment are typically underperforming, while rural regions find themselves trailing behind in all logistics rankings.

A key pillar of A Retail's management style – delegate responsibility liberally, but check back often – is losely modeled after the "Harzburg Model": Developed in 1962 by German management professor Reinhard Höhn, this model strives to give each individual employee a high level of responsibility, but only in certain fields determined by his superior. In A Retail's case, each employee is given a very detailed job description clearly outlining his specific area of competence. This work is then expected to be performed very independently, "using the employee's own brain and common sense", circumscribed only by some rather broad guidelines on how to treat customers and co-workers. The respective superior is expected to not interfere but check frequently and provide helpful feedback afterwards, thus enabling the employee to learn from his actions and grow his potential.

This approach is quite unusual in retail, where minimum-wage jobs are abundant and superiors rarely trust their employees well enough as to delegate any responsibility. The key example to illustrate this point is Wal-Mart, which famously follows the very opposite approach: At Wal-Mart, all floor employees are given extremely tight manuals that regulate even the least important task, such as how to greet customers approaching them. Even Five Star companies occasionally grant their employees less leeway – consider McDonald's which instructs its cashiers on the exact words to use when taking an order. As of today, the Northern A Retail division does not even have a rule outlining whether a customer must be greeted at all, leaving it up to the discretion of the employee to decide on whether he wishes to greet his customers. (The Southern division mandates that all customers must be greeted politely but does not prescribe the exact words.)

In today's A Retail reality, however, while the model is still being praised as the one and only true management style, some of the early ideas seem to have gotten lost. With the market exerting extreme cost pressure, superiors are less willing to let employees go ahead and learn from their mistakes, often interfering before the (potentially helpful but costly) mistake is made. At the same time, well-educated and confident employees are increasingly less willing to reduce their creativity on narrow, well-bundied areas prescribed by their superiors. Instead of taking full responsibility for a small slice of a task, they would rather work in teams on broader solutions. Also, they increasingly take offense to their superiors' constant supervision and suspiciousness that frequently includes purse and car checks (i.e., for stolen merchandise), mystery shoppers, and video surveillance. Obviously, A Retail managers make up for the increased responsibility with particularly tough checks.

2.5 Stakeholders: customers

A Retail prides itself on limited but superior customer service, which particularly takes the form of unconditional guarantees. In most national markets, customers can return unwanted merchandise within four weeks of purchase for a full refund. Since A Retail primarily sells store brands that come with coded production dates provided on the package, there is usually not even the need of providing a receipt. All cashiers are authorized to decide on returns under € 50 without consulting the store manager, and more senior employees can refund up to € 100, which greatly speeds up the process. Some A Retail stores have been known to gladly return even empty bottles of wine or two-year-old shoes. On electronic items, which must come with a mandatory two-year-warranty under European Union law, A Retail typically grants another one to three years of "store-policy" warranty. This attitude is certainly great customer service and has helped A Retail build trust in its products.

However, customer service seems to be reduced to those areas where it does not become a cost factor (returned merchandise is, of course, forwarded to the manufacturer for a full refund, so A Retail does not put out any money). Employees are directed to answer customer queries as briefly as possible and discourage them from further questions, for it keeps the employees from other tasks. The checkout process has been designed as to move the customer away as quickly as possible, and the store layout does not cater to individual needs (i.e., stocking the merchandise so high that short and handicapped customers cannot reach it).

Generally, A Retail assumes a somewhat paternalistic position, believing that it knows best what is good and what is bad for the consumer. Even in the line of offered products, A Retail only moderately considers presumed customer needs or preferences (which are never really researched since research is considered a waste of money). Unsuccessful and slow-selling items are rarely discontinued but often reshaped, repackaged, or renamed. This stubbornness is not exactly Five Star Management – it resembles a 1960s economy rather than today's "free choice" reality.

2.6 Stakeholders: employees

A Retail prides itself of always hiring "elite" applicants for all positions – and indeed, the company has successfully acquired a great employer image among job applicants. Working at A Retail's – or having ever worked there previously – is considered a seal of quality, for A Retail expects a hard-working attitude and the ability to think creatively and independently within the assigned position. Employees are expected to show flexibility – both in their working hours and the geographical location – and fit seamlessly into the rigid corporate culture. For instance, store employees are routinely asked to stay longer or get called in early when extraordinary demand makes it necessary, and employees in management positions frequently rotate to different cities and even national markets. This attitude makes A Retail's employees hugely valuable both to the company and to competitors. To compensate for such flexibility and to retain the talent within the firm, A Retail's hourly wages are about 25 to 40% higher than comparable wages in retail. Even hourly cash register employees working less than 20 hours a week can easily make a modest living, with only slight differences depending on national markets. College graduates are hired at starting wages comparable to investment banking and strategy consulting.

However, A Retail does not provide any additional benefits, occasionally not even paying for benefits that are typically mandated by law. For instance, in Germany A Retail does not pay any form of bonus for work on Saturdays, and only a 50% bonus for Sunday work (as opposed to the industry-wide 100% bonus). Employees are expected to bring their own safety apparel, including shoes and gloves, and managers must purchase many office supplies and even computers out of pocket. The company does provide a company vehicle for District Managers, but mandates that employees keep it perfectly clean at all times – at their own expense. Although unlimited private trips are part of the compensation package for District Managers, many regional offices have been known to use peer pressure or memos to limit the mileage respectively the number of private trips.

Even more striking is A Retail's reluctance to provide employees with technology such as cell phones and laptop computers. District Managers, who do not have a dedicated office but operate from the cloakrooms of their stores, as of today receive neither a company laptop nor an email address. Instead, the regional office will print all emails and forward them by fax. The manager then writes a reply on his private computer and faxes it back to the office, where a typist will retype the letter and send it by email to the recipient. A Retail's top management insists that this complicated process actually helps eliminating costs by discouraging anybody from sending unsolicited and unnecessary communication, thus allowing the District Manager to concentrate on more important tasks. While it is certainly true that the unseen costs of emailing can be high in certain industries, such backward-oriented ideas seem simply inappropriate in the 21st century.

As A Retail's business model calls for highly flexible employees, the company is less than enthusiastic towards anybody with schedule restrictions. Since the morning shift in each store is required to unpack and shelve as much as four tons of fresh deliveries, but most stores open with only two employees (smaller ones even with only one employee), this small team must be extraordinarily efficient and physically fit. Young trainees (especially young women) and older employees both find it hard to lift many of these boxes, which can weigh 50 lbs. and more – quite in excess of German labor regulations (officially, A Retail cites "technical" reasons for these heavy boxes while insiders report that A Retail is simply cutting back on repackaging expenses). Unfit employees that cannot work the morning shift at full force are not placed somewhere else in the company but simply invited to quit.

The same principle is true for parents with small children. Store employees are expected to be on permanent call during store hours, even if they work part-time jobs, and management-level employees must be available 24/7. This is why A Retail allows only full-time positions for District Managers. Young mothers wishing to return into their previous jobs often find it hard to work 60+ hours a week with a family at home, and so they often quit their job. In consequence, A Retail continues to suffer from talent drain as well as diversity issues: Employees over the age of 35 are usually male. Possible solutions for a family-friendly environment, such as company-sponsored child care, are not even considered by an ever-frugal top management. This seems strikingly pigheaded, considering that other German retail firms operating under the exact same conditions (such as DM) have found numerous creative ways of providing their employees with a family-friendly environment. Even Wal-Mart is making efforts to facilitate part-time management positions, both in administration and on the sales floor.

Generally, A Retail employees have little chance of voicing their opinions or concerns as A Retail has taken advantage of every possible opportunity to keep out unions. As of today, A Retail South is still entirely union-free. It has been reported that senior executives used extensive pressure and even unlawful methods when three Munich (Bavaria) employees tried to force an election. They ultimately lost, and were kindly asked to leave the company.

When asked about labor unions, A Retail executives are often heard saying that District Managers were in fact some sort of "union activists", seeing that they had every interest in keeping their employees happy and content. According to this view, A Retail is considered one big family where benevolent and well-meaning managers go out of their way to treat their employees perfectly. Unions were quite unnecessary because everybody was happy anyway. However, there seem to be differences in corporate atmosphere among different national markets and regional offices. While it has been reported that some offices entertain a very open, almost playful atmosphere ("Work hard, party hard"), most of the regional offices in Southern Germany have been known to be stiff and paternalistic. Bavarian regional offices are known for their rough management style; STRAUB cites several examples for employees who are frequently yelled at, threatened openly, and even forced to leave the company on false accusations. Also, overworked superiors are rarely willing to listen or return calls; instead, they apply psychic pressure, i.e. by citing employees for insignificant issues that are outside their immediate responsibility.

Also, it should be mentioned that A Retail does not encourage communication among employees. For instance, it is impossible for District Managers to obtain the telephone number of colleagues outside their immediate region – too much talking is apparently considered a waste of time. In many regions, management-level employees with company phones are assigned a very tight monthly bill limit (or even pre-paid phones) to avoid overspending and "over-communication." Superiors will usually answer with extreme pressure to anyone daring to make business-related phone calls in excess of the assigned limit, so managers routinely end up using their private phones for business calls.

In conclusion, the way A Retail treats employees is not Five Star Management at all. The right employees, in the right positions, should be seen as the most important assets a company can possibly have; and should be treated accordingly. While it is certainly a good idea to seek out highly qualified individuals and pay them above-market (unless the firm in question requires extensional personal buy-in that could get lost by paying too generously), a rough corporate culture can quickly turn these individuals into cynical under-performers. Also, A Retail is more likely to attract mercenaries that have little or no interest in the company as such, and rather focus on their personal short-term goals. Either way, employees should be offered trainings and additional measures for further education to allow personal growth. Furthermore, with shrinking labor markets in many European countries and an increasing competition over loyal employees, it is extremely important to provide a family-friendly environment. A Retail, however, makes its employees depend on the monthly paycheck; so after a few years, they cannot go anywhere else without sacrificing their standard of living. Building such a "Golden Cage" is not the lesson of Five Star Management at all.

2.7 Stakeholders: vendors

In the early days, A Retail was less of a retail enterprise and more of a bank: Due to its sensationally fast turnaround – no product sat in the distribution center for more than one night and on the shelves for over three days –, A Retail would often keep its revenue in the bank for 25 days or more before the supplier bills had to be paid. Today, many products have significantly longer turnaround cycles but the principle is still alive. However, while many other retail giants have “perfected” the principle by paying their bills 10 days past the due date, A Retail prides itself on its reliable payment of vendor bills – no day early and no day late.

Another example of A Retail’s fair treatment of vendors: The firm has never accepted nor solicited shelving fees, promotional assistance payments, or any other hidden kickbacks. The decision of whether products are listed or delisted depends entirely on the purchaser’s discretion and is not influenced by additional payments outside the deal.

This being said, A Retail certainly expects highly competitive prices as well as superior quality – and can be extremely tough about it. When milk sold under A Retail’s store brand was given a “Fail” grade in Germany’s *Stiftung Warentest* (equivalent to Consumer Report) test, A Retail immediately refused to accept any further deliveries from that particular supplier. Similar immediate delistings happen almost on a weekly basis when consumer advocacy groups or government agencies test products for safety, declaration, weight, or other details. Since A Retail usually owns all copyrights to its products’ recipes, brands, and package artworks, the suppliers have very little bargaining power and are easily interchangeable. For many crucial products (such as milk or bananas), A Retail actually keeps two or more suppliers simultaneously, thus reducing supply risks in case it needs to fire one of its suppliers.

Often, A Retail prefers not to purchase from multinational food giants but rather favors small, family-owned businesses with underemployed production capacities. Among these vendors, a supplier-contract with A Retail is still regarded as “winning the jackpot”, for A Retail is seen as a reliable partner purchasing a constant, significant volume. However, once the supplier has become accustomed to A Retail’s immense demands, losing that contract can endanger the entire company, thus shifting even more bargaining power to A Retail.

As a result, A Retail has been able to make demands that are unheard-of in retail. For instance, A Retail no longer takes delivery of the goods at the entrance of its premises, as is usually the convention at most other retailers. Instead, truck drivers are expected to unload the cargo themselves onto designated receiving lanes inside A Retail’s distribution centers, where A Retail-operated giant fork lifts can easily pick them up. This saves A Retail dozens of employees on each shift who would traditionally have to unload the trucks manually, and it also shifts the risk of spills and spoilage during unloading to the suppliers. They, in turn, usually shift said risk to the individual truck driver who is often not paid properly for the unloading. Thus, the costs A Retail is so genially averting are ultimately borne by the thousands of truck drivers delivering to A Retail’s distribution centers every day. A Five Star company would certainly offer them at least a free coffee – but no such luck at A Retail’s.

2.8 Stakeholders: company owners

The company's frugal approach to expenditures – from store furniture to headcount and overhead – and its conservative investment strategy have both helped A Retail maintain a sound financial basis and pulled it into the pole position for returning above-industry profits. Financial excellence is a key component to competitiveness, both in the market place and among the owners of a company who enjoy plenty of alternative investment opportunities.

However, while A Retail's strong corporate culture and its promote-from-within strategy aid the company in gaining top leadership that knows the company inside out, this approach also tends to slow down innovation. Many Five Star companies routinely prove that outsiders can bring in new concepts and novel ideas or even create new visions – especially for companies stuck in saturated markets. Although A Retail prides itself on being the "innovation leader" in the rather narrow field of discount supermarkets, it has never been first to implement a concept not known to retail. Whenever a new technology becomes available, A Retail usually lets other retailers test the waters and only jumps in before it's "almost" too late. A prime example is barcode-operated scanner checkout lanes which A Retail did not begin installing until 2000. Until then, checkout operators had to key in each product manually, using a PLU unique to each product. The memorizing process was awkward and often took many weeks for newly hired employees, but A Retail management stubbornly insisted that this process was still faster than scanners. Today's scanner lanes are among the fastest in retail, tailored specifically to A Retail's needs by U.S. cash register giant NCR.

Lidl, a discount store chain competing with A Retail's in over a dozen national markets, proves that other ways may be more profitable: Although following a largely similar approach to retail in principle, Lidl has been innovating a lot more aggressively, thus securing the first-mover advantage time and again. For instance, Lidl quickly abandoned the overly low-budget "look and feel" of A Retail's store design, instead using bright colors, clever lighting, and an abundance of posters throughout their (largely similar) stores. The Southern A Retail branch followed very reluctantly, testing each individual innovation thoroughly and debating quite controversially over such trivia as lightly colored price tags in the cosmetics section (which were ultimately rejected in Germany even though the U.S. division reported good testing results). The Northern branch outright refused to make any changes to their concept, holding on even to their 1960s-style lighting concept that is both expensive and unattractive. As of early 2012, A Retail North finally begins some selected testing of a new lighting concept that essentially mimics Lidl's innovation from 20 years ago.

2.9 Stakeholders: government

Adhesion to all governmental regulations and laws should be completely natural and unquestionable for a Five Star company. A Retail has always been keen to comply with all tax provisions and consumer rights laws to the very dot, but been significantly more liberal in terms of employee safety and working time acts. For instance, a European Union regulation prohibits anybody from working more than 10 hours a day. Store employees and middle management, however, frequently put in 12- and 14-hour work days. Depending on regional regulations, these extra hours are either written down in another week, or simply considered "voluntary" overtime that is not compensated at all. In 2005, employee advocacy groups reported that the average A Retail employees effectively worked 1.7 hours for every hour paid. Similar issues arise whenever young mothers return to work asking for lighter jobs that require less physical carrying or fewer hours: Although forced by law to provide such opportunities, A Retail claims that it cannot schedule these individuals flexibly enough and a layoff is therefore inevitable.

A Retail does not participate in lobbying or campaign donations; however, several company-affiliated trusts are actively donating to various causes. While it has become perfectly legitimate to seek out loopholes in legislation and comply with the absolute minimum only, A Retail has still some homework to do. Under no circumstances should governmental regulations be regarded as "optional", and quite definitely not by true Five Star companies.

2.10 Stakeholders: community

Until 2009, A Retail South did not have a dedicated PR spokes person; and even today, the department consists of only two employees. Media requests were routinely rejected, politely stating that A Retail had a policy not to speak with the media. In the early days, PR was seen as a waste of time that would only provide competing firms with insider information; later, the rejection of media relations became a principle of tradition that was not much questioned. Interestingly, this seems not to have hurt A Retail's public image; in fact, it has been suggested that the absence of "spin" actually boosted the public's perception of A Retail as being straight-forward and honest.

In fields such as environmental protection and city development, A Retail has moved equally slow: The development of new sites, the choice of shipping carriers, and the selection of vendors all depend exclusively on total costs. This has led to massive urban sprawl, especially in those areas catered to by A Retail South as the firm aggressively pushes into cheaper store locations outside the inner-city areas. It was not until 2010 that A Retail finally published a Corporate Social Responsibility Strategy; and when it did, it was a disappointment, as it listed only environmental and social measures that are mandated by law anyway.

While it is certainly true that companies in highly competitive markets such as retail need to watch their expenses – and particularly those companies attempting a cost-leader strategy –, Five Star Companies always find creative ways of benefiting society in ways that go above and beyond. For instance, Dutch logistics giant TNT gladly donates cargo space on empty planes to a variety of humanitarian organizations, including the United Nations World Food Program. This is extraordinarily valuable to the NGOs and rewards TNT with great media coverage while costing the firm practically nothing. A Retail, on the other hand, does not entertain any of these community outreach measures – even when they are cost-neutral. For a long time, A Retail would not even donate foods past their Best-By-dates to the local food banks, preferring to send them to the garbage disposal instead. It was not until a District Manager pointed out how much garbage removal expenses could be saved by engaging the food banks that A Retail finally begun to donate expired foods. This narrow-minded behavior is definitely not Five Star Management.

3 Conclusion and Recommendations

A Five Star company is characterized by its structured attempt to satisfy all stakeholders simultaneously, using various methods such as superior customer service, employee programs, and/or community outreach to build a strong and ethical business foundation. Corporate culture is not seen as an end in itself but rather as a means to achieve great goals. Coincidentally, not only quality-leadership companies are actively engaged in Five Star Management (i.e., FedEx) – just as many of the world's greatest Five Star companies compete primarily on price (i.e, Amazon).

A Retail, the company thoroughly examined in the previous section, has been a cost-leader in many of the world's most competitive food retailing markets for decades. To achieve its tremendous growth and impressive profitability even in tight markets, A Retail uses various techniques for stream-lining operations and cost-efficiency. A number of these strategies work impressively well: Delegating responsibility even to low-level employees, hiring top graduates, and excelling in generous return policies are all great ways of leaping forward. Similarly, for a period of time A Retail fared well by not employing any "spin doctors" or PR consultants that might have hurt the company's public image more than they helped. And it is certainly a great idea to always be a reliable partner to vendors, showing loyalty even in times of crisis but then quickly making tough decisions when their product quality slacks off.

However, in its constant pursuit of profitability, A Retail sometimes loses sight of small changes that might improve operations significantly even though they require a small down investment. Complying with government regulations can be somewhat costly in the short-run but is absolutely non-negotiable among true Five Star companies. Likewise, treating all employees well not only in monetary terms (A Retail does pay above-average wages) but also in such broad categories as work-life-balance and access to union representation is not optional. Customers and employees alike should never get the impression that the company does only what is cheap and easy – a real Five Star company goes out of its way to win them over.

Many European nations are already feeling the pain of what may soon become a serious issue: Finding young, qualified job applicants willing to work in shifts, potentially even at weekends, doing hard physical labor. In aging societies such as Germany, many employers will soon be faced with many more open positions than they are able to fill. And today's applicants are more reluctant than ever to simply follow the trail of money – instead, they demand an insightful and exciting job that gives them opportunity for personal growth as well as the feeling of contributing to an overarching vision such as shaping a better world. Likewise, shoppers more than ever before demand an emotion as they fill their shopping baskets; simply picking up the best bargain is no longer sufficient for a truly fulfilling shopping experience.

At this time, A Retail cannot meet any of these needs. The company still assumes a paternalistic, 1960s-era attitude of "we know best", driven exclusively by bargains and paychecks. While direct competitors aggressively position themselves as "the family's best friend"-style devout servants or "shopping should be fun"-themed entertainment districts, A Retail continues to play the part of a no-nonsense discount store. In the past, this attitude may have contributed to its success, indirectly positioning the stores as honest and manipulation-free. In 2012, however, that approach simply seems outdated.

Ultimately, it is quite clear that only Five Star Management can save the company. But in order to become a Five Star company, A Retail would have to take its stakeholders a lot more seriously – they are not merely "cost components" but real people. What worked 50 years ago may just no longer be valid today.

Appendix

Exhibit 1: Internal Structure of each Regional Office.

Source: A Retail

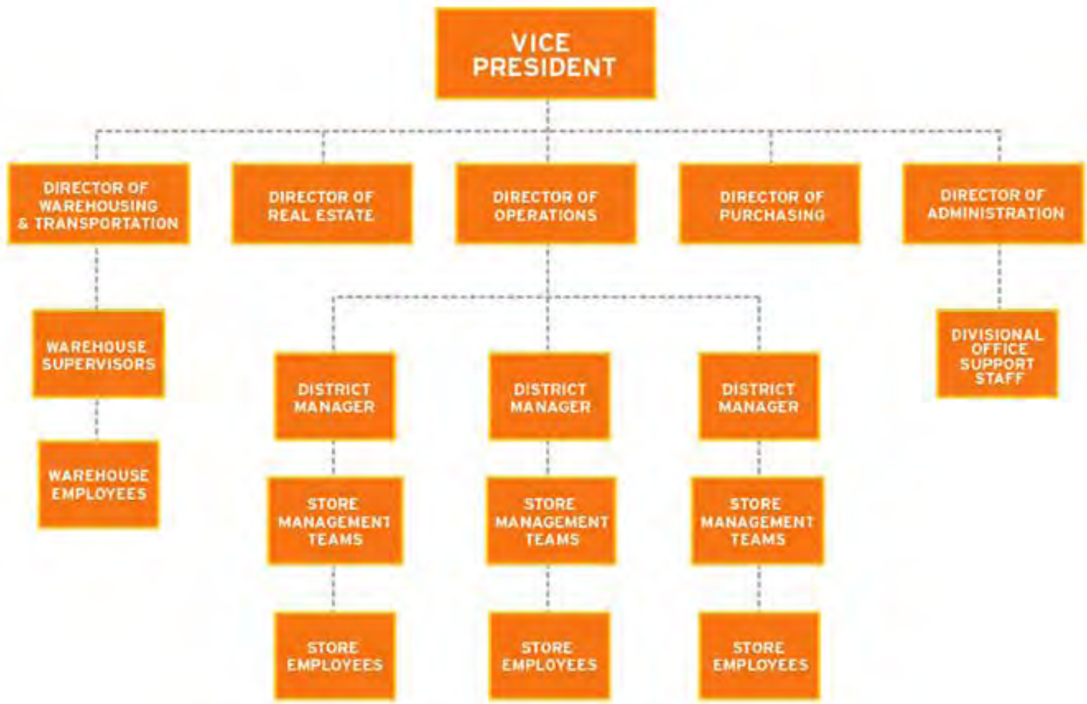


Exhibit 2: Typical shelving "straight from the box" in an Australian A Retail (South) store.

Source: public domain; used under Creative Commons License

References

BRANDES, DIETER (1998): “Konsequent einfach – Die A Retail-Erfolgsstory”, Frankfurt: Campus Verlag, 1998.

HIELSCHER, HENRYK (2010): “Billigriese Netto lehrt die Discounter das Fürchten”, in: WIRTSCHAFTSWOCHE, Sept-8-2010, no page given.

HÖTTE, RALPH; RHEIN, STEFANIE; BIALK, MAIK (2010): “Arbeitgeber A Retail – Gut oder nur billig?”, in: WDR MONITOR, Mar-25-2010.

KOTTEDER, FRANZ (2005): “Die Billig-Lüge”, München: Droehmer, 2005.

LUDOWIG, KIRSTEN (2009): “Auf die billige Tour”, in: JUNGE KARRIERE, issue 06/2009, pp. 36-39.

MCCONNELL, BEN & HUBA, JACKIE (2003): “Creating customer evangelists”, Chicago: Dearborn Trade Publishing, 2003.

N.N. (2009): “Armin Burger verlässt A Retail Süd”, in: medianet.at, Nov-20-2009.

N.N. (2010): “Allianz übernimmt 80 Immobilien”, in: FOCUS, issue 38/2010, p. 10.

N.N. (2010): “Rückzug: A Retail verlässt Griechenland”, in: HANDELSBLATT, issue 07/17/2010, p. 1.

PAOLI, NICOLA DE (2010): “Wie A Retails Griechenland-Abenteuer floppte”, in: FINANCIAL TIMES DEUTSCHLAND, issue 07/23/2010, p. D1.

SCHWARZER, URSULA (2009): “Topmanager verlassen A Retail”, in: MANAGER MAGAZIN, issue 51/2009, no page given.

STEINHÄUSER, MARC (2009): “Im Reich der Paletten”, in: FRANKFURTER ALLGEMEINE ZEITUNG, issue 182/2009, p. C1.

STRAUB, ANDREAS (2012): “A Retail – Einfach billig”, Hamburg: Rowohlt, 2012.

TEMPLAR, RICHARD (2005): “The Rules of Management”, Upper Saddle River: Prentice Hall, 2005.

TIETZ, JANKO (2009): “System der Angst”, in: DER SPIEGEL, issue 44/2009, pp. 80-82.

Special thanks to all former and current A Retail employees who have provided me with inside information on their employer. Without them, this paper would not have been possible. For obvious reasons, these individuals declined to be named here; however, the author will be happy to assist in contacting them if colleagues are interested in further information for their own scientific purposes.

For all purposes of this paper, the real company name has been abbreviated.

Optimizing Product Development Projects - IFI Inc.: a Case Study in the Food and Beverage Industry

Farshad Sarmad
fsarmad@gmail.com

Abstract: This paper lays out an improvement plan for optimizing the product development procedure at IFI Inc., a soft-drink manufacturer operating in Iran. This paper concentrates on an analysis of the macro and micro situational factors to determine efficiency gaps, the high-priority areas for reform. Consequently, the paper presents a three-tier improvement plan for managing the amount of risk and uncertainty in the product development process. The rationale for the plan is supported by the current literature and a series of qualitative analyses. To gain a deeper understanding of the company's product development practices, the author conducted 25 face-to-face interviews with managers and supervisors across the organization. With the help of management team, a formal analysis was conducted wherein 35 past product development projects within a timeframe of five years were analyzed. The rationale for the improvement plan provides a high-level optimization framework that is likely to be a vital source to the competitive advantage in today's increasingly volatile markets.

Keywords: Product Development Optimization, Food and Beverage Industry, Aggregate Project Planning, Project Management Lifecycle, Accelerating Product to Market

Reference: Reference to this paper should be made as follows: Sarmad, F., (2012) "Optimizing Product Development Projects – IFI Inc.: A Case Study in the Food and Beverage Industry", The ISM Journal of International Business, ISSN 2150-1076, Volume 1, Issue 4, October 2012.

Biographical Notes: Farshad has over ten years of experience in operations management, strategic marketing, and management consulting within the Food & Beverage industry. He is currently the president of Bev Canada Enterprises Co., a product development and marketing consulting company specialized in the FMCG sector, located in Vancouver, British Columbia. Farshad is also an adjunct faculty at Fairleigh Dickinson University – Vancouver Campus, where he teaches courses in International Business and Business Ethics. Mr. Sarmad is a DBA Candidate at the International School of Management. He holds an MBA in Global Management as well as a B.Sc. in Industrial Engineering.

Background Information

IFI Inc. was founded in the late 1970's and was the first producer of concentrate and emulsion for carbonated soft drinks in Iran. Over the past two decades, its aggressive expansionary strategies allowed the company to formulate, produce, and package a wide range of beverages in-house and to export products to several markets in throughout the Middle East as well as the rest of the world. Even though sales revenues in the US reached $20 million in 2009 (IFI Inc., 2010), the international tensions over Iran's nuclear issue, high inflation, and low income of mass markets have negatively affected the soft drink industry within the country and created a highly unstable environment for business. Because of these circumstances, and the need for market and product diversification, the company was prompted to seek new markets in other international regions and to improve its existing product development practices to include an increase in efficiency and effectiveness.

Situational Analysis

This section investigates factors that play a significant role in determining the opportunities, threats, and constraints that the firm faces in the market. This will shed light on major trends that affect the product development processes of the company and will assist the company's management team in determining an improvement plan framework. The analyzed topics in this section include economics, market and beverage industry outlook, and an analysis of the company's existing product development procedure with a focus on identifying efficiency gaps and potential areas for improvement.

To gain a deeper understanding of the company's product development practices, the author conducted 25 face-to-face interviews with managers and supervisors across the organization. With the help of management team, a formal analysis was conducted wherein 35 past product development projects within a timeframe of five years were analyzed.

Economics, Market Outlook, and Industry Analysis

Hot summers, a large population, and a youthful demographic profile were among the major contributing factors for growth of the beverage industry in Iran. Since the Islamic revolution in 1979 there has been relatively minimal involvement of foreign companies and this added to the market's attractiveness. Additionally, there has been a rapid increase in the level of soft drinks consumption in Iran over the past decade. The market in Iran has been becoming significantly more dynamic and vibrant as new products and product categories found their way to store shelves and consequently to consumers. Even though new product categories such as Packaged Water, Non-alcoholic Beer, Nectars, Juices, and

Juice drinks have been thriving in recent years, and work as a testament to the promising market potential of the country, Iran's beverage industry may not be able to continue growing at such a rapid rate.

Iran's economy is heavily dependent upon oil revenues; Iran has an abundance of energy resources and holds around 10% of the world's proven oil reserves (Country Watch, 2012). Moreover, Iran has the world's second largest natural gas reserves. Nevertheless, the country's economy has been faced with significant challenges in recent years due to heavy government control, inefficiency, corruption, as well as the regime's nuclear ambitions. Additionally, the threat of further UN and unilateral sanctions against Iran imposed to force the government to halt its nuclear program, coupled with the growing likelihood of a military conflict over the nuclear issue, are likely to have a long-term impact on the economy. It is predicted to worsen the already weak economic status of the country (The Economist Intelligence Unit, 2012). Moreover, the forecasted threat of high inflation, the economic uncertainty, and the expected increase in the cost of raw materials could present significant challenges to the beverage industry in the coming years.

Iranian households spent 23.1% in 2006 of their disposable income on food and beverages (Euromonitor International, 2008, 2010). Nevertheless, a large proportion of Iranian households are likely to have little or no income left over once their most basic needs have been met (The Economist Intelligence Unit, 2011). This economic reality needs to be considered when creating marketing and product development strategies of companies for the beverage industry. It is likely that market potentials for certain product categories, and particularly those with premium status targeting mainstream markets, could be hindered.

Given that the total value sale of soft drinks in Iran has been rising over the past decade, this growth suggests that despite economic and political challenges, consumers are becoming increasingly aware of the significance of soft drinks as a lifestyle choice. The market also maintains the potential for further growth (Euromonitor International, 2006). Exhibits 1 to 3 represent soft drink industry and economic performance of Iran.

Market Overview								**Iran**
Soft Drinks								
	2005	2006	2007	2008	2009	2010	2011	2012
US$ billion	2.3	2.4	2.5	2.6	2.7	2.8	2.9	2.9
Index, 2005=100	100	106	109	113	116	121	125	129

Forecast Market Growth, 2007-2012	**18.1%**

The ISM Journal of International Business
ISSN 2150-1076, Volume 1, Issue 4, October 2012

Exhibit 1. Market Performance for Soft Drinks in Iran
Source: Gobi International (2007)

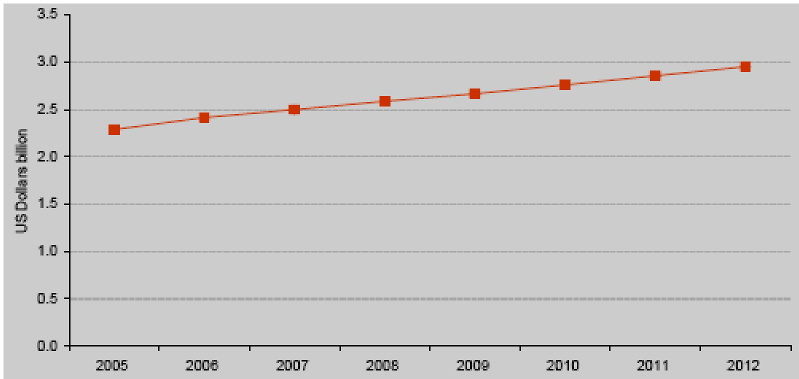


Exhibit 2. Market Performance for Soft Drinks in Iran
Source: Gobi International (2007)

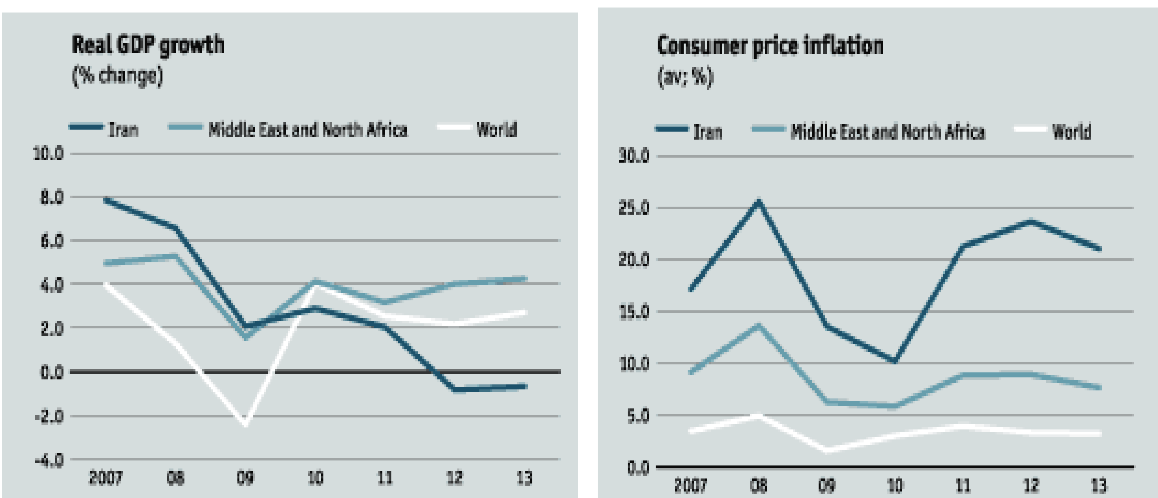


Exhibit 3. Real GDP Growth and Consumer Price Inflation of Iran
Source: The Economist Intelligence Unit, 2012

How Do Situational Factors Impact Product Development?

The findings of the situational analysis indicate that there have been three major trends that have a considerable impact on product development projects at IFI and other manufacturing organizations in Iran. These trends include the following:

Trend 1) Rising inflation: Rising inflation has negatively affected the household consumption expenditures. Most customer segments have become more cost-conscious, price sensitive and increasingly seek products that provide tangible benefits. This trend has fueled the competitive battle and has created considerable pressure on manufacturers' resources. As a result, companies are increasingly cognizant of the need for higher efficiency in their product development processes and better management of their development resources in order to remain competitive.

Trend 2) International sanctions: The government's uranium enrichment program has created considerable uncertainty about the country's medium-term economic prospects and this has affected the costs of doing business in Iran. International sanctions have had a dramatic impact on the effectiveness of the supply chain through making imports of certain raw materials more difficult, costly, and time-consuming. Companies are also faced with serious challenges over simple work processes such as opening a Letter of Credit (LC), or obtaining insurance for shipments.

Trend 3) Rising cash flow requirements: As a general trend, businesses are negatively impacted by an increase in the cost of their operations, by significantly higher levels of cash flow requirements, and by an environment of economic uncertainty.

New product development and innovation are vital contributing factors to the success of today's enterprises (Herring, 2011). Gary Hamel (2002) calls radical innovation "the most important business issue of our time" (p.114). The discussed challenges of the beverage industry further emphasized the need for systematic project selection methods, faster-to-market development processes, and a stronger market research practices that included solid customer relationship management. The effective implementation of these strategies is likely to be the key to sustainable growth of IFI Inc in the future.

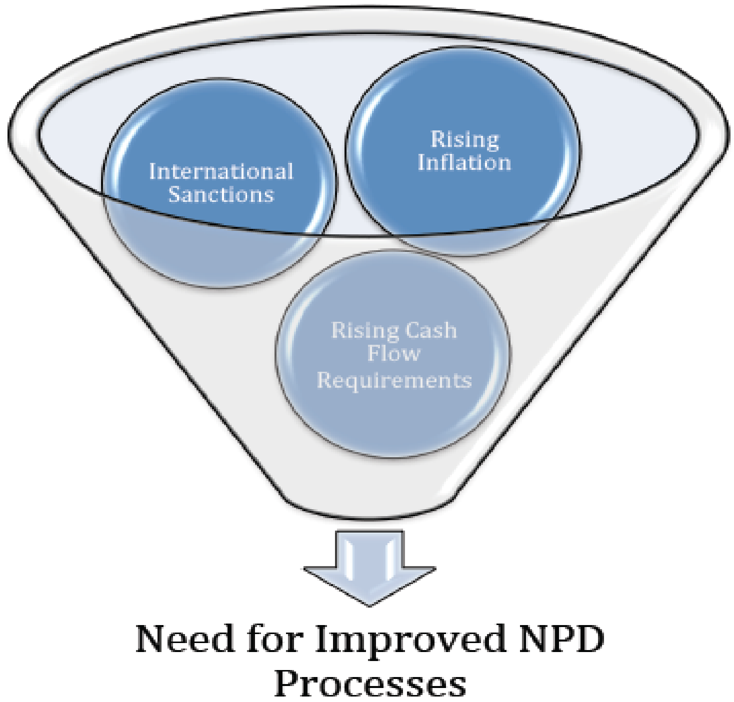


Exhibit 4. Major Trends Impacting New Product Development in Iran

Analysis of the Existing Product Development Procedure at IFI Inc.

The product development procedure at IFI is comprised of five phases. Once an opportunity is identified, the procedure then involves taking the product idea through concept evaluation, product development (both technical and marketing), and finally, the launch phase. The core rationale behind this procedure is that each phase represents various activities that are to be performed by the product development team. Between each phase, there are evaluation tasks, or decision points wherein the team determines whether the project is promising enough to move on to the next phase. Exhibit 5 illustrates the existing product development procedure at IFI Inc.

Exhibit 5. Existing Product Development Procedure at IFI Inc.

Phase 1) Opportunity Identification: The goal of this phase is to creatively recognize opportunities that could be translated into viable products for the company. At IFI these opportunities are typically identified through three sources. These sources include, (a) ongoing marketing and planning (performed by the marketing department on a semi-annual basis), (b) ongoing corporate planning (performed by top management as part of the strategic management on annual basis), and (c) special opportunity analysis (performed by market specialists or consultants on occasional basis). Subsequent to identification, opportunities go through a preliminary filtering process wherein they are analyzed to confirm that a sales potential does exist, that they fit with company skills, and to ensure that the opportunities meet with the company's risk tolerance and budget.

Phase 2) Concept Generation: In some cases, merely identifying an opportunity fully describes what is wanted. However, the majority of concept generation requires that product concepts highlight particular product characteristics and then strive to match those product characteristics with specific customer needs. At IFI, this phase is performed by the Marketing and R&D departments on an ongoing basis.

Phase 3) Concept / Project Evaluation: This phase is comprised of several screening sequences that range from end-user screening to technical screening, depending on the concept. The goal of this phase is to evaluate product concepts on technical, marketing, and financial criteria. At IFI, the concept/project evaluation is usually informal and involves no more than a cash flow and net present value analysis, coupled with subjective judgments of the management team on the concept's potentials. However, occasionally a more formal concept test is conducted wherein focus groups, product testing panels, and other similar activities are held. People from the marketing, finance, engineering, and R&D departments take the responsibility for completing this phase of the process.

Phase 4) Development: The development phase is comprised of two development streams, i.e. technical development tasks and marketing tasks. People from the R&D and engineering departments are responsible for completing the technical tasks. These include specifying the development process and its required resources and deliverables, undertaking to design prototypes, testing and validating prototypes, and gradually scaling up production as necessary for market testing and launch.

The marketing people are in the other stream. This stream of people is responsible for preparing the details for completing the marketing plan, packaging, branding, and advertising. It should also be noted that both the technical team and the marketing team conduct concept evaluations throughout this process phase and that this activity helps to ensure that by the time the final product is developed, it is technologically and financially feasible and still meets the needs of the customers. Even though the company has these procedures in place, previous experiences at IFI have shown that as the technical and marketing development streams run in alignment, there was a possible technical or marketing change down the line that could junk much or all of the previous work done in the areas of package design, name, and/or technical specifications.

Phase 5) Launch: The launch phase at IFI typically begins with a market test, or a preparation period, and the products are distributed and marketed on a limited basis and the manufacturing output scales up on a gradual basis. It is at this phase that the company hopes to identify and solve any problems with production, technical, or marketing that may have arisen.

Subsequent to a typical period of one to three months, the launch phase moves to its formal status wherein the preparation activities lead to a public announcement of the product, an increase in production rates, and full-scale sales activities including distribution and the implementation of the marketing plan. N.B. If there is a misstep to be had, it would be in IFI's product development phase procedure, and specifically, the activity of launch management. The company does not have any specific department that is responsible for performing these preparation tasks and activities however; the process is done on a very informal basis.

What are the Problems of the Existing Product Development Procedure at IFI Inc.?

In order to identify the root cause of the problem, a formal study was designed wherein 35 of the company's previous product development projects were analyzed over a five-year period. The preliminary results indicated that the number of in-progress projects were significantly higher than what the company's resources could support. The study also found that strained resources caused delays at various stages of the process and that missed deadlines and rising development costs generated a domino effect, which then forced project managers to cut corners and compromise quality in order to keep their projects moving forward.

The sequencing of phases of product development at IFI presents a systematic framework for development processes. However, the findings of the formally conducted interviews revealed that the company was faced with a number of challenges with implementing its product development phase and associated tasks. IFI's management team had been troubled for some time due to the fact that the development budget had been on the rise while, at the same time, the number of completed projects continued to decline. Furthermore, many of the ongoing development projects no longer seemed to reflect the needs of the customers. Although IFI's management team believed that the annual strategic plans of the company provided adequate guidance and that the development departments needed to generate and schedule projects, the problems continued to exist.

In addition, the management team came to realize that there was no formal development project selection process in place, i.e. the project selection criteria did not reflect long-term strategic goals of the company and that many engineers and key staff were spending as much as half their time working on non-critical projects and on non-project-related work. This lack of cross-functional teams combined with a flexible project framework further intensified the problem.

Using Project Management to Create a Three-Tier Improvement Plan

This section highlights the role that project management could play in turning the identified weaknesses and threats into potential strengths and opportunities.

As a result of the findings from the situation analysis, i.e. in-depth interviews with the management team combined with the results from the conducted analysis of the company's previous product development projects, three main categories were identified as high-priority areas for reform: (1) project selection, (2) development efficiency, and (3) development time.

This paper recommends a three-tier improvement plan, wherein each tier targeted one of the three areas in need of reform. The recommendations are based upon interviews with the management team and take into account the organization's collective experience from previous similar reforms. A preliminary cost-benefit analysis was performed, however, the details of the analysis cannot be released due to reasons of confidentiality.

Exhibit 6 depicts a graphical overview of the employed decision process to create the optimization framework of this paper.

The linear sequencing of phases of IFI's existing product development procedure presents a general framework. However, in reality, the activities are not always sequential. In fact, the activities related to product development overlap a great portion of the time. As there is much pressure for companies to accelerate time to market for new products, this type of overlapping is often encouraged by project managers and is used as an important tool to shorten the product's time-to-market timeline schedule . Nevertheless, in order to perform the shortened time-to-market schedule effectively, there are several critical success factors that need to be managed well (Cooper, 1993).

In order to be successful, an integrated systematic approach needs to be in place. This strategy requires highly effective communication between different functional areas including, marketing, R&D, manufacturing, design, and engineering. According to Black (2004), "taken together, the communication elements accounts for more than 75 percent of the factors that enabled project success" (p.9). Moreover, such parallel processing requires flexibility, agility, and high performing cross-functional teams to complete projects on-time, on-budget, with minimal amount of risk and uncertainty in the process (Gray & Larson, 2006). It is therefore suggested that implementing the identified three-tier improvement plan could create the required integrated system that would enable IFI to accomplish these tasks with a higher rate of success.

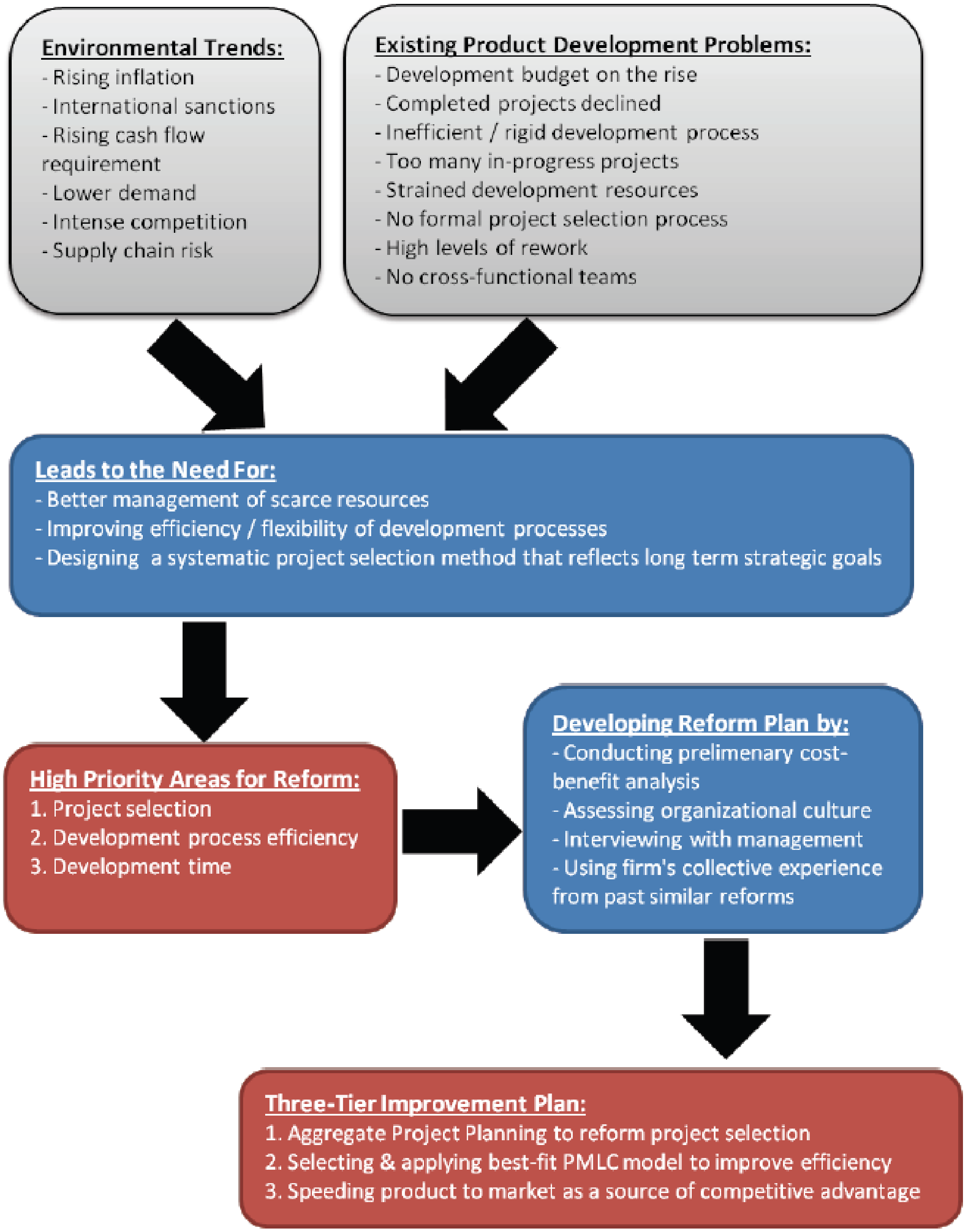


Exhibit 6. Decision Map for Creating the Optimization Plan

Improvement Plan - Tier 1: Aggregate Project Planning to Reform Project Selection

The first tier of the recommended improvement plan targets the first identified high-priority area for reform, i.e., *project selection*. Despite the importance product development plays in the long-term competitiveness of manufacturing firms, a large number of development projects fail to meet their early objectives. According to Wheelwright and Clark (1992), poor leadership and/or the absence of essential skills can cause problems, but, more often the problem can be rooted in the firm's approach towards the development process itself, i.e., the lack of aggregate project planning.

The situation analysis also indicated that IFI's product development procedure lacked a formal process for selecting development projects. The company simply had too many projects running at once and often significantly over-committed its resources.

Organizations need to devote more attention to managing the set and mix of projects, rather than directing all of their attention to individual projects (Wheelwright and Clark, 1992). In addition, as Chase, Jacobs, and Aquilano (2005) suggest that, by definition, operations strategy is a planning process that sets broad plans for using the resources of a firm to best support its long-term competitive strategy. The successful organizations are the ones that manage to create a close alignment between their operating projects and their operating strategy.

An aggregate project plan would significantly improve IFI's existing product development practices as it provides a systematic approach for managing company's project mix for the most effective use of its scarce resources. By categorizing projects based on their contribution to the company's competitive strategy, maximum utilization of the resources would be attainable.

According to the model of Wheelwright and Clark (1992), to create an aggregate project plan, one must first define and/or identify the different types of development projects and then they must be mapped based on two dimensions i.e. the degree of change in the product, and, the degree of change in the manufacturing process. Proportionally speaking, the greater the change along either dimension, the more resources are needed.

Using this construct, five types of projects can be defined. The project development map helps managers predict distribution of resources accurately and enables them to plan and sequence projects with a higher accuracy over time. All five types of projects are critical for creating a sustainable organization. A brief description of each category follows in Exhibit 7.

Project Type	Description
Derivative Projects	Development projects with incremental changes to existing products such as cost-reduced versions, no frills versions, or new packaging. These projects consume relatively few development resources compared to other categories. They usually have short completion periods and thus require minimal management involvement.
Breakthrough Projects	Could be placed in the other end of the development spectrum as they entail major changes to existing products and processes that create entirely new product categories and markets. Significant resources are needed for these projects.
Platform Projects	Could be placed in the middle of the development spectrum between derivative and breakthrough projects and they entail fundamental improvements in previous products in terms of cost, quality, and performance. These projects often offer significant potential to increase market penetration and to gain competitive leverage and thus should form the core of the organizations' project plan. Because of high level of change, they require considerable involvement of different functions including; engineering, marketing, and senior management.
Research & Development Projects	There are great differences between R&D and other development projects in terms of risk, creativity, funding, expectations, and management styles. However, a close relationship is critical to ensure an appropriate balance in the long run.
Alliance & Partnership Projects	These are relationships formed with other companies for developing various projects. Although alliance and partnership development projects form an integral part of the product development process, many organizations fail to provide them with adequate resources.

Exhibit 7. Project Types and Descriptions – Wheelwright & Clark's Model
Source: Wheelwright and Clark (1992)

With the help of the management team, a list of existing product development projects at IFI Inc. was generated. IFI's product line included five types of beverages: carbonated soft drink (CSD), non-alcoholic beer, nectar, 100% juice, and juice drink.

To create an aggregate project plan, various types of development projects were defined and mapped based on two dimensions i.e. the degree of change in the product, and degree of change in the manufacturing process. Subsequent to project plan analysis of these projects, IFI's existing 11 projects were assigned to different categories of Wheelwright and Clark's model. Exihibit 8 presents an illustration of the existing map of development projects at IFI Inc.

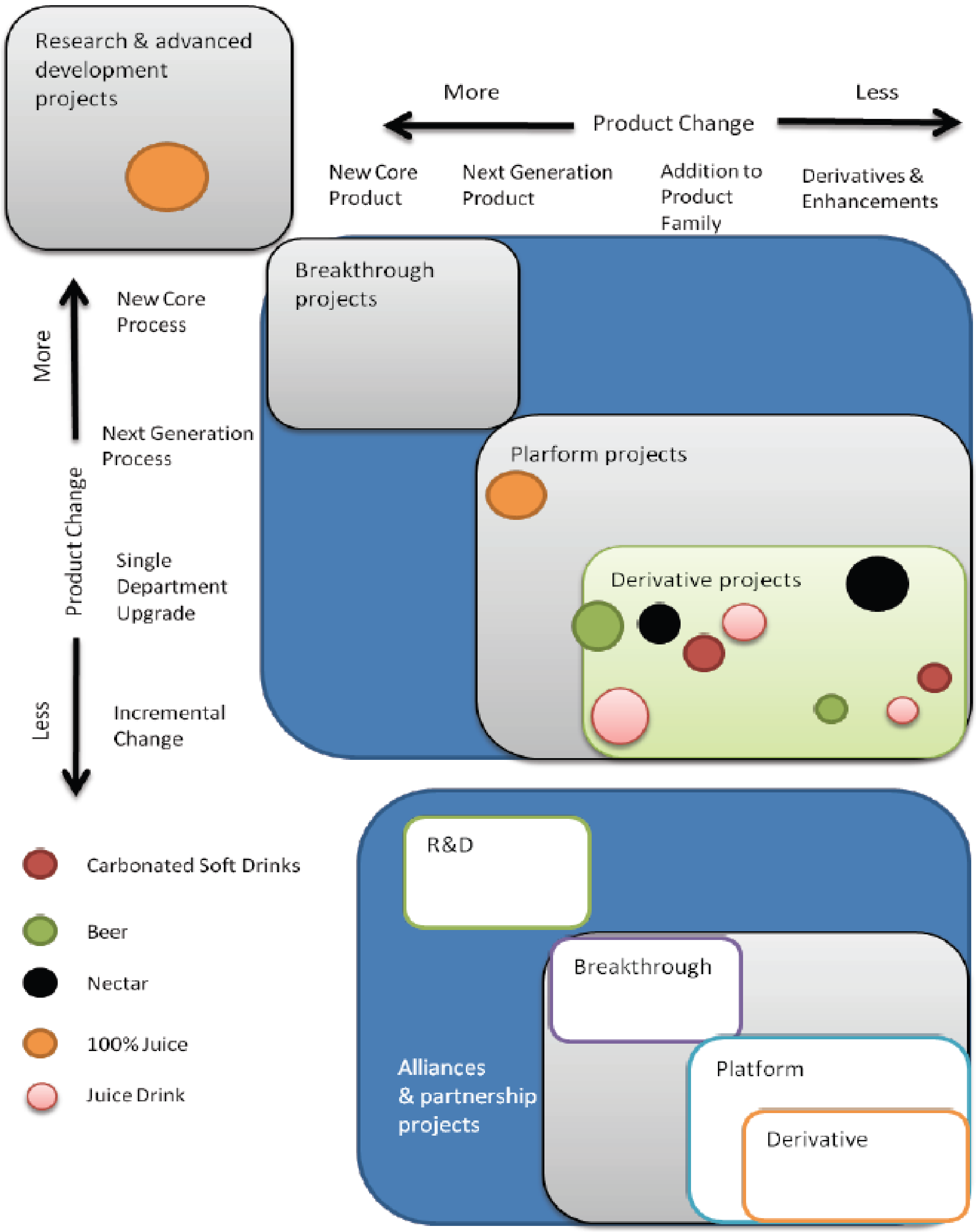


Exhibit 8. Existing Map of Development Projects at IFI Inc.
Note: **Each circle represents a development project; the size correlates to the amount of development resources the project requires.**

As expected, the initial development project map (Exhibit 8), showed a significant disproportion in distribution of projects. For example, less than ten percent of the company's projects were in the area of platform projects . In a mature industry such as IFI's, focusing on platform projects becomes increasingly vital. Ideally, platform projects should form the core of the firm's product development plan.

As an industry matures and the technology is shared more broadly, competitors try to meet customers' needs by rapidly making incremental changes to existing products (Wheelwright and Clark (1992). Companies may be drawn to adopt a product development strategy based upon derivative projects. As evidenced in the case of IFI, this strategy led to the proliferation of product lines and over-commitment of resources. As Wheelwright and Clark (1992) suggest, "the solution lies in developing a few well-designed platform products, on each of which a generation of products can be built" (p.11).

Furthermore, according to the initial map, none of the existing development projects were placed in the alliance and partnership category. According to the research done by Thomke and Reinertsen (2012), the high utilization of resources in product development projects could have negative effects on overall performance. When taking into account the rising instability of the business environment in Iran and the importance of lowering cash flow requirements for the companies operating in this environment, it could be argued that IFI could significantly benefit from development projects in the alliance and partnership category.

As a viable strategy, IFI Inc. could use the project map to rethink a number of its product lines. For instance, the company could focus more on its core competencies with respect to R&D to develop a new beer concentrate, utilize its technological capabilities to develop a juice drink in hot-filled plastic bottles, a first-time-product in the Iranian market, and/or get involved in more alliance and partnership projects in order to reduce its risk and cash flow requirement, and finally, cancel development projects that do not make a strategic sense.

Overall, the map could serve as a valuable and effective tool for relocating resources and for reforming mix of projects. Exhibit 9 illustrates a recommendation for IFI's new project plan.

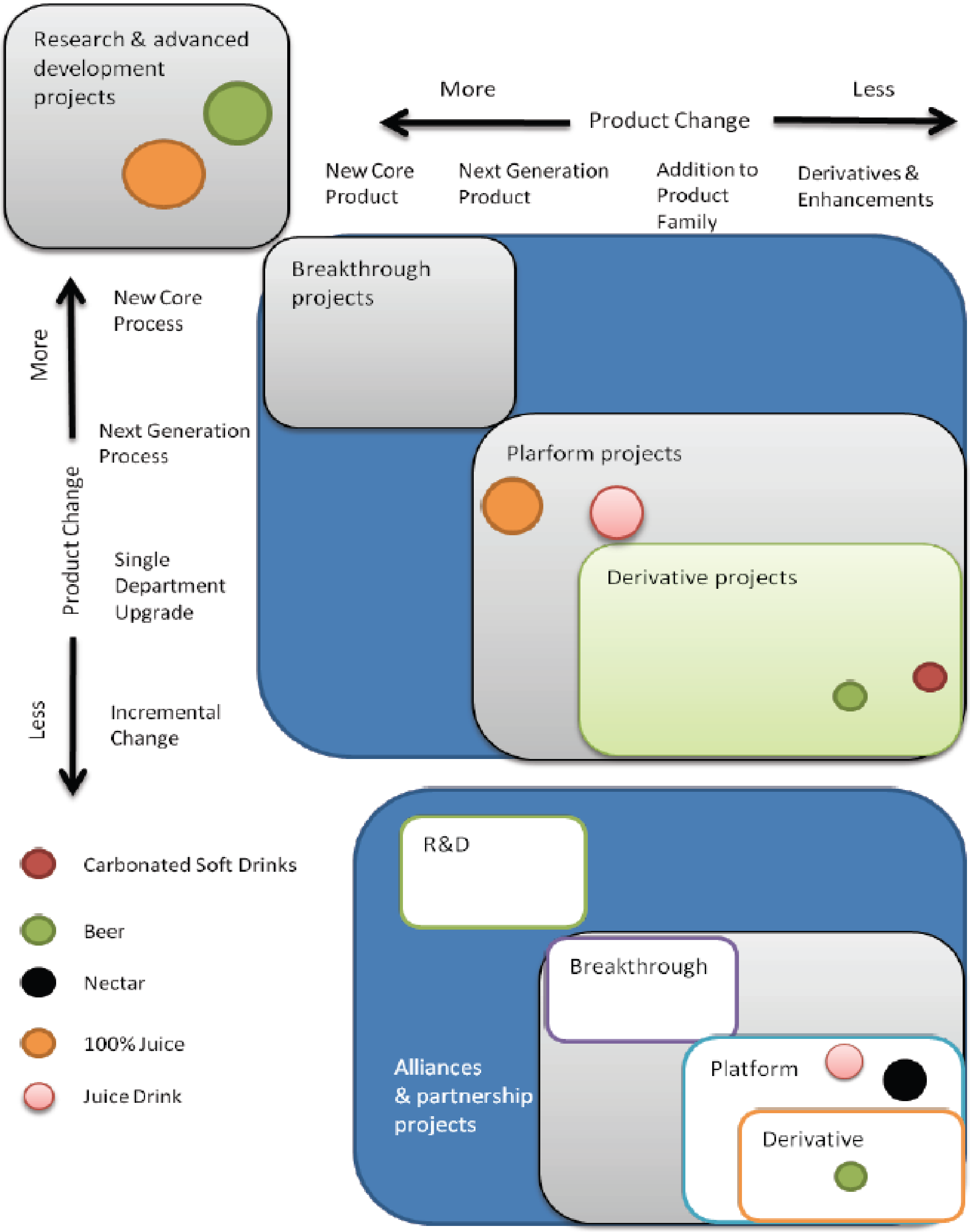


Exhibit 9. Recommended Map of Development Projects for IFI Inc.
Note: **Each circle represents a development project; the size correlates to the amount of development resources the project requires.**

Improvement Plan - Tier 2: Selecting and Applying the Best-Fit Project Management Life Cycle Methodology to Improve Process Efficiency

The second tier of recommended improvement plan seeks to address an important high priority area for reform, i.e., the *development process efficiency*. According to Crawford and Di Benedetto (2011) "the goal of a new products process is to manage down the amount of risk and uncertainty as one passes from idea generation to launch" (p.20). The effective management of the amount of uncertainty is imperative, because, with each additional phase in the development process, the amount of financial investment, usage of organizational resources, and the level of commitment of human resources increase significantly (Crawford & Di Benedetto, 2011). A well-designed, well-managed product development process could mean improvements in product teamwork, less rework, greater success rates with new products, earlier identification of failures, improved launch, and up to 30 percent shorter cycle times (Rosenau et al., 1996).

According to Wysocki (2009), the poor track record of project management success across different organizations is a sad testimony to poor management decisions with respect to selecting the best-fit project management life cycle methodology (PMLC). More importantly, the optimum product development processes depends significantly on the business context (De Meyers, Loch, and Pich, 2002). As Wysocki argues, too many project managers have tried to force fit the wrong PMLC model because that was the only model approved for use by their top management, or, they did so in ignorance of other models that were better management fits. Matta and Ashkenas (2003) also suggest that an underlying reason for the high number of project failure across industries is the traditional approach that shifts project team's focus away from the end results towards developing partial solutions.

According to Wysocki (2009), analyzing the project management landscape in terms of the two variables of 'goal' and 'solution' presents a better understanding of the choices that organizations have for selecting their best-fit PMCL model. These two variables can each take two values: clear and not clear. They also form the four-quadrant matrix shown in Exhibit 10. 1)Traditional Project Management (TPM), 2) Agile Project Management (APM), 3) Extreme Project Management (xPM), and 4) Emertxe Project Management (MPx).

Every project can be placed into one of these four quadrants based on the project's goal and solution clarity (Wysocki, 2009). The quadrant in which the project is placed will be an initial guide to choosing a best-fit PMLC model. However, beyond clarity and completeness of the goal and solution, there are several other factors to consider in choosing the best-fit PMLC model. On the basis of goal and solution clarity and completeness, IFI's recommended product development projects would be best placed in the Agile project management (APM) category.

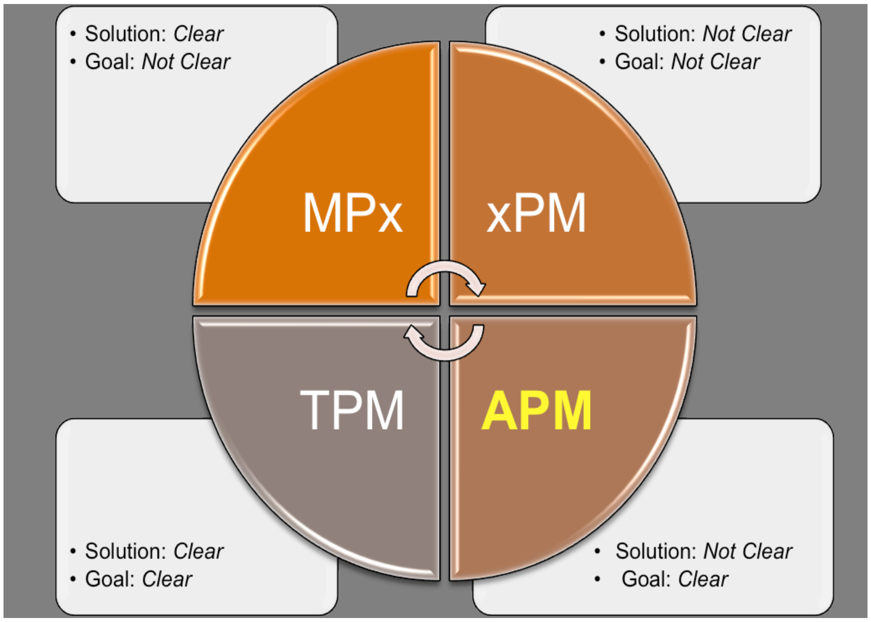


Exhibit 10. The Four Quadrants of the Project Landscape
Source: Wysocki (2009)
Note: (TPM: Traditional project management; APM: Agile project management; xPM: Extreme project management; MPx: Emertxe project management)

The existing product development procedure at IFI, however, resonates more closely with a traditional project management model. In a traditional project management model it is assumed that there is minimal goal and solution uncertainty and that complexity and the project steps follow a sequential order. There are clearly defined deliverables for every phase and each phase has to satisfy the input criteria before continuing to the next phase (PMBOK Guide, 2008). Nevertheless, the linear sequencing of phases of IFI's existing model does not fully reflect the reality of product development operations wherein the activities are not always sequential and overlap most of the time.

With rising volatility and instability of the Iranian market coupled with increasing customer knowledge and involvement in the product development process, organizations such as IFI are moving quickly towards a lack of clarity in solutions, i.e., towards the domain of Agile Project Management. According to Wysocki (2009), higher uncertainty in projects causes their complexity to rise. Product development teams have to make contingency plans to fill in the missing pieces (uncertainty) and to cope with the added project volatility. Because product teams may realize that new facts do not fit in with what they already have built, the linear sequencing models no longer hold. As a result, the product teams will be forced to undo some previous work and complete the required rework before moving forward. In these circumstances, the plan changes, the schedule changes, and a lot of effort spent earlier on developing a detailed plan will go to waste and will become non-value-added work. In other words, increased challenges and complexities facing today's businesses demand for an advanced model go beyond that which is defined as Traditional Project Management (Saynisch, 2010).

The Agile Project Management (APM) model may be a better tool for managing this uncertainty and the complexity that results from it. This is mainly due to the fact that APM models are built upon the basis of discovering and integrating pieces of the solution into the final solution as projects move forward. In addition, unlike TPM processes, APM expects and embraces change as a way to find a better solution and as a way to optimize business value within time and budget constraints (Wysocki, 2009). Moreover, as Highsmith (2004) suggests, APM models are more likely to generate a balance of efficiency and creativity through promoting the right amount of structure in project teams.

Exhibit 11 presents a comparison between Traditional and Agile project management models, i.e. between IFI's existing product development model and the recommended PMLC model.

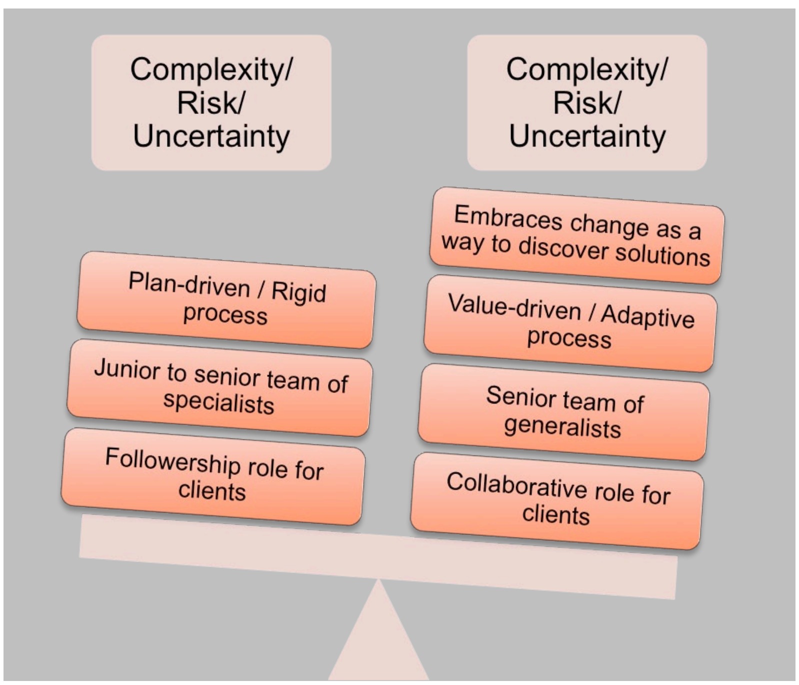


Exhibit 11. TPM (left) and APM (right) Comparison - *Comparing IFI's existing model against the recommended model*

There are two different PMLC models in the Agile category: Iterative and Adaptive. According to Wysocki (2009), Iterative models are appropriate for projects wherein most of the solution has been discovered and only a few minor features have not been decided and Adaptive models, which are best used for projects with higher solution uncertainty. The choice of which of the two Agile PMLC models to use is subjective. Among factors to consider are, the degree of uncertainty in the solution, organization culture, business environment, the product and industry characteristics. In the case of IFI's product development processes, an Iterative PMLC model in the Agile category called Prototyping is recommended.

Prototyping PMLC model works on the basis of developing a production prototype that evolves as the project team learns and discovers more about the solution through meaningful involvement of the clients (Wysocki, 2009). In the case of IFI, members of the senior management team and sample customer groups form the client group. In this model, the clients work with the project team by providing feedback on a version of the solution as the team seeks to enhance and improve upon the product version after version. Once the client is satisfied with the solution, the project then moves to the closing phase. Exhibit 12 illustrates the Prototyping model mapped into the Iterative PMLC model.

Unlike IFI's existing linear model, the Prototyping PMLC model allows for scope changes to be processed between iterations. In addition, production teams can adopt the process for changing business conditions without creating unwanted rework and inefficiencies. The Prototyping Model is likely to best-fit IFI's situation. The Prototying Model allows for changes in scope by embracing learning, discovery, and change even under circumstances when very little is known about the solution. Nevertheless, IFI's ability to effectively set the stage for managing co-located teams and actively involving the clients to a greater degree, would be the critical success factors of the new product development procedure. Exhibit 13 presents a guideline for implementation of each part of the model.

Improvement Plan - Tier 3: Speeding Product to Market as a Source of Competitive Advantage

The third tier of the recommended improvement plan addresses one of the most discussed management goals in product development at IFI. It is the *accelerated product development* phase of the plan. The *accelerated product development* phase can effectivly reduce the time for developing new products and could also increase the manufacturer's ability to address customers' continuously changing needs regarding consumers as well as industrial products (Milson and Wilemon, 2010).

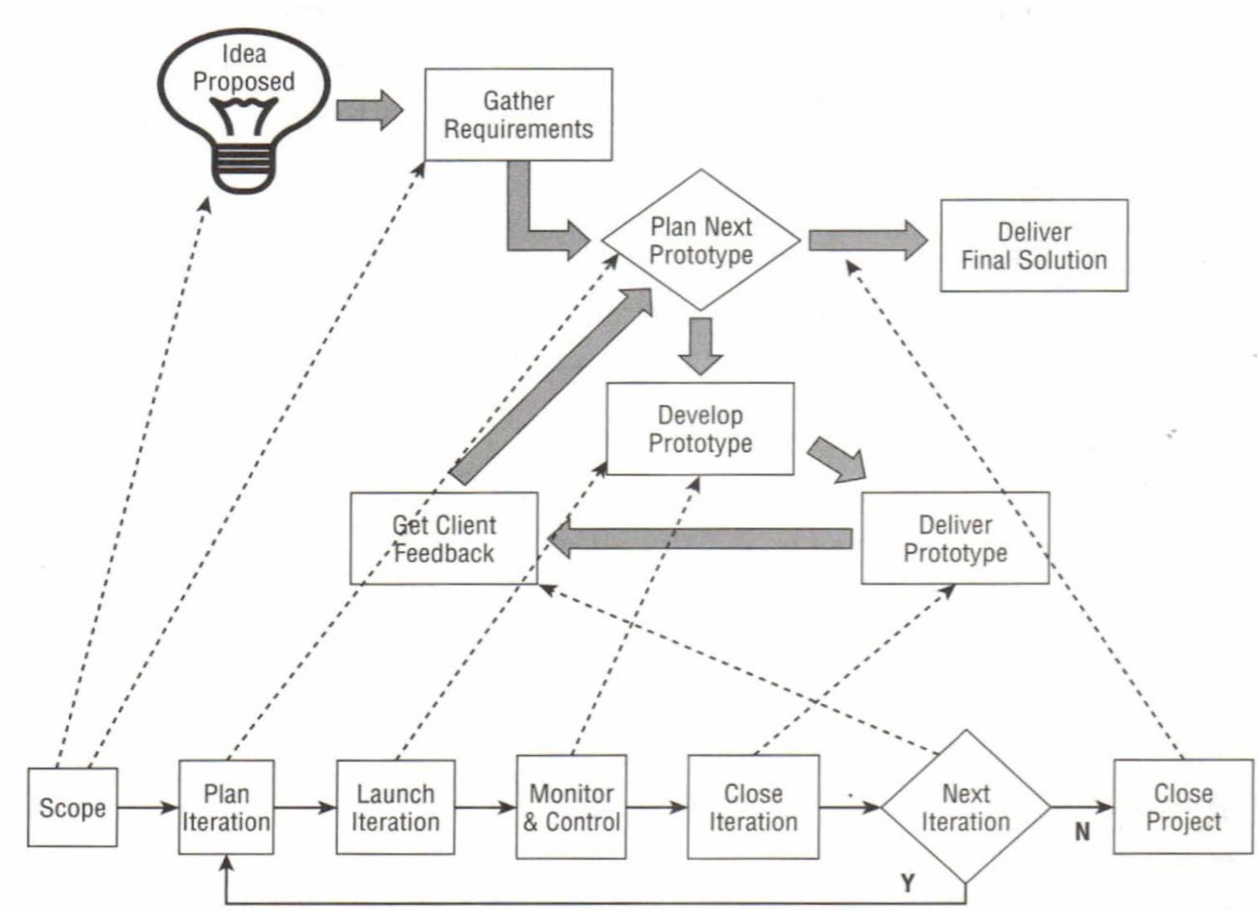


Exhibit 12. Prototyping Model Mapped into the Iterative PMLC Model
Source: Wysocki (2009)

Success in this area would assist IFI to achieve the imperative strategic goal of reducing the cash flow requirements for product development projects. Accelerated time-to-market is likely to offer additional benefits. These benefits include allowing the product to remain in the market for a longer period of time before becoming obsolete, attracting customers early, and potentially blocking competitors with similar products from entering the market.

The Aggregate Project Planning discussed earlier in this paper is a valuable tool in reducing cycle time. Through better project selection, Aggregate Project Planning focuses the company's scarce resources and uses them more efficiently. Moreover, the selected Agile Project Management life cycle methodology helps management shorten product development cycle time significantly. This is achieved through increased efficiency and effectiveness of the product development procedure.

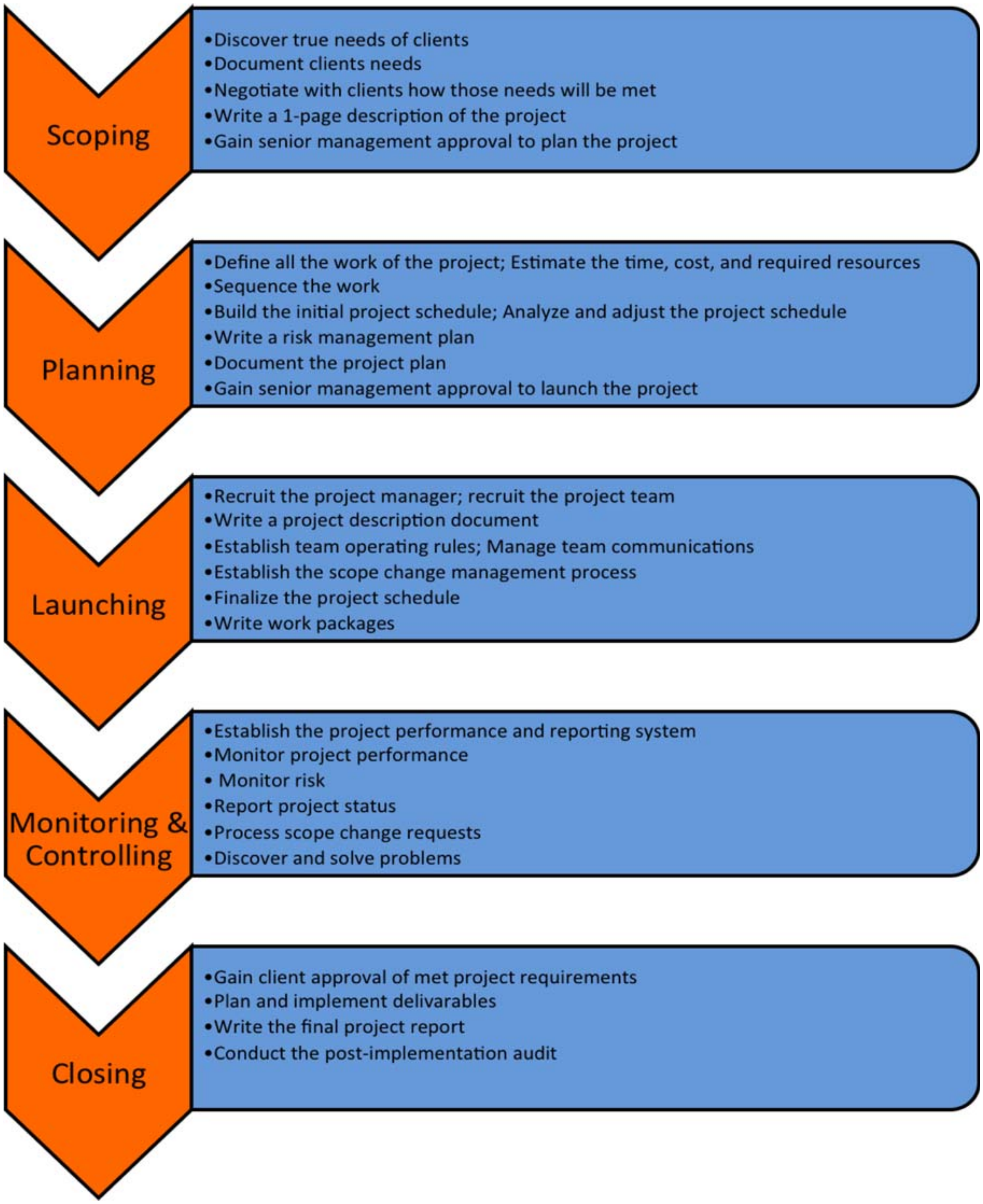


Exhibit 13. Descriptions and Guideline for Implementing Each Stage of the Model
Source: Wysocki (2009)

The Agile Project Management lifecycle generates empowered cross-functional teams, including individuals from marketing, manufacturing, R&D, and other discussed functional areas, from the earliest phases of the project. According to Cooper (1993), an empowered cross-functional team supports parallel processing and eliminates “over the wall” product development. Furthermore, marketing and/or production teams do not even begin their participation until the product is out of the technical product development phase.

This section presents additional guidelines for accelerating cycle time of product development processes to complement previously discussed benefits of Aggregate Project Planning and the Agile Project Management lifecycle.

At IFI, management measures the speed to market of products through the cycle time metric. This metric takes into account the time it would take from the idea generation phase to the completion of the development phase. According to Crawford and Di Benedetto (2011), defining speed to market success as, “getting the idea to the shipping dock faster” and assumes that there has already been technical accomplishment. However, from the perspective of technical development, speed to market success means not just time to the shipping dock, but also post-shipping technical speed such as legal and environmental services performance.

Further, as Crawford and Di Benedetto (2011) suggest, using the metric of “time to success” rather than “time to shipping dock,” enables the marketing department to play a more dominant role in accelerating cycle time. Marketing can positively impact cycle time by, (1) accelerating pre-market speed, such as performing pretesting of marketing plan more quickly, or accelerating field coverage through alliance formation, and (2) post-announcement speed, such as speeding up coupon redemption, or faster utilization of sales representatives.

Finally, the management team and the leadership style of the organization play vital roles in speeding the product to market (McDonough and Barczak, 1991). Research suggests that quality management could have a positive effect on the speed of new product development (Sun, Zhao, and Yau, 2009). Nevertheless, the key goal of reforming product development speed is to find a way to accelerate the process without sacrificing quality. This is a burdensome task and requires the full commitment and support from the company’s senior levels of management.

For instance, success stories of a dramatic acceleration of product to market cycle time, such as the case of Chrysler in the early 1990s, was the result of spending over $1 billion on a development center designed to allow co-location of company’s project teams while at the same time investing heavily in new CAD systems, team training, and supplier development (Smith, 1999). Exhibit 14 presents a general guideline for attaining speed in a product development project.

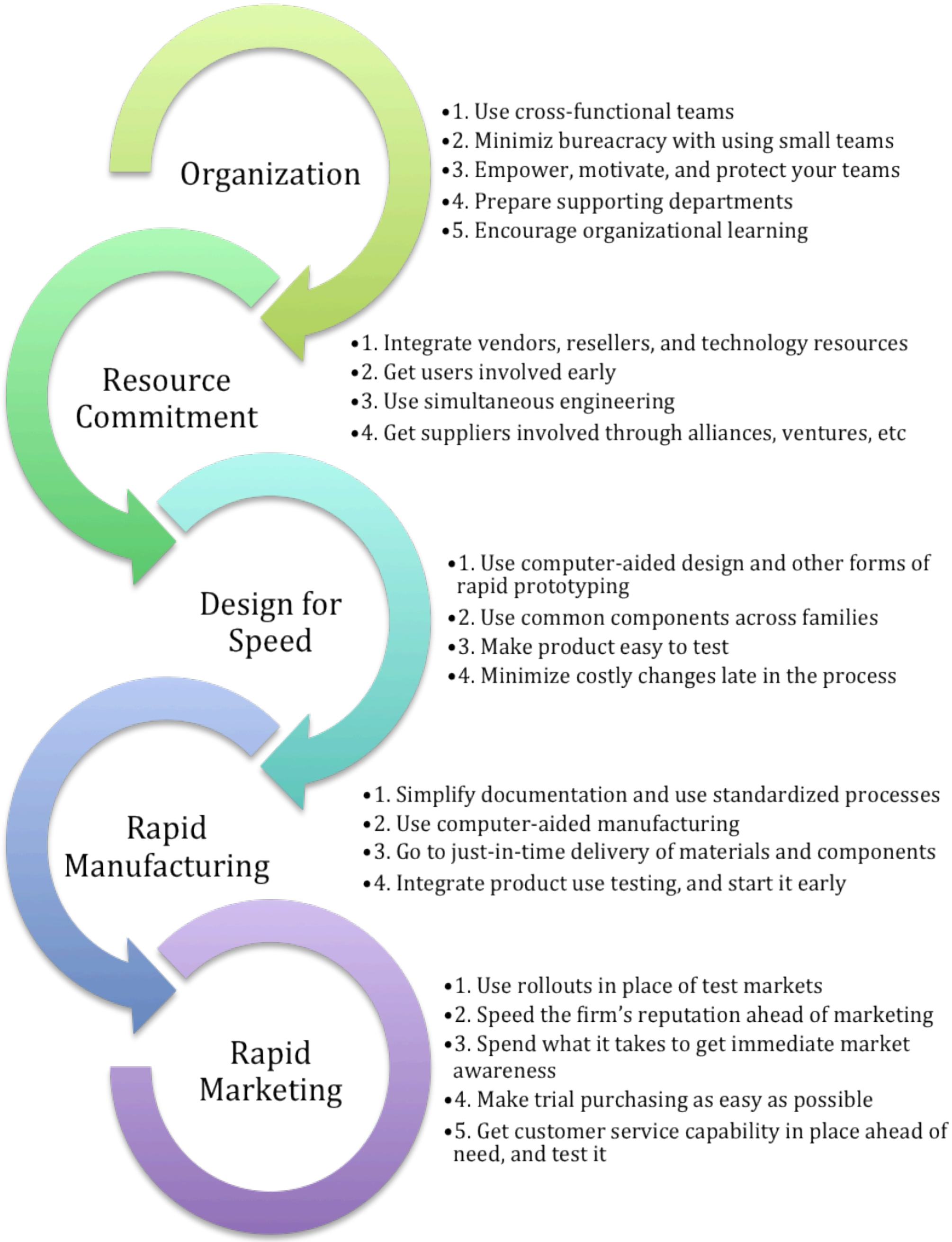


Exhibit 14. Guideline for Attaining Speed in a product development project
Source: Crawford and Di Benedetto (2011)

Conclusion

The goal of the recommended improvement plan was to manage the amount of outcome volatility and process uncertainty in the product development process at IFI Inc.

Rising levels of inflation, cash flow requirements, and supply chain risk caused by the international sanctions as well as escalating economic and political uncertainty have set the bar high for remaining in the competitive game in Iran.

The analysis of IFI's beverage development procedure over the aforementioned five year study indicated mounting challenges. These challenges included rising development budget costs and a decline in the number of completed projects, i.e., too many ongoing projects strained development resources and started a domino effect of delays, missed deadlines, compromised quality, and process inefficiency. Clearly, a product development reform was vital to secure the firm's competitive position in the long run.

To create an effective restructuring framework and to determine underlying weaknesses as well as possible cures, an integrated system was needed to interconnect different functional areas - including marketing, R&D, manufacturing, design, and engineering.

Additional analysis identified three high priority areas in need of improvements. Those areas of improvements included, project selection, development efficiency, and development time. With support from the literature as well as the firm's functional managers, a three-tier optimization plan was designed.

The first tier included Aggregate Project Planning, which allowed optimization of the firm's project mix for the most effective use of scarce resources. By categorizing existing projects based on their contribution to the company's competitive strategy, improved long term sustainability was achieved.

The second tier identified Prototyping PMLC model in the Agile category as the best-fit project management methodology. By embracing learning, discovery, and change, even under uncertain circumstances, the new model is expected to generate enhanced product teamwork, less rework, greater success rates with new products, earlier identification of failures, and improved launch.

Finally, the third tier provided a practical approach to the critical strategic goal of accelerated product development. Successful reform in this area is likely to translate into several sources of competitive advantage, including lower cash flow requirements, longer product presence in the market, attracting customers early, and blocking competitors with similar products from entering the market.

This framework was designed with the intention of presenting a high-level view of the reform process and the effective implementation of this plan is likely to be the key to sustainable growth of the company in the future. Nevertheless, further research and analysis is required to create a detailed implementation plan and to guarantee the highest chance of success. As Crawford and Di Benedetto (2011) suggest, “A successful new product does more good for a firm than anything else that can happen” (p.6).

References

Black, R. (2004). *Project Management with Microsoft Project 2003* (1st ed.). New York, NY: Penguin Group Inc.

Chase, R. B., Jacobs, F. R., & Aquilano, N. J. (2005). *Operations Management for Competitive Advantage* (11th ed.). New York, NY: McGraw-Hill.

Cooper, R. G. (1993). *Winning at New Products: Accelerating the Process from Idea to Launch* (2nd ed.). Reading, MA: Addison-Wesley.

Country Insight (2007, April 25). *Iran: Country Profile.* Retrieved May 20, 2007, from Country Insight Database.

Country Watch (2012). *Country Report-Iran.* Retrieved June 2012, from Country Watch Database.

Crawford, M., & Di Benedetto, A. (2011). *New Products Management* (10th ed.). New York, NY: McGraw-Hill.

De Meyer, A., Loch, C. H., and Pith, M. T. 2002. Managing project uncertainty: From variation to chaos. Sloan Management Review 43(2): 60-67. Retrieved June 2012 from EBSCOhost Database.

Edward McDonogh and Gloria Barczak, "Speeding Up New Product Development: The Effects of Leadership Style and Source of Technology", *Journal of Product Innovation Management*, 8(3), September 1991, pp. 203-211.

Euromonitor International (2006, October). *The Market for Soft Drinks in Iran.* Retrieved May 24, 2007, from www.marketresearch.com.

Euromonitor International (2008, March 19). *Iran: Country Profile.* Retrieved April 23, 2008, from Euromonitor International Database.

Euromonitor International (2010). *Iran Business Environment.* Retrieved June 12, 2011, from Euromonitor International Database.

Gobi International (2007, July 16). *Statistical Market Forecast for Soft Drinks in Iran.* Retrieved April 12, 2008, from www.marketresearch.com.

Gray, C. F., & Larson, E. W. (2006). *Project Management: The Managerial Process* (3rd ed.). New York, NY: McGraw-Hill/Irwin.

Hamel, G. (2002). Innovation Now! It's the Only Way to Win Today. *Fast Company*, 114. Retrieved from http://www.fastcompany.com/magazine/65/innovation.html.

Herring, S. (2011). Why Innovation? Why Now?. *T+D*, *65*(9), 26. Retrieved June 2012 from EBSCOhost Database.

Highsmith, J. (2004). *Agile Project Management: Creating Innovative Products*. Boston, MA: Addison-Wesley.

Hongyi Sun, Yangyang Zhao, Hon Keung Yau, (2009),"The relationship between quality management and the speed of new product development", The TQM Journal, Vol. 21 Iss: 6 pp. 576 – 588. Retrieved June 2012 from Emerald Database.

Iran Food Industries Inc. (2009). *Financial Statements.* Retrieved June 5, 2011.

Iran Food Industries Inc. (2009). *Strategic Plan.* Retrieved June 5, 2011.

Iran Food Industries Inc. (2010). *Website.* Retrieved June 5, 2011, from www.afracola.com.

MacCormack, A. (2004, May). *Management Lessons from Mars.* Retrieved June 23, 2011, from www.hbr.org.

Matta, N. F., & Ashkenas, R. N. (2003, September). *Why Good Projects Fail Anyway.* Retrieved June 23, 2011, from www.hbr.org.

Millson, M.R., & Wilemon, D. (2010). The Impact of Changing Markets and Competition on the NPD Speed/Market Success Relationship. International Journal of Innovation Management, 14(5), 841-870. Retrieved June 2012 from EBSCOhost Database.

Project Management Institute. (2008). *Project Management Body of Knowledge (PMBOK Guide)* (4th ed.). Pennsylvania: Author.

Robert G. Cooper, "New Products: What Separates the Winners from the Losers," in M.D. Rosenau, A. Griffin, G. Castellion, and N. Anscheutz, *The PDMA Handbook of New Product Development* (New York: John Wiley, 1996).

Saynisch, M. (2010). Beyond frontiers of traditional project management: An approach to evolutionary, self-organizational principles and the complexity theory—results of the research program. *Project Management Journal*, *41*(2), 21-37. doi:10.1002/pmj.20159. Retrieved June 2012 from EBSCOhost Database.

Smith, P. G. (1999, May). From Experience: Reaping Benefit from Speed to Market. *Journal of Product Innovation Management, 16*(3), 222-230.

The Economist Intelligence Unit (2011). *Iran: Country Forecast.* Retrieved June 2012, from The Economist Intelligence Unit Database.

The Economist Intelligence Unit (2012). *Iran: Country Profile.* Retrieved June 2012, from The Economist Intelligence Unit Database.

Thomke, S., & Reinertsen, D. (2012). Six Myths Of Product Development. *Harvard Business Review*, *90*(5), 84-94. Retrieved June 2012 from EBSCOhost Database.

Wheelwright, S. C., & Clark, K. B. (1992, March/April). *Creating Project Plans to Focus Product Development.* Retrieved June 12, 2011, from www.hbr.org.

Wysocki, R. K. (2009). *Effective Project Management: Traditional, Agile, Extreme* (5th ed.). Indianapolis, IN: Wiley Publishing, Inc.

Cross-Functional Teams for Corporate Entrepreneurship Practices

Shawkat Ferdousi
Professor, University of Dhaka

Abstract: Corporations are increasingly adopting corporate entrepreneurship practices in their continuing quest for business growth, to thrive in today's highly competitive markets. One useful approach to corporate entrepreneurship practice is to strategically leveraging the knowledge and skills diversity that exists in an organization. The focus is to enhance the organization's innovation and product development capacity. In this pursuit, a balanced cross-functional corporate entrepreneurship team (s) across the organization can be used as an effective tool. The success of a cross-functional corporate entrepreneurship team will depend on the degree of task dependencies, openness, and communication among the members of the team. Also as important as it is would be the support of senior managers to creating an enviable environment for effective operation of the cross-functional team. This paper explores the contemporary thinking and approaches to utilization of cross-functional teams to augment corporate entrepreneurship practices in large corporations. The analysis provides insights and guidance for development and effective operation of cross-functional corporate entrepreneurship teams. This paper, however, does not purport that cross-functional team approaches are universal panacea for every organizational-specific challenges that may arise with the corporate entrepreneurship processes in large corporations.

Keywords: cross-functional team, entrepreneurship practice, diversity and synergy, communication, innovation, competitive advantage.

Reference: reference to this paper should be made as follows: Ajagbawa, H. (2012) "Cross-Functional Teams for Corporate Entrepreneurship Practices", The ISM Journal of International Business, ISSN 2150-1076, Volume 1, Issue 4, October 2012.

Biographical Notes: Shawkat Ferdousi is a Professor at the Institute of Business Administration, University of Dhaka, Bangladesh. Professor Ferdousi has been consulting with private, public and international development sector organizations.

Introduction

In today's highly competitive market environment, corporations are under constant pressure to be more agile and innovative in terms of their business models, operations, and product development endeavours. The intense competition in domestic and international markets requires corporations to introduce frequent new innovations in the marketplace (Franko, 1989). So, innovation and product development, in line with changing technological and market conditions, are essential for survival, diversification, success, and renewal of organizations (Brown and Eisenhardt, 1995). To win the competitive race, corporations see corporate entrepreneurship or intrapreneurship practices as opportunities on which to capitalize. Fiol (1995) argues that large multifunctional organizations provide fertile ground for corporate entrepreneurial actions. According to Zahra (1995), corporate entrepreneurship is the sum of a company's innovation, renewal, and venturing efforts. Many view that the new competitive landscape is challenging and, perhaps, hostile to many business firms (Hitt et al., 1999). But this type of environment nonetheless makes firms be more entrepreneurial and reinvent themselves (Zahra and Covin, 1995). Corporate entrepreneurship practices essentially help corporations quickly identify opportunities in the marketplace and conceptualize ideas to develop product and strategy to support long term business goals and organizational agility. Corporate entrepreneurship is different from traditional corporate management approaches.

Entrepreneurship is essential to integrate two compelling strategies of growth: innovation and integration. Innovation is doing new things or doing things differently to enhance value. Integration is about improving sequencing and coherence of multiple units and functions. in large organizations and making them work together to increase capacity, synergy, improve performance, lower cost structure, and discover new opportunities (Jr. et al., 2008). So, corporate entrepreneurship is all about utilizing the innovation and creative potentials that exist throughout the organization. However, this requires an enterprise-wide thinking and constellation of ideas. This leads to development and materialization of deliberate strategies, such as cross-functional teams for corporate entrepreneurship (Ainamo, 2007). The key here is to support and integrate the divergent and often contradictory forms of knowledge and insight from separate functional specializations.

There has been considerable research on corporate entrepreneurship, but not so much on the approaches to implementation of corporate entrepreneurship practices in large corporations. Clearly, more knowledge of various approaches, including approaches to cross-functional teams for corporate entrepreneurship is needed (Dougherty and Heller, 1994). A cross-functional team is composed of members representing different functions with relevant input into a new product design, process, innovation, and integration (Hitt, Hoskisson, and Nixon, 1993). There are researches on functions and processes of teams in conventional terms, but more knowledge about the characteristics and processes of cross-functional teams in the practices of corporate entrepreneurship are needed (Yang and Dougherty, 1993). As Dougherty and Hardy (1996) point out, there is a need to study cross-functional corporate entrepreneurship team processes over time to understand the effects of coherence, diversity, team orientation, and exercise of power on innovation.

While large corporations endeavour to develop and practice entrepreneurial approaches to achieve competitive advantage, more often than not, corporations face challenges in mainstreaming and institutionalizing corporate entrepreneurship culture into their broader organizational discourse. One strategy for corporations is to use cross-functional team approaches to develop, practice and sustain corporate entrepreneurship for innovation and competitiveness. This paper explores the uses of cross-functional teams, including the challenges and success factors, such teams experience in executing corporate entrepreneurship practices, primarily in the context of large corporations. Against this backdrop, the paper propagates that a new attitude can open up new ways of envisioning and engendering innovative ideas to improve a corporation's competitive advantage.

This paper proceeds in the following manner. First, it provides a review of corporate entrepreneurship and cross-functional team literature. Second, it examines and discusses relevant conceptual frameworks around team building and models for corporate entrepreneurship, including the preferred model as a platform for implementing cross-functional teams. Third, approaches and strategies to developing and operations of cross-functional teams are examined from all important perspectives and dimensions. Finally, challenges and success factors for cross-functional teams are identified and discussed.

Perspectives of Entrepreneurship, Corporate Entrepreneurship and Cross-Functional Team

Entrepreneurship

Morris and Lewis (1995) define entrepreneurship as a process of creating value by bringing together a unique package of resources – organizational, financial, and intellectual, to exploit an opportunity. They emphasize that such process has attitudinal/behavioural and operational dimensions. The attitudinal/behavioural dimension refers to the willingness of an individual or an organization to embrace new opportunities and take responsibility for effecting creative changes. Operationally, entrepreneurship involves a set of activities required to evaluate an opportunity, define a business concept, assess and acquire the necessary resources and then to operate and harvest a venture (ibid). Modern entrepreneurship is increasingly becoming a knowledge-based endeavour. Creating, sharing and leveraging knowledge or "knowledge pooling" is therefore the basis for entrepreneurial processes and it provides a crucial platform for continuous innovation that constitutes competitive advantage (Roupas, 2008; Burton, 1999).

Corporate entrepreneurship/intrapreneurship

Corporations in the wake of technological revolution and intense global competition are pursuing transformation through corporate entrepreneurship/intrapreneurship. The [entrepreneurial] changes are to alter the culture of these organizations by continuously infusing renewed creativity and entrepreneurial dynamism throughout their operations. In the contemporary corporate landscape, change, innovation, and entrepreneurship are buzz words and they are highly interconnected in ways that describe what organizations must do to survive and succeed (Kuratko et al., 2001). Successful implementation of corporate entrepreneurship strategy hinges on many factors, including establishing a clear vision for innovation, commitment of senior management, assigning sufficient resources, organizing people and tasks congruent to entrepreneurial dynamism and processes, and encouraging pro-activeness, creativity, innovation, risk taking, and tolerance for failure (Roupas, 2008).

In some literature, entrepreneurship in large corporations (i.e., "corporate entrepreneurship") is also called "intrapreneurship" (citations required). These two terms are interchangeably used to mean the same expression. This paper mostly uses the term "corporate entrepreneurship", which also refers to "intrapreneurship."

Cross-functional corporate entrepreneurship team

Cross-functional team approaches loosely couple functions through shared values and gain coordinated input synergy (Hitt et al., 1993; Orton and Weick, 1990). Whether to design a new initiative or to develop a new product, typically involves a collective effort and a team approach which improves diversity and dynamism - very important to accomplishing goals. In large corporations, entrepreneurial teams are best suited to produce results such as innovation, integration, and product development. There is a growing recognition of the advantages of cross-functional teams in corporate entrepreneurship practices in that they facilitate entrepreneurial process, including risk taking. While Khanna and Yafeh (2005) view that empirical research has not fully substantiated these notions; and other factors at play supplement the understanding of the ubiquity of cross-functional team approaches (p.301).

The ongoing view in this regard is that an entrepreneurial team should be cross-functional and individuals on the team should be able to self-regulate their behaviour as well as the team operations at large (Spreitzer et al., 1999). This will help reduce the need for a hierarchical command and control leadership in the organizations (Morgeson, 2005). In fact, there may be circumstances where a cross-functional corporate entrepreneurship team may improve delegation and new managerial capacity, which is vital to enable the organization to exploit an opportunity (Forbes et al., 2006). Within this context, Churchill and Lewis (1983), citing situations of small firms, point out that the inability of the entrepreneur to delegate is a major barrier to the growth of firms.

In the corporate entrepreneurship literature, employee teams (the intrapreneurs) are seen as catalysts in initiating new ventures, often in the face of opposition from their employers (Zahra, Jennings, and Kuratko, 1999). Therefore, cross-functional team members will have to work to develop a "mental model" to work around shared values. This will help the team encourage input from all team members as well as improve team productivity, and accelerate innovation and commercialization processes. In this regard, Minionis, Zaccaro, and Perez (1995) observe that the existence of a shared mental model results in improved team effectiveness when team members complement highly interdependent and interconnected tasks using their diverse knowledge and skills. Similarly, based on the work of Thompson and Tesluk et al. (1997), Mathieu et al. (2005) argue that task settings requiring more intensive forms of interdependence among team members (e.g., reciprocal interdependence) place a premium on teamwork and may heighten the effects of team processes rooted in shared knowledge structures, compared to settings that impose less intense interdependence (e.g., pooled or sequential interdependence) (Iacobucci et al., 2010). Further, Edmondson (2003), and Larson and Schauman (1993) emphasise that the use of a shared and accurate understanding of the situation at hand by members of a cross-functional corporate entrepreneurship team would facilitate the anticipation and dynamic adjustment of one another's task input and therefore the team performance. Saavedra, Earley, and Van Dyne (1993) argue that dynamism of a cross-functional team is primarily propelled by the task interdependence as well as communication among the team members, i.e., the degree of interconnections among the tasks for the team members. Therefore, members are required to communicate and coordinate and share their task input (e.g., information, knowledge, insights, and resources) in order to generate synergy and enhance outcomes. The coordination of these interdependencies is also influenced by the characteristics of the collective task to be accomplished. In the absence of communication and task interdependencies, tasks may be isolated easily, and most of the time members will end up working alone (Van der Vegt, Emans, and Van de Vliert, 2000; Wageman, 1995).

Kraut and Streeter (1995), and Wageman (1995) emphasize that both explicit and implicit communication among team members plays a critical role in carrying out joint tasks, including the coordination and achievement of effective team performance. Through this communication it is ensured that information considered vital by team members would not be delayed, lost, or altered that usually happen in a bureaucratically organized team. Usually it is assumed that there are also implicit or informal communication processes at work among the team members and between them and the units of the organization. However, Aldrich (1998) views that the approach of informal communication patterns, participative idea generation, and consensual conflict resolution in a team of multifunctional structure can very well be time consuming and less efficient than activities in a centralized and bureaucratic structure.

The success of a cross-functional team for corporate entrepreneurship practices also critically depends on the support of senior management. Hitt et al. (1999) reflecting on the importance of senior management support to functioning of a cross-functional team for corporate entrepreneurship highlight that the lack of such support may likely create politically motivated conflict between the functional groups. If a cross-functional team is geographically dispersed, it is even more critical that senior management provides effective oversight of the team operations to ensure that team processes are indeed effective. The above authors further observe that it would not be unlikely that a cross-functional team fails in producing the desired results, but what is important is to capture the learning from failures. Similarly, despite a good composition of a cross-functional team, its performance may be sub-optimal due to lack of satisfaction to be derived by the team members. In such a situation, job satisfaction and social mediation shall have to be considered.

From the above literature review it transpires that cross-functional teams could be used as an important tool to corporate entrepreneurship practices. But the success of a cross-functional team would vary, including failing to generate the expected results. Nonetheless, cross-functional teams are seen to be having tremendous potential in augmenting corporate entrepreneurship in large corporations. As Jones (1998) rightly puts it that it is through institutionalization of corporate entrepreneurship in corporations by breaking down functional barriers and encouraging teamwork, a cross-functional team will be able to be more effective in its endeavours.

Relevant Conceptual Frameworks

Team building: general concepts

Among several, three schools of thought can be introduced here to explain team development. These are: phase models (including group dynamics, consultancy, and socio-technical phase); recurring phase models; and process models. According to Miller (2003), the most widely used theory in team dynamics was the one first developed by Tuckman and later extended by Tuckman and Jensen (1977). This theory describes five stages through which a team or group passes (Kuipersa et al., 2009):

(1) Forming: an orientation stage in which interpersonal and task behaviour is augmented and tested;

(2) Storming: in this stage, interpersonal conflicts are identified and positioned under "group influence and task requirements;"

(3) Norming: in this stage, the emphasis is on resolution of conflicts being identified in the second phase and developing operational roles and norms;

(4) Performing: this is about team functioning focusing on the task performance. The roles and group structure developed in the norming phase form the basis for accomplishing the task; and

(5) Adjourning: this is the end of the cycle, and afterwards the team usually takes a renewed impetus to accomplish a new project.

The above stages of team development should be predictable over time and the leaders in the organization should complement the team at every stage. As the team dynamics and process gain momentum, the members become more strategic and astute while lessening their dependence on senior leaders for direct guidance and direction.

The underlying metaphor of Tuckman's team development concept is "interpersonal stages of group development and task behaviours" in that any group, regardless of setting, must raise itself to the successful completion of a task and team members will be connecting one another interpersonally (ibid, p.385). Despite the popularity of Tuckman's model, three criticisms have been leveled at it. The first is that team development often deviates from the suggested sequential steps (Forsyth, 1999) - team may not always pass through each of the phases in a sequential manner and the order may vary from case to case. The second criticism is that it is impossible to demarcate clearly between the phases because team dynamics vary (Arrow, 1997). The third is about Tuckman's use of the concept of "time limited therapy and laboratory teams" as a basis of his theory, particularly in respect of the work-team process in an organizational setting. For instance, according to Cohen and Bailey (1997), many of the studies involving laboratories fail to examine organizational features external to the teams (Kuipersa et al., 2009, p.240).

Dunphy and Bryant (1996) suggest three team development attributes including technical expertise (multi-tasking of team members), self-management (organization ability of team members), and self-leadership (cooperation and continuous improvement). They don't define them as processes, but practically they are so. Teams having the third attribute are seen as self-governing in terms of taking strategic initiative (ibid). Overall, these three team attributes are linked to three sets of performance outcomes: costs, value, and innovation (Kuipersa et al., 2009).

It is a fascinating motivation to study team characteristics and dynamics. Daniels (2004) in his short article makes an interesting observation: "if it were as simple as doing the right things and avoiding the wrong things, every team would be a pleasure to be part of and all teams would accomplish their objectives" (p.28). But people actually hardly behave normal; they tend to forget how they wanted to behave over time and in the end they mostly react to any stimuli. From team management point of view, it would be useful to be able to identify, in the beginning of team work, as to what makes a good team and what doesn't make a good team. Chart 1, below, outlines characteristics of the best teams and the worst teams as identified by Daniels through his involvement with teams of different mandate, nature, and dynamics.

Chart 1: Characteristics of the best and the worst team

Characteristics of the best teams	Characteristics of the worst teams
Open communication	Weak or no leader
Fun	Too many people trying to lead
Clear goals	Hidden agendas
The right members	Poor communication
Members learn from the experience	Unclear or unrealistic goals
Contributions from all members	Inappropriate resources
Individuals feel valued	Distrust
Meetings start on time	

Source: Daniels, J. (2004), The Collaborative Experience, Executive Summary, Industrial Management, p.28.

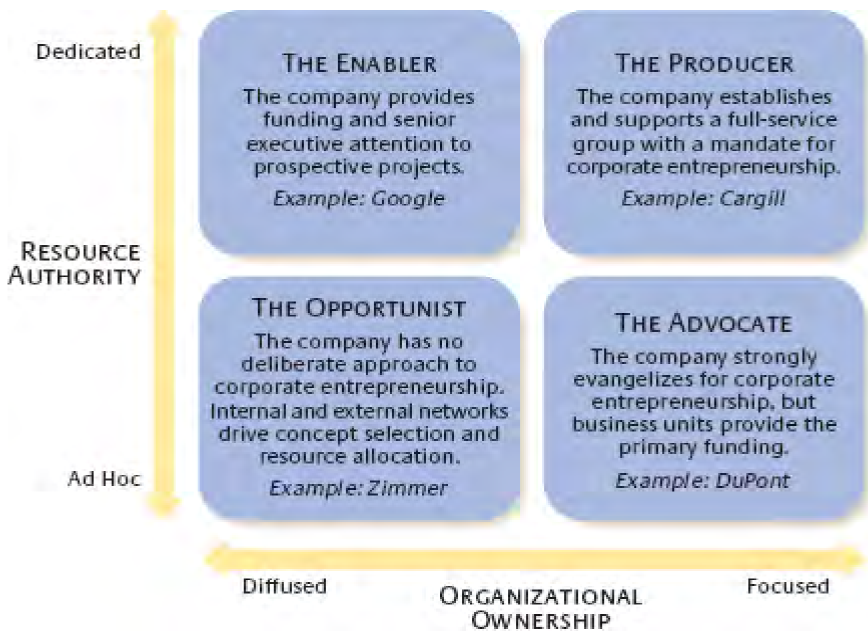
Cross-functional teams for corporate entrepreneurship – some models/frameworks

The concept of corporate entrepreneurship is defined as " the process by which teams within an established company conceive, foster, launch and manage a new business that is distinct from the parent company, but it leverages the company's assets, market position, capabilities or other resources" (Wolcott et al., 2007, p.75). This approach is different from spin-offs, which are rather separate entities and they do not continually leverage parent business activities to realize their potential. Corporate entrepreneurship includes all innovative endeavours, such as the development of product and service, channels, and brands. While traditional corporate management also emphasizes "innovation" to strengthen the existing business functions, it usually fails to identify new opportunities to developing new business models. So, corporate entrepreneurship initiatives go beyond the day to day corporate activities.

Previously corporate entrepreneurship had the approach based on emulating an innovation leader. But that was not very effective. The lesson was that while organizational flexibility was a key to corporate entrepreneurial success, flexibility used to be seen as an administrative space, rather than an imperative for innovation. But flexibility does actually constitute a critical element of corporate entrepreneurship practices. For example, 3M Company – a most successful in corporate entrepreneurship, allows its engineers and scientists to spend fifteen per cent of their time on projects of their own design (ibid, p.76). At the same time, it is also true that what works for one company will not necessarily work for another.

Wolcott et al. (2007) suggest a matrix with four dominant corporate entrepreneurship models: the opportunist (diffused ownership and ad hoc resource allocation); the enabler (diffused ownership and dedicated resources); the advocate (focused ownership and ad hoc resource allocation); and the producer (focused ownership and dedicated resources). According to these authors, each model inspires a distinct way to fostering corporate entrepreneurship. Chart 2 illustrates the said matrix representing the four corporate entrepreneurship practices models.

Chart 2: Corporate Entrepreneurship Practices Models



Source: Adopted from Wolcott and Michael (2007): The Four Moles of Corporate Entrepreneurship, (p.77)

The producer model

As the above matrix shows, attributes of a cross-functional team more neatly align with the producer model. The following explains some detail of the producer model. While the enabler and advocate models encourage latent entrepreneurs, the producer model additionally protects emerging ideas and projects from turf battles, encourages cross-fertilization and collaboration, builds on potentially disruptive businesses, and creates pathways for executives to pursue innovation beyond their business units (ibid). Companies such as IBM, Motorola, and Cargill practice corporate entrepreneurship using producer model of corporate entrepreneurship. To pursue corporate entrepreneurship, Cargill, a $75 billion global agriculture products and services Company based in Wayzata, Minnesota, has established its Emerging Business Accelerator (EBA) framework. As Warren Staley, the group's former CEO, recalls, "Prior to the EBA, we lacked a clearly defined process for pursuing opportunities that fell outside of the scope of existing business units and functions…. We needed a new approach to complement our business units and Cargill Ventures [an internal venture group]" (ibid, p.78). Traditionally, Cargill managers were not tuned try new concept out and thus missed scores of opportunities; so the Emerging

Business Accelerator was born in Cargill. When Cargill's de-icing business unit identified a novel de-icing technology, the unit was not sure whether to venture into this new technology. The technology — an epoxy overlay that inhibits ice formation — was going to be a high-end product that would be sold to road builders worldwide for critical applications such as bridges. So, the Emerging Business Accelerator team undertook the project and finally brought it as an exciting product to the market with huge potential (ibid, p.79).

This example shows how the Emerging Business Accelerator became a global clearinghouse for new concepts and value propositions across Cargill. The EBA team maintains a Web site for people to submit ideas, both from inside and outside the company. Once an opportunity is spotted, the EBA team takes it as a project and pursues it entirely from innovative and new business model and market development perspectives. In early stages, the EBA project team focuses on refining their concept, business model and market offerings. The core structure of EBA is a cross-functional team with members fully dedicated to innovation and product development. The EBA project (a cross-functional group) members spend considerable time with potential customers to validate the market for their upcoming products or services. Projects that achieve validation from real customers graduate into either existing or new business units (ibid, p.80).

In light of the literature review and conceptual explanation provided in the previous two sections, the subsequent two sections discuss nature, operation, management, challenges and success factors of cross-functional teams for corporate entrepreneurship practices in large corporations.

Building and Operation of Cross-Functional Corporate Entrepreneurship Teams

Overall perspective to the approach

All corporations want significant organic growth and corporate entrepreneurship is used as a catalyst strategy to achieve that because corporate entrepreneurship offers firms increasingly potent solution. But it is also true that the corporate entrepreneurship road is actually littered with failures. For example, the great Sony Corporation of Japan with all it resources and track record fell behind when Steve Jobs of Apple Inc. innovated iPod. Steve understood that "traditional MP3 is not the answer to unlock the business potential of digital music" (ibid, p.75). Although there would certainly be some entrepreneurial activities at individual levels in a corporation, they are likely to be scattered and not ended up with success. Usually, critics tend to dismiss the new idea as ill-conceived, and chances of good ideas being lost or wasted through are really high because of lack of combined efforts and good coordination and interactions.

Many R&D in large corporations may house a center of expertise in innovation techniques or a business unit may be scanning for emerging technologies to incorporate product features. A cross-functional team does not replace or subsume these initiatives; rather it works with them complementing their resources to help improve their performances. Some researchers argue that a firm's innovation success (i.e., its record of accomplishment in developing successful new products) is contingent on how well the cross-functional endeavours work toward the goals of innovation (Gupta, Raj, and Wilemon, 1986). Leveraging diversity of vision, knowledge, and skills is critical to stay ahead of the curve, whereas cross-functional approaches provide the frameworks for such productive endeavours. What is important is to see the links between the potential of new business model development and the development of cross-functional entrepreneurship team; then within the team, is the team dynamics that impact the new business development process of the organization. Some corporate cross-functional entrepreneurship teams work along the framework which combines R&D/design, manufacturing, marketing, and other critical functions to the idiosyncratic competencies of the firm and the needs of the market (Karagozoglu and Smith, 1993).

As important as it is a cross-functional team is driven by its core objective of being "innovative." It is likely that in the beginning, team members may have some differences, and unless a deliberate attention is given that may turn into a lengthy drag on the team's performance. However, as Hitt et al. (1999) view, the effectiveness of a cross-functional corporate entrepreneurship team in its work would mean supporting and promoting the divergent and often contradictory forms of knowledge from separate functional specializations. But finally a cross-functional team is a group of people with heterogeneous but complementary skills who are committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable (Roupas, 2008). Typically such teams are comprised of representatives from all major functional areas. So, they possess diverse perspectives and skill sets, positive overlaps, and integrative knowledge from different functional areas which increase the chances of the success of a team.

Composition and structure

First, a cross-functional team for entrepreneurship practices often starts as simple, flat structures but grow with the expansion of new ventures. It is good to start with a small, credible team and a mandate from top leadership, including the objectives and a path forward for the team. Ruef et al., 2003 find that 93.4 per cent of entrepreneurial teams are composed of three members or less. In order to increase potential synergy, cross-functional teams should be staffed with people representing multiple functions. These people should have diverse backgrounds, interests, and strengths to sharply focus innovation in the major areas of business. A cross-functional team should not be a centralized staff function. Its members should be widely dispersed across the corporation and working as full-time innovation catalysts. A balanced cross-functional corporate entrepreneurial team must be agile, adaptable, and probably more than any other part of the business, keep its most skilled analysts deployed where the innovation action is. The question of reporting comes as an important one as well. Depending upon how innovation is placed in the corporate agenda, a cross-functional corporate entrepreneurship team could either report to the CEO or a top managements committee responsible for driving innovation, product development and related activity across the organization (Jr. et al., 2008, pp.93-94).

Communication and interactions

How to ensure that a cross-functional team works effectively? Within the team framework, a critical element is effective communication. Without openness and effective communication (two way communication), technical and market synergy and associated productivity cannot be achieved. Cross-functional team dynamics work in a multi-faceted way – which would require broad and comprehensive communication setting. Allen (1971, 1977), Brown and Eisenhardt (1995), and Keller (1986) argue that teams of diverse professional members representing more functional areas are likely to have greater internal and external communication. Also, cross-functional entrepreneurship teams have to deal with initial internal conditions that distinguish them from other teams in larger corporations. The initial emphasis should be to build team cohesion which will foster interpersonal attraction, trust, and understanding that can lead to tighter relationships (Chan, 2009; McPherson et al., 2001; Ruef et al, 2003). Prior to such widespread uses of cross-functional teams, most of the organizations were used to pursuing innovation as sequential activities, i.e., everything from idea generator to testing to commercialization flows as one way communication. But this approach often leads to major difficulty, errors, and problems (Hitt et al., 1999). According to Clarke (2003), the traditional deficit model of one-way information flows from the laboratory to the user. This flow does not help the integration to occur and is therefore now being replaced by a contextual model involving two-way dialogues. Therefore, the solution is to invigorate a genuinely interactive medium for the effective facilitation (including reflection and open dialogue) of innovative environment (Chitty, 1996). Hence, more and more organizations are now seeking to replace the sequential model with cross-functional teams (Roupas, 2008). Yet there are questions regarding generalization of the usefulness of cross-functional teams.

Coordination mechanism

The issue of coordination within a cross-functional team and between the team and different units is of critical importance. In fact, a significant part of a cross-functional team's performance depends on the type of coordination mechanism being deployed for functioning of the team. The various coordination mechanisms for cross-functional teams could be described along a continuum, ranging from relatively hierarchical, mechanistic, and tightly coupled structures (e.g., bureaucratic control and a decision attitude) to more participative, organic, and loosely coupled structures (Burns and Stalker, 1961; Orrock and Weick, 1990; Sutton and Hargadon, 1996). Ainamo (2007) highlights that depending on the degree of novelty, "the continuum between the participative and the bureaucratic structures reflects differences in several underlying theoretical constructs and behavioural tendencies as to the kinds of ingredients and form-outcomes that are involved" (p.845). Within a large corporation, moving from usual bureaucratic control towards more internal and participative structures would face a lot of complexity. This will require flexibility and reducing rigidity of formalized rules, if not decentralization. Olson et al. (1995) argue that this burden reduction is necessary to create a collaborative environment and consensual conflict resolution processes.

Therefore, the suggested coordination framework (including establishing standards, developing plans, and schedules and pursuing mutual adjustment) for a cross-functional corporate entrepreneurship team would be of a participative coordination mechanism, which is more innate, than being bureaucratic. In this type of mechanism, the collaborative idea generation, consensual conflict resolution, and open communication processes are the pillars of success. That means an atmosphere where innovative ideas are proposed, critiqued, and refined in a process of rapid prototyping with a decrease of sunk financial costs or social risks (ibid, p.846). Some experts align this to a matrix structure.

However, interactions among functional departments might differ and so different coordination mechanisms might be more effective under different circumstances (Ruekert and Walker, 1987). More organic and participative coordination structures are needed to facilitate smooth information flows and effective conflicts resolution (Gupta et al., 1986; Ruekert and Walker, 1985). Olson et al. (1995), Sutton and Hargadon (1996), Boland and Collopy (2004), and Ainamo (2005) observe that intra-organizational network facilitating cross-functional resource flows correlates with organic and participative coordination structures.

Integration and institutionalization

Successful innovation often depends on the ability of cross-functional teams to integrate and institutionalize efforts across organizational boundaries, as this will achieve scale and impact. On the technical front, cross-functional teams use shared databases, common infrastructures, and enterprise systems while members share their experience. Some companies call a cross-functional team – an Enterprise Integration Group (EIG) and they emphasise horizontal integration of different elements into one framework for synergy, efficiency, and sustainability. EIG develops the architecture and management practices that make business integration, innovation, and product development market-responsive and easier over time (Jr. et al., 2008). Generally, a cross-functional corporate entrepreneurship team integrates input from various functional areas to design and develop new products. As Florida and Kenney (1990) rightly suggest, effective cross-functional integration is key to steering activities through from innovation to mass production and to eventual institutionalization of entrepreneurship practices leading to a sustainable vibrant entrepreneurial culture in the organization.

Innovation and product development

From the perspective of product development, the proposition behind the idea of cross-functional corporate entrepreneurship teams is that moving an abstract idea or product concept into a tangible product or commercialization requires application of many different skills and solution to a variety of functional problems. So, it creates a need for coordination over interdependencies, because one function can seldom carry out the product development in full from day one of conceptualization to final launch (Hitt et al., 1999). But a cross-functional team would not probably "do" innovation; it would mostly work to foster and channel innovation and product development. Actually, innovation entails distributed activity encompassing innovators across, including outside the company. But the cross-functional team serves as the center of expertise for innovation techniques, scouts for new developments, and provides expertise for innovation initiatives.

The role of a cross-functional team into innovation and product development could be understood from the findings of the study done by Olson et al. (1995). In a study of a number of product development projects, they found that employees with less relevant skills and exposure experience their task as more challenging and they depend heavily on other functional specialists. Therefore, they need access to expertise, information, and other resources to arrive at a creative and successful solution.

Furthermore, on a product development assignment, a cross-functional team may involve customer representation. For instance, the Ford Taurus team used extensive customer input. Hitt et al. (1999) suggest that in respect of innovative product development, early involvement of customers in the process would improve chances that the new innovative product enters into successful commercialization stage. The other important issue associated with product development is product development cycle time which puts pressure on the team and thus the product development process gets accelerated. As well a cross-functional team may have positive overlaps in terms of its composition. As a result, cross-functional corporate entrepreneurship teams provide the catalytic skills required to cultivate innovations in product development which are scarce and expensive to duplicate throughout the enterprise.

Management of a cross-functional team

A cross-functional team for corporate entrepreneurship takes lead on innovation initiatives; business modeling, rapid prototyping, and iterative development; and on the use of business analytics to discover new patterns in customer behavior and potential product and service conceptualization. An effective corporate entrepreneurship program can enhance a company's ability to absorb external knowledge and opportunities - an essence of "innovation" (Roupas, 2008). Therefore, a cross-functional corporate entrepreneurship team should be scouting for ideas with potential for the company (i.e., uncovering the untapped potential of latent ideas) usually done through brainstorming and innovation driving sessions. The ultimate motive for the host company is to grow from within. But this is easier said than done. Obviously, a cross-functional team shall have to work very hard to build this culture as the team passes through a rough-and-tumble process with few guarantees. Corporate entrepreneurship requires a lot of leanings for cultural change in the organization, where learning should be traced as an important outcome as well.

Without such a cultural change, the different silos of a corporation typically lack the will, know-how, and incentives to pursue enterprise-wide innovation and integration initiatives. The management of a cross-functional corporate entrepreneurship team would encompass (Jr. et al., 2008, p.96):

- Organizing it as a center that works to foster innovation, creativity and product development;
- Managing innovation and integration initiatives and activities by cultivating relationships throughout the corporation and other relevant stakeholders, such as customers, other business partners, and market participants. This also includes identification of business innovation needs and opportunities, as well as consideration to breakthrough propositions seeking to improve competitive position;
- Anticipating how emerging breakthroughs will impact the company's business model and performance, including initiating the culture of thinking differently;
- Providing staff with a comprehensive - end to-end perspective to the innovation process, including design, process thinking, and organizational change requirements; and
- Managing enterprise innovation architecture and strategic renewal so that the cross-functional corporate entrepreneurship team remains a natural home for development, innovation, integration, and proactive dissemination of germination.

This list should be considered only as a general guide in managing teams. Other important guidelines in team management are to:

1. Appreciate each other's skills and background: It is important that the team members know each other very well and conduct some socializing as well. This approach of interpersonal understanding is critical to build trust and promote the flow of ideas and information. As

Druskat says, “people on teams where people knew one another better were more efficient and got more work done” (Ross, 2008, p.1);

2. Allow to ventilate and manage emotional issues that can help or hinder the team’s progress: It’s important to establish a conducive and comfortable environment for team members to express the anger, tension, and frustration that arise in a team endeavor and to positively redirect that energy. For instance, humor and playfulness can be helpful tools in defusing conflict and relieving tension; and
3. Celebrate success: A team is a more cohesive and pleasant structure where the members know and celebrate each other’s success by going an extra mile or pride in a job well done (ibid, pp.1-2).

Cross-functional team for corporate entrepreneurship – case of Royal Dutch Shell

At Royal Dutch Shell, they use cross-functional teams for entrepreneurship practices. It is called “GameChanger” teams. They use seed funding to sponsor innovations – often radical, ambitious, or long-term – that would otherwise be orphaned (Jr. et al., 2008, p.95). It began more than a decade ago on the back of Shell’s management restructuring program (reducing layers of management and focusing R&D). Today there are GameChanger teams in Shell’s various lines of business. Their roles have expanded to incorporate innovation scouting, facilitating the development of ideas, and knowledge transfer. When an innovative idea is proposed, a GameChanger team provides the value proposition, works with the originator to go through the prudent stages to prove the concept (in a lab or in the field), and contracts with suppliers or universities for additional assistance when needed. The GameChanger teams in Shell also engage in idea-generation workshops to further their strategic initiatives. For instance, the outcome of one such workshop helped Shell moved early on to develop a biofuel that would not rely on foodstuffs as source material. The GameChanger teams are not just reactive to innovation proposals, but they are more proactive and interactive in the game plan.

Half of GameChanger team members include very experienced senior executives who have led big departments, have traveled around Shell, know who is who, and are now looking for corporate entrepreneurship excitement (ibid). The others are bright youngsters who rotate through for about two years and then move back into the business. GameChanger teams collaborate with others interactively through an online innovation network. GameChanger concept team had an initial no-interference charter for six years. It, however, showed results long before the charter expired. Today it enjoys a secure budget, senior staff support, and the reputation for driving value through innovation. The above example at Shell illustrates how a cross-functional corporate entrepreneurship team could be constituted, working, and institutionalized. The GameChanger teams received ten per cent of the R&D budget and today they incubate as many as 30 per cent of Shell’s R&D projects (ibid).

Cross-Functional Corporate Entrepreneurship Teams: Challenges and Critical Success Factors

Barriers and challenges

. Two most fundamental potential barriers to cross-function corporate entrepreneurship teams are: independent frames of reference of the team members; and organizational politics, particularly the lack of senior management support for a cross-functional entrepreneurship team (Hitt et al., 1999).

First of all, members with similar background (specialization) tend to have cognitive biases, use similar heuristics, and likely have common tacit knowledge. But the true strength of cross-functional teams is the diverse input from the multiple functional areas (Fiol, 1995). So, the distinct frames of reference work as a barrier to the diversity process of a cross-functional entrepreneurship team. In other words, it may create "blind spots" that disallow understanding differing points of view (Hitt et al., 1993).

Another potential barrier to the effectiveness of a cross-functional entrepreneurships team is organizational politics. Ancona and Caldwell (1992) observe that functionally diverse teams because of its high visibility in the organization may be prone to political and goal conflicts that exist among different units. As a result, team performance can suffer especially as the team develops goals that may sometime be incompatible with other units' goals and thus inter-group conflict can ensue (Tyerman and Spencer, 1983). As well, individual functional units rarely see perceived power differences within the organization; this may cause dysfunctional processes within the team and present barriers to integration of team members (Hitt et al., 1999, pp.
149-150).

Within this context, the most important challenge in the functioning of a cross-functional entrepreneurship team is the lack of top management support – indicative when the top management provides little financial support or transfers key team members to new positions. This suggests that the corporate context for a cross-functional team plays a critical role along with internal team processes and activities. This sort of contextual atmosphere brews uncertainties about the desirability and success of the team, and then the ability of the team members as well. However, it needs to be mentioned that cross-functional entrepreneurship teams usually initially experience high uncertainties, depending, however, on the nature of the organizational structure that is in place. That effectively means, team members may experience a lack of potency in the very early stage. As Marks (1999) observes, "potency is demonstrated to influence the performance of mature tasks but not for novel tasks." Uncertainties stemming from other sources as well will limit the impact of the shared beliefs about a team's risk taking ability around entrepreneurial performance (Chan, 2009).

Critical success factors

A couple of critical success factors for cross-functional entrepreneurship teams are identified. These includes (i) senior management team support to enhance the performance and effectiveness of a cross-functional team; and (ii) effective communication (internal and external), including involvement of customers, suppliers, and researchers is a key to improve a cross-functional team's potential synergy among the functions of innovation, process, and new product development.

Senior management support – the role of leadership

It is particularly necessary that cross-functional teams get senior management support and provision of resources - both financial and political (Brown and Eisenhardt, 1995). In addition, top management can provide leadership through shared values, vision, and focused goals. In this regard, Pfeffer (1998) observes that it is important that a facilitating process entailing leadership, team culture, different functional orientation, and communication) is created so that cohesive internal team characteristics are solidified and team members feel free to use their knowledge, intelligence, skills, and creativity. This type of environment is termed as organizational context to the functioning of cross-functional corporate entrepreneurship teams. Finally, a visionary management leadership can anticipate impending issues and conflict and will be able to facilitate harmonious and participative mechanisms to champion cognitive interdependence and a design attitude in order to bridge across the structural impediments (Ainamo, 2007, p.849). New leaders of corporate entrepreneurship initiatives are often required to make extensive interaction with other unit management. This opens up communication for the new initiative. It also helps prevent internal stakeholders from regarding corporate entrepreneurship as a drain or threat to the company's established operations (ibid). But above all, unless a positive and productive culture is instilled into the process, corporate entrepreneurship won't just happen. Corporate entrepreneurship requires a strategic and deliberate act. The traditional, isolated "skunk works" would not yield resilience. Also the company's culture should encourage the team to confront with uncertainty and take risk, which is a key to innovation practice.

Communication and coordination

As discussed earlier, communication is another critical success factor that impacts the team performance. Apart from the traditional approaches, communication has to encompass team level debate and decision comprehensiveness, stimulating collaboration and open discussion among members which will help sharing information, increase tolerance for ambiguity and overcome dysfunctional organizational politics and contextual rigidities. Most of the researches highlight that efficiency and performances of teams are strongly related to the interdependencies of tasks to be accomplished. In this circumstance, conditions such as communication and the ease of communication and greater trust and understanding would enable team members to be more comfortable taking innovative endeavour, including risks taking (Chan, 2009; Edmonson, 1999). Studies also suggest that stereotypical views of innovative personnel held by leaders, coupled with the often weak communications in the organization, present very real barriers to entrepreneurial practices in an organization, especially those of the individual efforts (Wright and Narrow, 2001). The results of a cross-functional entrepreneurship team need an extra push to get the early traction they deserve. For this, a cross-functional team can hold management conference to communicate innovations from one business unit to the others. Through management conferences resources and skills not available within the team can be garnered and the team can also overcome other barriers, such as reluctance to be diverted from everyday business or lack of faith in a new idea.

Also, a lot of coordination must go into the operation and success of a cross-functional entrepreneurship team. Specifically, if the collective task is more complex, ill-defined, and difficult, it would mean more functional interdependence and greater should be the degree of coordination across functional departments (Olson et al., 1995; Sutton and Hargadon, 1996). For instance, in a new product development context, the newness of the concept would likely be ambiguous and would warrant higher degree of coordination, including flow of information, expertise, and other resources. In this regard, Wathne and Heide (2004), Hollbrook (2003), and Djelic and Ainamo (1999) argue that organic and participative structure helps move deeply into domains on the other side of boundaries, and back, which prosper "coevolution" across domains (Ainamo, 2007). This obviously includes open exchange of creative ideas and analytical perspectives across multiple functions (Sutton and Hargadon, 1996; Czarniawska and Sevon, 2005). But it should also be noted that even in a cross-functional corporate entrepreneurship team, coordination mechanism may become bureaucratic where there may be no feedback loop at all across functions; so the vertical silos result in a "structural hole" (Ainamo, 2007; Burt, 2004).

Conclusion

It can hardly be over emphasized that corporate entrepreneurship is a key to a firm's long-term competitiveness. In that context, the role played by a cross-functional team, especially innovation and cross-fertilization to corporate entrepreneurship, has drawn widespread appeal in the corporate world. Use of cross-functional teams for corporate entrepreneurship in large corporations has many benefits. In fact, such an approach is increasingly used by corporations in order to drive their innovation and competitiveness agenda. But the efficient functioning and success of cross-functional corporate entrepreneurship teams most importantly depends on top management team support and organizational politics. Other important issues related to the functioning of a cross-functional team for corporate entrepreneurship include effective communication for organic participation, self-governance of the team, and effort to mainstreaming and institutionalization of corporate entrepreneurship culture and practices across the organization.

This paper does not argue that entrepreneurial processes and team-building dynamics are the only relevant perspectives in understanding or explaining why cross-functional teams are formed or expanded. However, beyond its specific objective, functioning of an agile and dynamic cross-functional team for corporate entrepreneurship will certainly complement innovative and competitive endeavours of a corporation. The analysis in the paper may help raise intriguing questions concerning the effectiveness of cross-functional teams for corporate entrepreneurship. It is hoped that this will stimulate further discussion and research in the future to develop new theoretical foci to guide advanced and comprehensive functioning of cross-functional teams for entrepreneurship practices in large corporations.

References

Ainamo, A. (2007). Coordination mechanisms in cross-functional teams: a product design perspective Journal of Marketing Management, Volume 23 No. 9-10, pp. 841 -860.

Ainamo, A. (2005). Co-evolution of Knowledge Management Processes: Drawing on Project Experience in a Global Engineering Consulting Firm; in Ainamo, A. (2007). *Coordination mechanisms in cross-functional teams: a product design perspective*, Journal of Marketing Management, Volume 23 No. 9-10, pp. 841 -860.

Aldrich, H., and Pfeffer, J. (1976). Environments of Organizations; in Ainamo, A. (2007). *Coordination mechanisms in cross-functional teams: a product design perspective,* Journal of Marketing Management, Volume 23 No. 9-10, pp. 841 -860.

Allen, T. J. (1977). Managing the flow of technology; in Hitt, M. A., Nixon, R. D., Hoskisson, R. E., and Kochhar, R. (1999), *Corporate Entrepreneurship and Cross-Functional Fertilization: Activation, Process and Disintegration of a New Product Design – Team;* Entrepreneurship Theory and Practice.

Ancona, D. G., and Caldwell, D. F. (1992a). Demography and design: Predictors of new product team performance; in Hitt, M. A., Nixon, R. D., Hoskisson, R. E., and Kochhar, R. (1999), *Corporate Entrepreneurship and Cross-Functional Fertilization: Activation, Process and Disintegration of a New Product Design – Team;* Entrepreneurship Theory and Practice.

Arrow, H. (1997). Stability, Bistability, and Instability in Small Group Influence Patterns; in Kuipersa, S. B., and Stoker, J. (2009). *Development and performance of self-managing work teams: a theoretical and empirical examination,* The International Journal of Human Resource Management, Vol. 20, No. 2, February, 399–419.

Boland Jr. R., and Collopy, F. (2004). Design Matters for Management; in: Boland Jr., R. and Collopy, F. (eds.). *Managing as Designing,* Stanford: Stanford Business Books, pp. 3-19.

Brown, S. L., and Eisenhardt, K. M. (1995). Product development: Past research, present findings, and future directions. Academy of Management Review, 20, 343-378.

Burns, T., and Stalker, G. (1961). The Management of Innovation, London: Tavi-stock Publications; in Ainamo, A. (2007). *Coordination mechanisms in cross-functional teams: a product design perspective,* Journal of Marketing Management, Volume 23 No. 9-10, pp. 841 -860.

Burt, R. (2004). Structural holes and good ideas; in Ainamo, A. (2007). Coordination mechanisms in cross-functional teams: a product design perspective Journalof Marketing Management, Volume 23 No. 9-10, pp. 841 -860.

Burton, J. (1999). Innovation, Entrepreneurship and the firm: A post-Schumpeterian approach ; in Roupas, P. (2008). *Human and organisational factors affecting technology uptake by industry, Innovation: management, policy & practice,* eContent Management Pty Ltd., 10: 4–28.

Chan, C-S. R. (2009). Teams In The Entrepreneurial Process: An Input-Mediator-Output-Input (Imoi) Approach, Academy of Management Annual Meeting Proceedings.

Chitty, G. (1996). Change, competitiveness and communications - the role of business television; in Roupas, P. (2008). *Human and organisational factors affecting technology uptake by industry, Innovation: management, policy & practice,* eContent Management Pty Ltd., 10: 4–28.

Churchill, N., and Lewis, V. (1983, May–June). The five stages of small firm growth. Harvard Business Review; in Iacobucci, D., and Rosa, P. (2010). *The Growth of Business Groups by Habitual Entrepreneurs: The Role of Entrepreneurial Teams,* Entrepreneurship Theory and Practice.

Clarke, B. (2003). Report: Farmers and scientists: a case study in facilitating communication; in Roupas, P. (2008). *Human and organisational factors affecting technology uptake by industry, Innovation: management, policy & practice,* eContent Management Pty Ltd., 10: 4–28.

Cohen, S.G., and Bailey, D.E. (1997). What Makes Teams Work: Group Effectiveness Research from the Shop Floor to the Executive Suite; in Kuipersa, S. B., and Stoker, J. (2009). *Development and performance of self-managing work teams: a theoretical and empirical examination,* The International Journal of Human Resource Management, Vol. 20, No. 2, February, 399–419.

Czarniawska, B., and Sevon, G. (eds.) (2005). Global ideas. How Ideas, Objects and Practices Travel in the Global Economy; in Ainamo, A. (2007). *Coordination mechanisms in cross-functional teams: a product design perspective*, Journal of Marketing Management, Volume 23 No. 9-10, pp. 841 -860.

Daniels, J. (2004). The Collaborative Experience, Industrial Management, June, pp.27-29.

Djelic, M.-L., and Ainamo, A. (1999). The Co-evolution of New Organizational Forms in the Fashion Industry: A Historical and Comparative Study of France, Italy, and the United States, Organization Science, Vol. 10, No. 5, pp. 622-637.

Dougherty, D., and Hardy, G. (1996). Powering innovation: Beating bureaucracy; in Hitt, M. A., Nixon, R. D., Hoskisson, R. E., and Kochhar, R. (1999), *Corporate Entrepreneurship and Cross-Functional Fertilization: Activation, Process and Disintegration of a New Product Design – Team;* Entrepreneurship Theory and Practice.

Dougherty, D., and Heller, T. (1994). The illegitimacy of successful product innovation in established firms; in Hitt, M. A., Nixon, R. D., Hoskisson, R. E., and Kochhar, R. (1999). Corporate Entrepreneurship and Cross-Functional Fertilization: Activation, Process and Disintegration of a New Product Design – Team; Entrepreneurship Theory and Practice.

Dunphy, D., and Bryant, B. (1996). 'Teams: Panaceas or Prescriptions for Improved Performance,' Human Relations, 49, 5, 677–699.

Edmondson, A. C. (2003). Speaking up in the operating room: How team leaders promote learning in interdisciplinary action teams. Journal of Management Studies, 40: 1419–
1452.

Edmondson. (1999); in Chan, C-S. R. (no date). *Teams In The Entrepreneurial Process: An Input-Mediator-Output-Input (Imoi) Approach,* Academy of Management Annual Meeting Proceedings.

Forbes, D.P., Borchert, P.S., Zellmer-Bruhn, M.E., and Sapienza, H.J. (2006). Entrepreneurial team formation: An exploration of new member addition. Entrepreneurship Theory and Practice, 30, 225–248.

Fiol, G. M. (1995). Thought worlds colliding: The role of contradiction in corporate innovation processes, Entrepreneurship Theory & Practice, 79(1), 71-90.

Forsyth, D.R. (1999). Group Dynamics (3rd ed.); in Kuipersa, S. B., and Stoker, J. (2009). *Development and performance of self-managing work teams: a theoretical and empirical examination,* The International Journal of Human Resource Management, Vol. 20, No. 2, February, 399–419.

Florida, R., and Kenney, M. (1990). The breakthrough illusion: Corporate America's failure to move from innovation to mass production; in Hitt, M. A., Nixon, R. D., Hoskisson, R. E. and Kochhar, R (1999), *Corporate Entrepreneurship and Cross-Functional Fertilization: Activation, Process and Disintegration of a New Product Design – Team;* Entrepreneurship Theory and Practice.

Franko, L. G. (1989). Global corporate competition: Who's winning, who's losing and the R&D factor as one reason why; in Hitt, M. A., Nixon, R. D., Hoskisson, R. E. and Kochhar, R (1999), *Corporate Entrepreneurship and Cross-Functional Fertilization: Activation, Process and Disintegration of a New Product Design – Team;* Entrepreneurship Theory and Practice.

Gartner,W. B., Shaver, K.G., Gatewood, E., and Katz, J.A. (1994). Finding the entrepreneur in entrepreneurship; in Iacobucci, D., and Rosa, P. (2010). *The Growth of Business Groups by Habitual Entrepreneurs: The Role of Entrepreneurial Teams,* Entrepreneurship Theory and Practice.

Gupta, A., Raj, S.P., and Wilemon, D. (1986). A Model for Studying R&D-Marketing Interface
in the Product Innovation Trocess; in Ainamo, A. (2007). *Coordination mechanisms in cross-functional teams: a product design perspective*, Journal of Marketing Management, Volume 23 No. 9-10, pp. 841 - 860.

Hitt, M. A., Nixon, R. D., Hoskisson, R. E., and Kochhar, R. (1999). Corporate Entrepreneurship and Cross-Functional Fertilization: Activation, Process and Disintegration of a New Product Design – Team; Entrepreneurship Theory and Practice.

Hitt, M. A., Hoskisson, R, E. and Nixon, R, D, (1993), A mid-range theory of interfunctional integration, its antecedents and outcomes; in Hitt, M. A., Nixon, R. D., Hoskisson, R. E. and Kochhar, R (1999), *Corporate*

Entrepreneurship and Cross-Functional Fertilization: Activation, Process and Disintegration of a New Product Design – Team; Entrepreneurship Theory and Practice.

Holbrook, M. (2003). Adventures in Complexity: An Essay on Dynamic Open Complex Adaptive Systems, Butterfly Effects, Self-Organizing Order, Co-evolution, the Ecological Perspective, Fitness Landscapes, Market Spaces, Emergent Beauty at the Edge of Chaos, and All That Jazz, Academy of Marketing Science Review, Vol. 7, No. 1, pp. 1-184.

Iacobucci, D., and Rosa, P. (2010). The Growth of Business Groups by Habitual Entrepreneurs: The Role of Entrepreneurial Teams, Entrepreneurship Theory and Practice.

Jones, G. R., and George, J. M. (1998). The experience and evolution of trust: Implications for cooperation and teamwork; in Rico, N. R., Sa´Nchez-Manzanares, M., Gil, F., and Gibson, C. (2008). *Team Implicit Coordination Processes: A Team Knowledge–Based Approach,* Academy of Management Review, Vol. 33, No. 1, 163–184.

Jones, O. (1998). From maturity to entrepreneurship: A stakeholder model of innovation; in Roupas, P. (2008). *Human and organisational factors affecting technology uptake by industry, Innovation: management, policy & practice,* eContent Management Pty Ltd., 10: 4–28.

Jr., J. I. C., Earl, J. M., and Morison, R. (2008). Teaming Up to Crack Innovation Enterprise Integration Key growth imperatives succeed best when specialized teams share skills, experience, and insight across the silos, Harvard Business Review, November, pp.90-1000.

Katzenbach, J.R., and Smith, D.K. (1993). The Wisdom of Teams; Creating the High-Performance Organization, Boston, MA: Harvard Business School Press.

Keller, R. T. (1986). Predictors of the performance of project groups in R&D organizations. in Hitt, M. A., Nixon, R. D., Hoskisson, R. E., and Kochhar, R. (1999). Corporate Entrepreneurship and Cross-Functional Fertilization: Activation, Process and Disintegration of a New Product Design – Team; Entrepreneurship Theory and Practice.

Khanna, T., and Yafeh, Y. (2005). Business groups and risk sharing around the world. Journal of Business, 78, 301–340.

Kraut, R., and Streeter, L. (1995). Coordination in large scale software development; in Rico, N. R., Sa´Nchez-Manzanares, M., Gil, F., and Gibson, C. (2008). *Team Implicit Coordination Processes: A Team Knowledge–Based Approach,* Academy of Management Review, Vol. 33, No. 1, 163–184.

Kuipersa, S. B., and Stoker, J. (2009). Development and performance of self-managing work teams: a theoretical and empirical examination, The International Journal of Human Resource Management, Vol. 20, No. 2, February, 399–419.

Kuratko, D. F., Ireland. R. D., and Hornsby, J.S. (2001). Improving firm performance through entrepreneurial actions: Acordia's corporate entrepreneurship strategy; in Roupas, P. (2008). *Human and organisational factors affecting technology uptake by industry, Innovation: management, policy & practice,* eContent Management Pty Ltd., 10: 4–28.

Larson, J. R., and Schaumann, L. (1993). Group goals, group coordination, and group member motivation; in Rico, N. R., Sa´Nchez-Manzanares, M., Gil, F., and Gibson, C. (2008). *Team Implicit Coordination Processes: A Team Knowledge–Based Approach,* Academy of Management Review, Vol. 33, No. 1, 163–184.

Marks, M. A., (1999). A test of the impact of collective efficacy in routine and novel performance environments; in Rico, N. R., Sa´Nchez-Manzanares, M., Gil, F., and Gibson, C. (2008). *Team Implicit Coordination Processes: A Team Knowledge–Based Approach,* Academy of Management Review, Vol. 33, No. 1, 163–184.

Mathieu, J. E., Heffner, T. S., Goodwin, G. E., Cannon-Bowers, J. A., and Salas, E. (2005). Scaling the quality of teammates' mental models: Equifinality and normative comparisons. Journal of Organizational Behavior, 26: 37–56.

McPherson et al. (2001); in Chan, C-S. R. (no date). *Teams In The Entrepreneurial Process: An Input-Mediator-Output-Input (Imoi) Approach,* Academy of Management Annual Meeting Proceedings.

Miller, D.L. (2003). The Stages of Group Development: A Retrospective Study of Dynamic Team Processes, Canadian Journal of Administrative Sciences, 20, 2, 121–134.

Minionis, D. P., Zaccaro, S. J., and Perez, R. (1995). Shared mental models, team coordination, and team performance; in Rico, N. R., Sa´Nchez-Manzanares, M., Gil, F., and Gibson, C. (2008). *Team Implicit Coordination Processes: A Team Knowledge–Based Approach,* Academy of Management Review, Vol. 33, No. 1, 163–184.

Morgeson, F.P. (2005). The External Leadership of Self-Managing Teams: Intervening in the Context of Novel and Disruptive Events, Journal of Applied Psychology, 90, 3, 497–508.

Morris, M. H., and Lewis, P.S. (1995). The Determinants of Entrepreneurial Activity: Implications for Marketing; in Roupas, P. (2008). *Human and organisational factors affecting technology uptake by industry, Innovation: management, policy & practice,* eContent Management Pty Ltd., 10: 4–28.

Olson, E., Walker, O., and Ruekert, R. (1995). Organizing for effective new product development: The Moderating Role of Product Innovativeness", Journal of Marketing, Vol. 59, No. 1, pp. 48-62.

Orrock, J., and Weick, K. (1990). Loosely Coupled Systems: A Reconceptualization; in Ainamo, A. (2007). *Coordination mechanisms in cross-functional teams: a product design perspective*, Journal of Marketing Management, Volume 23 No. 9-10, pp. 841 -860.

Orton, J. D., and Weick, K. E. (1990). Loosely coupled systems: A reconsideration; in Hitt, M. A., Nixon, R. D., Hoskisson, R. E. and Kochhar, R (1999), *Corporate Entrepreneurship and Cross-Functional Fertilization: Activation, Process and Disintegration of a New Product Design – Team;* Entrepreneurship Theory and Practice.

Pfeffer, J., and Saiancik, G. (1998). The External Control of Organizations: A Resource Dependence Perspective; in Ainamo, A. (2007). *Coordination mechanisms in cross-functional teams: a product design perspective,* Journal of Marketing Management, Volume 23 No. 9-10, pp. 841 -860.

Ross, A. J. (2008). Make Your Good Team Great, Harvard Management Update – A Newsletter from Harvard Business Publishing, December, pp.1-5. http://newsleters.harvardbusiness.org

Roupas, P. (2008). Human and organisational factors affecting technology uptake by industry, Innovation: management, policy & practice, eContent Management Pty Ltd., 10: 4–28.

Ruef et al. (2003); in Chan, C-S. R. (no date). *Teams In The Entrepreneurial Process: An Input-Mediator-Output-Input (Imoi) Approach,* Academy of Management Annual Meeting Proceedings.

Ruekert, R., Walker Jr., O., and Roering, K. (1985). The Organization of Marketing Activities: A Contingency Theory of Structure and Performance; in Ainamo, A. (2007). *Coordination mechanisms in cross-functional teams: a product design perspective,* Journal of Marketing Management, Volume 23 No. 9-10, pp. 841 -860.

Ruekert, R., and Walker Jr., O. (1987). Marketing's Interaction with Other Functional Units: A Conceptual Framework and Empirical Evidence; in Ainamo, A. (2007). *Coordination mechanisms in cross-functional teams: a product design perspective,* Journal of Marketing Management, Volume 23 No. 9-10, pp. 841 -860.

Spreitzer, G.M., Cohen, S.G., and Ledford, G.E. (1999). Developing Effective SMWTs in Service; in Kuipersa, S. B., and Stoker, J. (2009). *Development and performance of self-managing work teams: a theoretical and empirical examination,* The International Journal of Human Resource Management, Vol. 20, No. 2, February, 399–419.

Sutton, R., and Hargadon, A. (1996). Brainstorming Groups in Context: Effectiveness in a Product Design Firm; in Ainamo, A. (2007). *Coordination mechanisms in cross-functional teams: a product design perspective,* Journal of Marketing Management, Volume 23 No. 9-10, pp. 841 -860.

Saavedra, R., Earley, P. C., and Van Dyne, L. (1993). Complex interdependence in task performing groups; in Rico, N. R., Sa´Nchez-Manzanares, M., Gil, F., & Gibson, C. (2008). *Team Implicit Coordination Processes: A Team Knowledge–Based Approach,* Academy of Management Review, Vol. 33, No. 1, 163–184.

Tesluk, P., Zaccaro, S. J., Marks, M. A., and Mathieu, J. E. (1997). Task and aggregation issues in analysis and assessment of team performance; in Rico, N. R., Sa´Nchez-Manzanares, M., Gil, F., and Gibson, C.

(2008). *Team Implicit Coordination Processes: A Team Knowledge–Based Approach,* Academy of Management Review, Vol. 33, No. 1, 163–184.

Thompson, J. D. (1967). Organizations in action ; in Rico, N. R., Sa´Nchez-Manzanares, M., Gil, F., and Gibson, C. (2008). *Team Implicit Coordination Processes: A Team Knowledge–Based Approach,* Academy of Management Review, Vol. 33, No. 1, 163–184.
New York:McGraw-Hill.

Tuckman, B.W., and Jensen, M.A.C. (1977). Stages of Small Group Development Revisited; in Kuipersa, S. B., and Stoker, J. (2009). *Development and performance of self-managing work teams: a theoretical and empirical examination,* The International Journal of Human Resource Management, Vol. 20, No. 2, February, 399–419.

Tyerman, A., and Spencer, C. (1983). A critical test of the Sherifs' robber cane experiments: Intergroup competition and cooperation between groups of well acquainted individuals; in Hitt, M. A., Nixon, R. D., Hoskisson, R. E., and Kochhar, R. (1999). *Corporate Entrepreneurship and Cross-Functional Fertilization: Activation, Process and Disintegration of a New Product Design – Team;* Entrepreneurship Theory and Practice.

Van der Vegt, G., Emans, B., and Van de Vliert, E. (2000). Team members' affective responses to patterns of intragroup interdependence and job complexity. Journal of Management, 26: 633–655.

Wageman, R. (1995). Interdependence and group effectiveness; in Rico, N. R., Sa´Nchez-Manzanares, M., Gil, F., and Gibson, C. (2008). *Team Implicit Coordination Processes: A Team Knowledge–Based Approach,* Academy of Management Review, Vol. 33, No. 1, 163–184.

Wathne, K., and Heide, J. (2004). Relationship Governance in a Supply Chain Network; in Ainamo, A. (2007). *Coordination mechanisms in cross-functional teams: a product design perspective,* Journal of Marketing Management, Volume 23 No. 9-10, pp. 841 -860.

Wolcott, R. C., and Michael, J. (2007). The Four Models of Corporate Entrepreneurship, MIT Solar Management Review, Fall Vol.49 No. 1.

Wright, L.T., and Narrow, C. (2001). Improving marketing communication & innovation strategies in the small business context; in Roupas, P. (2008). *Human and organisational factors affecting technology uptake by industry, Innovation: management, policy & practice,* eContent Management Pty Ltd., 10: 4–28.

Yang, E. A., and Dougherty, D. (1993). Product innovation: More than just making a new product Product Innovation; in Hitt, M. A., Nixon, R. D., Hoskisson, R. E., & Kochhar, R. (1999). *Corporate Entrepreneurship and Cross-Functional Fertilization: Activation, Process and Disintegration of a New Product Design – Team;* Entrepreneurship Theory and Practice.

Zahra, S. A. (1995). Corporate entrepreneurship and financial performance: The case of management leveraged buyouts. Journal of Business Venturing, 10, 225-247.

Zahra, S. A., and Covin, J. G. (1995). Contextual influences on the corporate entrepreneurship-performance relationship: A longitudinal analysis. Journal of Business Venturing, 10, 43-58.

Symphonic Leadership: A Model for the Global Business Environment

Salvatore Snaiderbaur
ssnaiderbaur@benedictine.edu

Abstract: The increasing impact of globalization and the growth of multinational organizations challenge traditional leadership and management models that cannot sufficiently address cultural differences. After reviewing the most recent literature on global leadership, this paper puts forth a new descriptive model of global leadership. This new paradigm adopts the metaphor of a symphony and uses the stages of composition, orchestration, and performance to describe a new approach to leadership and management. The symphonic leadership model aims to overcome ethnocentric and etnorelativist limitations through the introduction of the intermediate stage of etnopluralism. The model keeps the role of the organization's stakeholders central, because they are the active, participant audience in the symphonic process. An outline for the empirical verification of this model is proposed.

Keywords: Global Leadership, Multicultural Management, Ethnocentrism, Ethnorelativism.

Reference: Reference to this paper should be made as follows: Reference to this paper should be made as follows: Snaiderbaur, S., (2012) "Symphonic Leadership: A Model for the Global Business Environment", The ISM Journal of International Business, ISSN 2150-1076, Volume 1, Issue 4, October 2012.

Biographical Notes: Salvatore Snaiderbaur is Associate Professor of Business, International Business Program chair at the Benedictine College school of Business and Editor-in-Chief of the Benedictine College Journal of International Business. He has developed in his career very diversified expertise end experiences in International Management as well as in Marketing, Corporate Communication, Public Relations and Government liaison. He graduated as Doctor in Jurisprudence in April 1990 at the University of Palermo Italy, and is now PhD candidate at the International School of Management.

Introduction

The globalized corporate environment faces one of the most compelling challenges in cross-cultural management. Several scholars (House et. al 2004), have attempted to determine the right leadership style for the unique challenges posed by globalization, but their research has not converged to a single model able to integrate different leadership theories and international operation practices. Kenichi Omahe 2005), in his work "The Next Global Stage," presented an optimistic description of a class of business executives who possess the right skills to meet this challenge:

> "Business Executives talk the same language anywhere in the world. They are able to communicate fluently and effectively in the linguistic platform of English. The terms that they use are the same. They have the same motivation and personal interests. Many have attended the same business schools, or ones who offer a very similar range of teaching materials, lecturing style, and placement opportunities. They read the same business magazines. They stay in the same hotels, often enjoying the same range of food and leisure activities, while their children go to the same schools" (140) .

Omahe described a global reality, but different scenarios are not uncommon. In these scenarios, communication and teamwork are growing challenges because of executives' different cultural backgrounds and leadership styles.

The "Next Global Stage" is still in search of the perfect leader or of the perfect leadership style, able to take into account the complexity of globalization. Certainly education plays an important role in this process, as American universities increasing interest and effort in internationalization seems to demonstrate. On the other hand, the "steroids" of globalization as per Friedman's (2007) definition, increase and amplify the interconnection among different parts of the global village. Unfortunately, at the same time, they increase and amplify the risk of miscommunication.

Harvard Business School professor Pankaj Ghemawat (2007) does not share Omahe's and Friedman's optimism. In his work "Redefining Global Strategy", Ghemawat (2007) opposed a vision in which international business constitutes only a modest percentage of total business and international business is still divided by barriers that transcend national borders. Ghemawat considers the world to be far from flat and unified. According to him, four kinds of barriers or distances still exist. Cultural, administrative, geographic, and economic barriers (CAGE) challenge every business that wants to be international.

Beyond Ghemawat's comprehensive analysis, clearly, the international business environment is constellated by failures due to cultural miscommunication. In international operations, network organizations operate more and more through virtual communication channels that are able to close geographical, but not necessarily cultural distances (Ghemawat, 2007). Using Omahe's metaphor, the exclusive circle of the Ivy League represents the minority of protagonists on the stage. The majority of international businesspeople are represented by a "middle class" of entrepreneurs, managers, scholars, and expatriates that deserve attention, inspiration, and support through realistic leadership models. This paper will delineate some components of the common knowledge about leadership and highlight a possible point of synthesis among the different theories. In particular, I will outline a new descriptive model directed to overcome the ethnocentric and the ethnorelativistic approaches.

Redefining Leadership: Recent Attempts

Considering the radical changes that have occurred in the global business environment, some authors (Darth, 2009, Palus 2009, Roberto 2009)) support the need for an ontological change in the idea of leadership. New challenges come from the world's "flattening," or the proliferation of peer-like and collaborative working environments:

> "[We need] an ontology in which the essential entities are three *leadership outcomes*: (1) *direction*: widespread agreement in a collective on overall goals, aims, and mission; (2) *alignment*: the organization and coordination of knowledge and work in a collective; and (3) *commitment*: (DAC). The willingness of members of a collective to subsume their own interests and benefit within the collective interest and benefit. The new leader-follower relationship would not be based on roles and hierarchies but on shared interest in pursuing the three mentioned outcomes" (Drath 635).

Palus (2009) supported the DAC approach and added to this concept by stating that leadership must cease to be "dependent" or "independent" and become interdependent:

> "Interdependent leadership cultures are broadly characterized by the assumption that leadership is a collective activity that requires mutual inquiry and learning. This assumption may lead to the widespread use of dialogue, collaboration, horizontal networks, valuing of differences, and a focus on learning. In general, interdependent cultures can be thought of as "collaborative" cultures. Other characteristics associated with interdependent cultures include the ability to

> work effectively across organizational boundaries, openness and candor, multifaceted standards of success, and synergies being sought across the whole enterprise (6)”.

The idea of leadership as a collective activity is not new in the literature (McLagan and Nel, 1995), and when applied, it certainly has important consequences. Broad diffusion of a similar approach would require a dramatic change in how not only leadership but also the overall organization is perceived. In contrast, globalization trends seem to be going in the direction of highly individualistic approaches.
Roberto (2009) approached the challenges of the new business environment with a model that describes the leader as an anthropologist in continuous search of the root of problems:

> “To solve a problem, one must first identify it. In many instances leaders do not spot a threat until it’s far too late. Leaders must hone their skills as problem-finders, not just problem-solvers. For leaders to become effective problem-finders, they can become like anthropologists”.

For Roberto, the anthropologic leader is someone who “literally get[s] out and smell[s] the coffee” (1). He or she is focused on discovering problems before they arise and creating a productive environment. This descriptive model has the strength to guide the concept of leadership in the direction of a deeper understanding of employees’ personal traits, and it is certainly fascinating, but it does not present a feasible approach to addressing the complexity emerging from the global environment in general or from cross-cultural relationships in particular. In the global environment, an anthropologic leader cannot just trust his or her intuition, but has to rely on direct knowledge of different cultures and environments. He or she has to look at the organization in its complexity and in its broader systems of interconnections and networks.

Timken (2010, 59) noted, “There is something odd going on in leadership. On the one hand, we have increasing interest in the concept of more empowering and engaging leaders and, on the other, this is not being reflected in the reality of peoples experience.” Timken’s analysis is based on the assumption that the profound changes in the global economy are driving changes at the level of the business environment. In particular, the transition of the global economy to newer economies has stressed the paramount importance of knowledge and innovation.

The democratic approach does not help in addressing the opposition to it in high power distance societies, such as China or Japan. On the other hand, highly collectivistic societies tend to allow for a high level of participation within established groups. Yi Feng Chen and Dean Tjosvold (2006) conducted research on participative leadership models in China. The research was based on a survey of cross-cultural relationships and the difference between American and Chinese managers in terms of effectiveness. The results support the hypotheses that cooperative, but not competitive or independent, goals help Chinese employees and their foreign and Chinese managers. Additionally, the results indicate that cooperative goals and acknowledgment and appreciation of the Chinese value of *guanxi* are necessary to achieve a participative model.

Livers (2007, 23-24) made an interesting contribution to the literature on leadership and cultural sensitivity. Her approach underlines the necessity for a fundamental shift in leaders' thinking and behaviors, a cultural shift in which leaders are able to take into account their followers' different experiences:

> "Executives have to understand that their ability to lead effectively is often determined by their followers' willingness to follow. Consequently, when leaders' styles are alien to their followers' experience, the leaders will either have to modify those styles, educate their followers about those styles and hope the followers are willing to change their own leadership expectations, or face the prospect and even likelihood of an ineffective leadership tenure"

A key contribution to the understanding of leadership in different cultural contexts comes from the Globe Study(House et al. 2004), in which a group of 160 researchers studied the cultural environment in 60 different nations. The Globe Study expanded the four Hofstede (1980) categories to nine (Hofstede classifies the cultural as a combination of four dimensions: individualism-collectivism, masculine-feminine, risk taking-uncertainty avoidance, and high or low power distance), and divided the 60 nations into nine clusters based on common cultural characteristics (the clusters are Anglo, Latin Europe, German Europe, Nordic Europe, Eastern Europe, Latin America, Confucian Asia, Southern Asia, and Middle East.). House and the other researchers in the Globe study did not limit their work to describing main cultural characteristics, but also attempted to come up with a universal definition of leadership that would transcend cultural differences. The researchers approached the problem by outlining the six most common leadership styles appearing in the nine cultural clusters (the six styles are charismatic/value-based leadership; team-oriented leadership; participative leadership; human-oriented leadership; autonomous leadership, and self-protective leadership). In every cluster, those styles are appreciated and adopted in different ways (findings are summarized in Table I).

The researchers also sought common ground in defining leadership and, in turn, the ideal global leader. The Globe Study's findings show that leaders who receive more universal admiration are those who are charismatic/value based with a high level of integrity and exceptional interpersonal skills. Doubtless, this description is correct, but the personal characteristics approach does not say much about the possibility for effective interaction among different styles, primarily highlighting the possibility of acceptance.

An international leader works daily with other people in positions of formal or informal authority with different leadership styles. The Globe approach is descriptive of how leadership is perceived by the other, but does not say how a specific leadership style can be also effective in the global environment.

Leadership appreciation in the Globe Study cultural clusters Charismatic/Value based leadership;

High	Medium	Low
Latin America Latin Europe Nordic Europe Anglo	Eastern Europe Confucian Asian Sub-Saharan Africa Southern Asia Germanic Europe	Middle East

Team-Oriented Leadership;

High	Medium	Low
Latin America Confucian Asian	Eastern Europe Latin Europe Nordic Europe Anglo Sub-Saharan Africa Southern Asia Germanic Europe	Middle East

Participative leadership;

High	Medium	Low
Nordic Europe Anglo	Latin America Latin Europe Sub-Saharan Africa Germanic Europe	Eastern Europe Confucian Asian Southern Asia Middle East

Humane-Oriented Leadership;

High	Medium	Low
Anglo Sub-Saharan Africa	Eastern Europe Latin America	Latin Europe

	Confucian Asian Southern Asia Germanic Europe Middle East	

Autonomous Leadership,

High	Medium	Low
Eastern Europe Germanic Europe	Confucian Asian Nordic Europe Anglo Sub-Saharan Africa Southern Asia Middle East	Latin America Latin Europe

Self-Protective Leadership,

High	Medium	Low
Eastern Europe Latin America Confucian Asian Southern Asia Middle East	Latin Europe Sub-Saharan Africa	Nordic Europe Anglo Germanic Europe

Table I - Elaboration from: *Culture, Leadership, and Organization*. Ed. Robert J. House, et al.(2004)

The New Organization

In order to better understand the possibility for successful leadership in the global environment, one must develop an awareness of the new organizational model driven by globalization. The Cirque du Soleil is commonly considered one of the most successful multicultural organizations. Lyn Heward, former president and COO of Cirque du Soleil's Creative Content Division, delineated the eight factors that make the Cirque du Soleil a successful example of a multicultural organization:

> "(1) Recognizing and unleashing creativity, (2) providing sensorial stimulation to transport people a little out of their world, (3) [engaging in] treasure hunting and creative transformation where we dig deeper to find not just the artists' contributions but their unusual, hidden gifts, (4) [cultivating] a nurturing environment conducive to supporting the creative process and connecting all

> employees with the product and our successes, (5) taking on challenges in the world through our social mission, whether violence in schools or water supplies, (6) supporting multiculturalism and plunging into all the offerings and strengths people have, (7) not being afraid to take risks, learn from mistakes and go forward…we never talk in terms of failure, [and] (8) keeping the shows fresh and changing the casts so people can feel pride in the product (qtd. in Reid 2008, 1)".

This model is certainly inspiring and deserves further research to understand the potential implications it has for other business contexts. The Cirque environment may have significant similarities with other arts, science, and academic organizations, which are certainly those that best recognize the impact of individual contributions on growth. Successful organizations in those fields have learned how to adjust to the styles and sometimes the egotistic approaches of their leaders, maintaining at the same time the rigor that is required by their mission. These organizations have in common the fact that they are knowledge based. Therefore, they are tasked with encouraging creativity and innovation.

At the end of the 1980s, Drucker (1988) prophesized that future organizations would not be based on the manufacturing model, but instead, they would more closely resemble hospitals, universities, and symphonic orchestras:

> "For like them, the typical business will be knowledge based, an organization composed largely of specialists who direct and discipline their own performance through organized feedback from colleagues, customers, and headquarters. For this reason, it will be what I call an information-based organization (pxx)".

Later, Drucker (1992, p. A16) differentiated among different kinds of teams. He distinguished between organizations working as football, baseball, and double-tennis teams. He described baseball as an individual game played in teams. Surgical teams and Henry Ford's assembly line resemble this kind of team. In contrast, on a football team, players play as a team. In both cases, players have assigned roles like in a symphonic orchestra where **"**the oboe never comes to the aid of the violas" (Drucker, 1992, p. A16). The third kind of team is the double-tennis team (e.g., top leadership teams). The roles played are interchangeable, but a very high level of cohesion is necessary.

Symphonic Leadership: Mission vs. Charisma

Orchestra director Benjamin Zander (2000) likes to remind people that an orchestra director does not produce sound; the orchestra does. He also believes that a first violin can lead from any chair of the orchestra. The similarities between conducting and management are clear, as management can simply be defined as doing through others. Drucker (1993) illustrated this concept while also recalling another musical metaphor of leadership in order to correct the myth of the omnipotence of charismatic leadership:

“Effective leadership doesn’t depend on charisma. Dwight Eisenhower, George Marshall, and Harry Truman were singularly effective leaders, yet none possessed any more charisma than a dead mackerel…Nor are there any such things as ‘leadership qualities’ or a ‘leadership personality’…What then is leadership?...The foundation of executive leadership is thinking through the organization’s mission, defining it and establishing it, clearly and visibly. The leader sets the goals, sets the priorities, and sets and maintains the standards…The leader’s first task is to be the trumpet that sounds a clear sound (Drucker, 1993, p 101).

Drucker’s approach has value in its anchoring the idea of leadership to effectiveness. The multicultural challenge is the challenge of the complexity of reality itself. Theologian Hans Hurs Von Balthasar (1987) defined truth itself, or the depth of any reality, as symphonic:

> “Symphony means “sounding together”. First there is sound, then different sounds, and then we hear the different sounds and then we hear the different sounds singing together in advance of sound. A bass trumpet is not the same a piccolo; a cello is not a bassoon. The difference between the instruments must be as striking as possible. Each one keeps its utterly distinctive timbre, and the composer must write for each part in such a way that this timbre achieves its fullest effect…The orchestra must be pluralist in order to unfold the wealth of the totality that resound in the composer’s mind” (7).

If it is true that truth and reality are pluralistic by nature, the business environment cannot be considered an exception. Charismatic leadership, as admired and accepted as it is, cannot avoid the fatal risk of ethnocentrism.

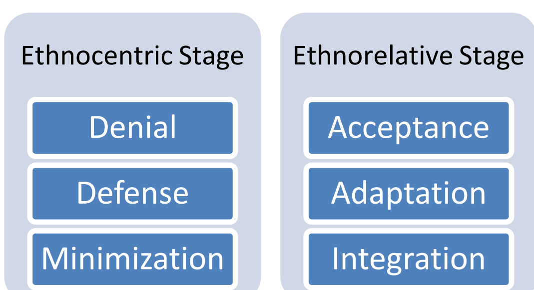
Bennett (2009, 100) defined denial, defense, and minimization as the three stages of ethnocentrism, whereas acceptance, adaptation, and integration are the three necessary steps for an ethnorelativistic approach to a multicultural environment. This model certainly has the merit of describing the need for acceptance of diversity as a minimum requirement to operate in a multicultural context. At the same time, the model is insufficient to guarantee a desirable level of integration and efficiency within the organization. Ethnocentrism and ethnorelativism are ultimately unappreciative of differences. Ethnorelativism allows for difference and instills tolerance for difference in the environment, but it is not able to begin the process of valorizing such difference.

Effective leadership must move toward an ethnopluralistic approach, where each cultural component becomes key to the organization's success. In contrast to ethnorelativism, the three stages that characterize it are risk acceptance, understanding, and appreciation. All human relations imply a risk of misunderstanding and conflict. Developing a strong working relationship without taking a risk is impossible. One must develop a deep understanding of the cultural origin of differences. Developing such an understanding requires ongoing effort. The most difficult part is appreciating and valorizing different cultures. However, doing so makes application of the mission possible in different contexts.

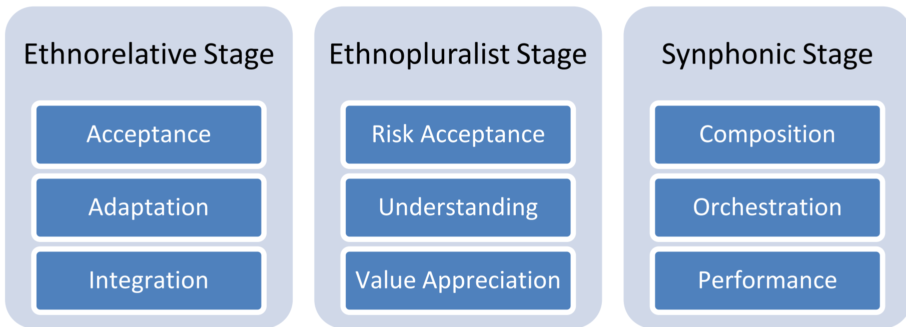
In a knowledge-based organization, - in Druker's definition (1988) as an information-based organization composed largely by specialists- differences, when properly acknowledged, managed, and directed, become valuable resources for innovation and change. Still, the ethnopluralistic approach is not the end of the line. This approach must be put into perspective. Ethnopluralism is not a value in itself, but must serve the organization's mission and allow for a high level of performance.

The ultimate stage, the stage beyond ethnopluralism, can be described as the "symphonic leadership" stage, which is characterized by *composition*, *orchestration*, and *performance* (Graph I).

Development of Intercultural Sensitivity - Experience of Difference



Proposed Symphonic Model – Esteem of Difference



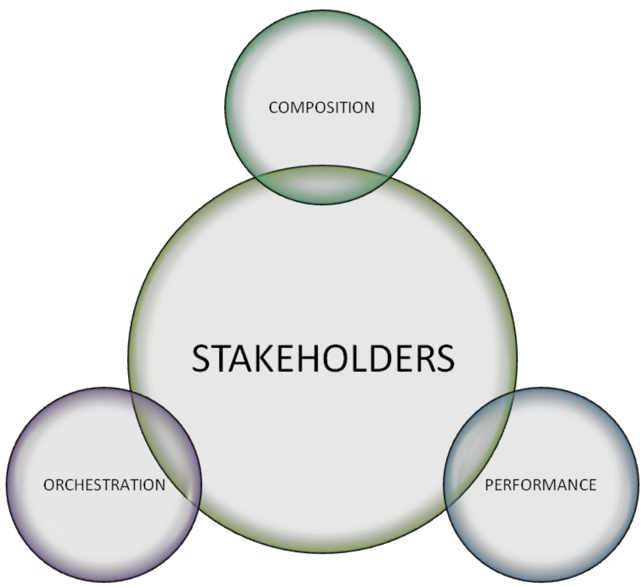
Graph I – Cultural Sensitivity – Comparison Elaborated and Modified from Bennett, Janet M. "Transformative Training." *Contemporary leadership and Intercultural Competences*. By Michael A. Moodian. Thousand Oaks: Sage Publications, 2009. p.100

Composition is important because an orchestra cannot perform without a score. Orchestration and performance are important, too. The score comes alive during rehearsal, following the conductor's unique taste and interpretation, but it is the performance in front of an audience that fulfills the symphony's mission. The audience is the purpose of the process (Graph II).

Graph II – Symphonic Orchestra Performance Continuum. (Snaiderbaur 2012)

In adapting the metaphor to the business environment, some necessary and important distinctions must be made. According to Drucker (1988*)*, the limitation of the similarities between an orchestra and a business organization is due to the fact that in a business organization, the score and performance are continuously evolving and adapt to the task at hand. Paraphrasing Drucker, an orchestra is bounded by the score as a business is bounded by its strategic goals. Execution in business provides continues feedback that may require adjustment of the orchestration or of the composition itself.

But I see the major difference in the role of the audience. In business, the audience plays a more active role than during a symphonic performance, so the concept of the audience itself must be extended. A symphonic cycle in a multicultural context must acknowledge and value all the corporation's stakeholders, who play a critical role in international operations, as they are an audience that refuses to be quiet during the performance, desiring to participate no matter what. If in the symphonic cycle, the audience is at the end, in the business context, the stakeholders are at the center (Graph III).



Graph III– Synphonic Leadership Cycle. (Snaiderbaur 2012)

Symphonic Leadership: Where It Begins

Symphonic leadership does not require charisma or other specific personal characteristics. It is not a trait-based descriptive model, although it requires a very personal (rather than just technical) approach to organizations. Symphonic leadership cannot be a product of the jet set life or of an Ivy League education. At the same time, as a less exclusive approach requires profound reflection on the education and formation of leaders and managers. Our society, and therefore the corporate environment, believes in the myth and practice of the "complete makeover." Drastic changes can be conducive to a high level of performance, but do not necessarily guarantee long-term results. The kind of change that symphonic leadership aims to produce is primarily a change in personal working experiences rather than a change in traits.

The education of symphonic leaders must be effected through rediscovering the value of liberal arts education and through direct exposure to culturally diverse life experiences, such as those offered through study abroad and similar initiatives. A leader is a leader when he or she knows how to inspire. A symphonic leader needs to find inspiration for himself/herself in order to be able to inspire others. This inspiration can come from a true understanding of the stakeholders' needs. As a teacher, I measure the effectiveness of my teaching by my own learning experience in class. Similarly, a leader will learn by experiencing his or her part of the performance, not just through the orchestration itself. Symphonic leadership is possible only if the "conductors" understand the partiality of their role. Symphonic leadership can occur only in knowledge-driven organizations, which start with the supremacy of ideas generated by great people and through great opportunities. Symphonic leadership is an attribute of the organization, not just of the conductor.

Empirical Evidence

The development of the symphonic leadership model must be supported by empirical evidence. The model is not directed to "create" a new leadership style but, rather, to recognize it where it is already existent and practiced and, if it is supported by empirical evidence, to determine how it would be possible to extend it or suggest it in a broader contest. There is sufficient anecdotal evidence of corporations that particularly value culturally diverse individualities. For example, Google has gained the reputation of having developed a corporate environment that encourages and values its employees' personal initiative, creativity, and ability to make unique contributions. Google's specific characteristics and a strong and uniform corporate culture do not make it the most suitable environment in which to conduct the research. Similarly, enterprises such as Cirque du Soleil or other art or science organizations may have achieved a high level of symphonic leadership but certainly have characteristics that are too specific and uniformity of the corporate culture within themselves. The ideal sample for the investigation should be found in organization whose members belong to various national cultures and do not share the same corporate culture. My preference is for network organizations that meet those two criteria. A challenging and interesting starting point could be the analysis of the intercompany communication in organizations that operate as a network and use "telepresence" systems. Such a study can be conducted using qualitative and quantitative methods, but as a first step, I find linguistic analysis to be of particular interest and relevance. The investigation should be directed to identify degrees of ethnocentrism, ethnorelativism, ethnopluralism, and, finally, symphonic leadership. The development of a linguistic analysis method would be only a first step for further investigation, becoming, at the same time, a first diagnostic tool for organizations interested in measuring their cultural sensitivity.

Implications

Symphonic leadership is not achievable without the following:

A) A mission fit team.

Selecting, recruiting, and retaining employees is the highest priority. The members of the orchestra must be aligned to the mission. Their role must be clearly identified and their contribution specified. An organization should appreciate and valorize different cultural backgrounds and management styles, but doing so does not imply that everyone is suited for a symphonic organization. In not-for-profit organizations, this concept is more easily evident. Enthusiasm for and dedication to the mission needs to be the highest priority in the recruitment process.

B) The distinguished role of specialists.

Contributions to the orchestra must be technical and unique. Organizations in which managerial roles abound sink due to bureaucracy, cultural clashes, and power distance issues. In my experience as a hospital administrator, I have seen successful operations founded on respect for the independence of professionals. This is the area in which managers risk projecting their own criteria and operative patterns onto specialists. In symphonic organizations, specialists must be allowed to organize their work with the highest level of independence possible. A true separation between the technical and the managerial is key in achieving a high level of performance. Moreover, specialists' professional development (continuing education) must be supported financially. Soloists/specialists must be respected for their unique contribution, and their needs should be accommodated as much as possible.

C) No fear of conceptual confrontation and conflicts.

The American business environment seems often to dedicate significant resources and managerial effort to smothering possible conflicts. This is not always true. In medical academic environments, "mortality and morbidity" conferences are meetings where teams of physicians analyze their work in order to improve their clinical practice. These meetings are characterized by the analysis and disclosure of mistakes that might have caused patients' deaths. This practice has been key for the education of young physicians and to achieve new ambitious goals in medical practice. The symphonic leader must embrace a similar approach in terms of mistakes and conflict. Conceptual conflicts are not unwelcome in some cultures, but apart from that, a healthy level of discussion on performance must always be maintained. Fear of affective conflict may sometimes discourage necessary conceptual divergences. Running the risk of getting personal is better than burying innovation in groupthink. Symphonic leadership can be achieved in an organization if its members are not afraid to raise the volume in order to be heard.

Conclusion

In the global business environment, one can easily see the inherent difficulty in developing universal models. At this stage and considering the complexity and variety of situations, a discussion about the future of leadership and organization is limited to descriptive models with which to guide leaders and managers.

"Reality" in the global setting maintains a sort of irreverence over comprehensive theoretical analysis. Models that are anchored to the acknowledgement and valorization of differences in the business environment, such as the model for symphonic leadership, can contribute to the process of harmonization of the global business environment and to higher levels of performance.

Our society has a strong preference for systems that can change things. But often, systems are like diets; they do not work. The only changes that work are those that are produced by a change in mentality. An individual is a blend of national, cultural, and family experiences, along with his or her unique genetic and psychological makeup. The systems that work are those that are able to generate and grow cultural awareness. Intercultural competences cannot be created through training, but only through the development of progressive stages of awareness. Symphonic leadership and management can be effective only by beginning with the assumption that reality and truth are pluralistic and symphonic. Business has the responsibility of transforming reality harmonically, respecting its true nature, protecting the environment, and safeguarding stakeholders' interests.

References

Bennett, Janet M. "Transformative Training." *Contemporary leadership and Intercultural Competences*. By Michael A. Moodian. Thousand Oaks: Sage Publications, 2009. 95-110.

Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies. Ed. Robert J. House, et al. Thousand Oaks, CA: Sage Publications, 2004.

Drath, Wilfred H., et al. "Direction, Alignment, Commitment: Toward a more integrative ontology of leadership." *Leadership Quarterly* 19.6 (2008): 635. *The Center for Creative Leadership*. Web. 6 Aug. 2009. <http://lmeccl.blogspot.com///on-leadership-culture.html>.

Drucker, Peter F. "The Coming of the New Organization." *Harvard Business Review* (Jan.-Feb. 1988): 3.

Drucker, Peter F. *Managing for the Future: The 1990s and Beyond*. New York: Penguin, 1993. N. pag.

Drucker, Peter F. "Drucker on Management: There's More Than One Kind of Team." *Wall Street Journal* 11 Feb. 1992: p A16. *ABI/INFORM Global. (Document ID: 27846108)*. Web. 5 Aug. 2010.

Feng Chen, Yi and Dean Tjosvold. "Participative Leadership by American and Chinese Managers in China: The Role of Relationships." *The Journal of Management Studies* 43(8), (Dec. 2006): 1727. *ABI/INFORM Global. (Document ID: 1179151981).* Web. 5 Aug. 2010.

Friedman, Thomas L. *The World Is Flat 3.0: A Brief History of the Twenty-first Century*. New York, NY: Picador, 2007.

Ghemawat, Pankaj. *Redefining Global Strategy*. Boston, MA: Harvard Business School Publishing Corporation, 2007. Hofstede, Geert. Cultural Consequences: International Consequences in Work Related Values. Beverly Hills, CA: Sage, 1980. Print.

Livers, Ancella. "Leading Globally Requires a Fundamental Shift." *Leadership in Action*, Abstract 27(3) (July-Aug. 2007): 23-24. *ABI/INFORM Global. (Document ID: 1333249411)*. Web. 30 July 2010.

McLagan, Patricia, and Christo Nel. *The Age of Participation - New Governance for the Workplace and the World*. N. pag.: Berret-Koehler Publishers, 1995.

Ohmae, Kenichi. *The Next Global Stage*. New Jersey: Pearson Education, 2005. Palus, Charles J. "Evolving Interdependent Leadership Cultures:." *MiL Day 2009 - Center for Creative Leadership* Mil Institute (2009): Web. 5 Oct. 2009. <http://www.visualexplorer.org/downloads/ Interdependent%20leadership%20cultures%20MiL%20Conference%202009.pdf.

Reid, Joanne. "The Resilient Leader: Why EQ Matters." *Ivey Business Journal Online* 72.3 (2008): 1 pgs. *ABI/INFORM Global, ProQuest*. Web. 1 Sept. 2010.

Roberto, Michael A. "Leaders as Anthropologists." *Ivey Business Journal Online* (Sept.-Oct. 2009) 1 pgs. *ABI/INFORM Global. (Document ID: 1923947931).* Web. 30 July 2010.

Tamkin, Penny. "In Search of the Empowering Leader." *Training Journal* (May 2010): 59-62. *ABI/INFORM Global*. Web. 30 July 2010.

Von Balthasar, Hans Hurs. Introduction. *Truth Is Symphonic: Aspects of Christian Pluralism*. By Von Balthasar. San Francisco, CA: Ignatius Press, 1987.

Zander, Rosamund Stone, and Benjamin Zander. *The Art of Possibility*. New York: Penguin, 2000.