

Beyond the business unit

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Corporate organization's future lies in the ability to work across business units. Opportunity-based organizational design may help you succeed.

Economic logic is driving two clear organizational trends. The need to be entrepreneurial and responsive to markets favors agile and focused companies. However, an unprecedented \$3.4 trillion in corporate mergers and acquisitions around the world during 1999 is powerful testimony to the benefits of scale and scope.¹

Corporations are increasingly unwilling to sacrifice size and breadth for market responsiveness or vice versa; companies are now organizing to realize the benefits of both. IBM, for example, seeks to foster the entrepreneurial spirit of their employees by encouraging people in their lower reaches to show initiative. And companies such as British Petroleum, having disaggregated themselves into focused units, don't hesitate to grow larger through acquisitions.

¹See John Hagel III and Marc Singer, "Unbundling the corporation," *The McKinsey Quarterly*, 2000 Number 3, pp. 148–61; and Jonathan D. Day and James C. Wender, "The new economics of organization," *The McKinsey Quarterly*, 1998 Number 1, pp. 4–17.

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Nevertheless, many companies are still struggling to create entrepreneurial focus and to leverage and integrate their far-flung resources at the same time. One of the most important benefits of scale and scope is the ability to give employees privileged access to a wide range of resources throughout an organization. A global entity like Citigroup, for instance, boasts a considerable array of resources—including people, knowledge, products, and even relationships with outside partners—residing in functional, product, industry, and geographic units. But integrating such resources to serve a corporate client about to do business in, say, Thailand would inevitably require far more lateral work across hierarchical lines than traditional management precepts and designs envision.

Using opportunity-based design

Some companies do, however, seem to be getting it right. Rather than viewing the corporation as a portfolio of business units, their managers regard

it as a portfolio of resources and of opportunities to create value. This opportunity-based design perspective gives these companies the flexibility to bring the most useful resources to bear on the most promising opportunities. But the resulting organization is more complex and poses new managerial challenges (exhibit).

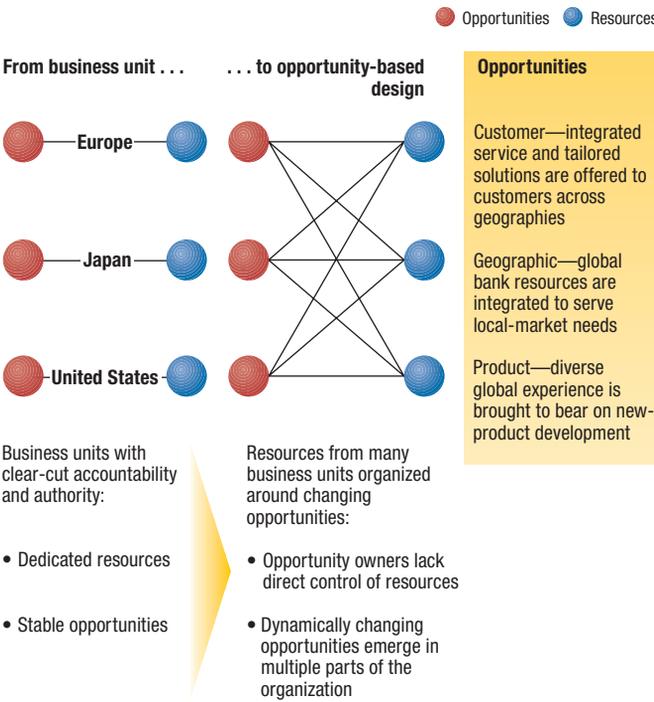
We have studied some two dozen companies that have adopted an opportunity-based design. Many of their managers, often working deep within operating units, discover opportunities in key

global accounts, tightly defined market segments, or tailored product solutions. To exploit such opportunities, these entrepreneurs, regardless of their positions in the corporation, are authorized to mobilize whatever resources

EXHIBIT

With opportunity comes challenge

Citigroup corporate banking example



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they need, such as product experts to create an integrated solution or functional and industry specialists, from a variety of countries, to serve a key global account.

Opportunity-based design helps established companies emulate the market responsiveness of start-ups without sacrificing the advantages of scale and scope. Consider ABB, an engineering company long known for its decentralized structure, in which dozens of quasi-autonomous businesses are loosely linked to a wafer-thin corporate center. Increasingly, both the sourcing and the scope of ABB's projects around the world have cut across these units.

Opportunity-based design lets big companies emulate a start-up's **market responsiveness** without sacrificing the benefits of scale

Oslo's new airport was one such project. In 1994 the government of Norway suddenly gave the go-ahead for this long-mooted scheme. ABB's country manager immediately appointed an airport project leader, who persuaded all of ABB's more than 20 businesses in the country to work under his aegis. Together, these businesses and their external networks offered the complete set of resources needed for the project. Because the project leader—the “opportunity owner”—was empowered to coordinate these resources, and because the heads of ABB business units and functions—the “resource owners”—were willing to dedicate them to an opportunity that others had identified, ABB won 70 airport contracts, with a total worth of more than \$300 million.

Organizing around opportunities and resources

In opportunity-based designs, owners of opportunities and resources typically exist within or alongside the business-unit structure. The organization must therefore be managed on two levels. Its foundation is a host of stable business units that conduct the company's day-to-day work, such as creating and marketing individual products. On top of that lie a number of fluid “opportunity units” that pull together elements of different businesses in order to tackle particular projects.

This opportunity-based structure has tricky implications for an organization and for human resources in particular. In a traditional line organization, everything is connected directly to the formal structure: careers, accountability, and decision-making processes. But all that changes when people begin to think of themselves as entrepreneurial resources who can be applied to a range of opportunities. In this case, employees need to juggle independent assignments, to build careers that move outward as well as upward, and to

satisfy the expanded web of people with whom they interact. And instead of resorting to authority, they must negotiate their own solutions to conflicts.

Besides functioning as a project leader, for example, an opportunity owner might well have other responsibilities in a product or geographic business unit. Such a leader must not only negotiate with owners of resources but also compete for resources with other projects and units. And when the next

opportunity comes along, the leader must do these things all over again.

No wonder people, particularly those suffused with the rules of the old order, frequently express discomfort with the new order's lack of structure.

Employees who are suffused with the rules of the old order frequently express discomfort with the new order's relative **lack of structure**

Leaders of an opportunity-based organization must maintain a delicate balance: too much structure and control and the organization grinds to a halt; too little and it is consumed by conflict. Few of the managers we spoke with believed that their companies embodied best practice. But all of these companies had made progress by focusing on four important organizing tasks.

1. Targeting the right opportunities

Traditional business units typically focus on opportunities they can pursue by themselves. Opportunity-based organizations, by contrast, encourage their people to look for a richer variety of opportunities—including those that standing business units can't capture alone—and then to think about how well they suit the company's resources and priorities. Entrepreneurial teams, which combine a firsthand view of what customers want with insight into a company's resources and capabilities, are particularly well situated to spot these nontraditional opportunities.

For instance, at Spaarbeleg, a small division of the insurance company Aegon, which is based in the Netherlands, any employee who has an idea can assume responsibility for its development. Since the division's four-person top management team has total authority to decide which ideas to back, they can be set in motion quickly. Ideas that fly are then transferred to the larger company. These ideas have included using newspaper coupons (rather than expensive agents) to initiate contact with prospects and putting recent university graduates in charge of franchises that sell only Aegon products, instead of relying on established agents who sell the products of other companies as well. Spaarbeleg also combines a number of Aegon products into packages tailored to discrete market segments, such as young married couples. To take this approach it must cut across the boundaries of Aegon's

product units. Spaarbeleg's informal, business-hungry attitude attracts the best and brightest of the Netherlands' young: its 200 full-time employees have an average age of 32.

At IBM, another company that makes use of opportunity-based business units, all employees have the right to register anything they regard as an opportunity into the company's electronic opportunity-management system.² IBM's resource owners too are enjoined to look for ways of extracting more value from the intellectual property in their units. As a result, profits from intellectual property and licensing at IBM grew to more than \$1 billion in 1998, from less than half that in 1994.

Of course, companies must ensure that the opportunities their entrepreneurs pursue are consistent with the resources available and with their strategic direction. Maintaining an open dialogue between senior and lower-level managers is therefore essential. At Shell Oil, a business-development unit helps geographically defined operating units expose and develop opportunities around the world. These opportunities are rigorously screened for strategic relevance, feasibility, and economic promise. Those that make the cut receive a global ranking from the appropriate managers at an intensive days-long forum. This process ensures that operating units "own" and execute opportunities, while resources are allocated in a global context to serve the interests of the company as a whole.

2. Matching resources with opportunities

The freedom of organizations to integrate resources across divisional and corporate boundaries is increasing as technology reduces transaction costs and makes it possible to manage webs of external partnerships and alliances in an increasingly sophisticated way. Matching resources with opportunities is still no easy job, however. A number of different opportunities typically chase the same scarce resources, most of which have their roots in a particular resource owner: a functional, geographic, or product unit that may not want to free them up.

So the challenge for an opportunity owner lies in quickly finding the best resources for the job and then in convincing their owners that they are best utilized by the opportunity in question. This challenge can be broken down into two tasks: identifying the right resources and negotiating for them.

Identifying resources. Opportunity owners across a corporation must find and temporarily borrow resources from a number of units. In general, traditional

²To be sure, most business opportunities at IBM are identified by its sales and marketing staff.

top-down planning systems aren't good at identifying the resources that projects require. That is why IBM has combined its customer-relationship-management (CRM) process with its opportunity-management system. As part of the CRM process, IBM maintains up-to-date estimates of the needs of its thousand largest customers. These estimates are based on their current requirements and on careful projections of what they will do next.

Customers and the customers' potential endeavors are ranked according to their estimated lifetime value to IBM and their projected growth rates. When a high-ranking customer launches a big project—say, an automobile plant—and formally invites IBM to bid on some aspect of it, the IBM customer managers in charge of that opportunity post it on the opportunity-management system, notifying all resource owners affected. If the opportunity owners, usually account executives, have problems getting the resources they need, they can appeal to one of IBM's top 250 executives for help.

Negotiating for resources. When opportunity-based organizational designs are working well, opportunity owners and resource owners can forge win-win agreements. If a product manager shares specialists with a key account team, for example, the product unit—though it may lose them for the project's duration—acquires powerful new ideas when they return. Even so, procuring resources for an opportunity can be difficult, especially if resource owners aren't rewarded for sharing.

Citibank (now part of Citigroup), for instance, hit a roadblock when country managers refused to serve multinational corporations. For Citibank as a whole, they represented a most attractive opportunity because they were growing quickly and required comprehensive, potentially high-margin global services that other banks couldn't provide. But the margins on the work that some country managers did for the multinationals were low, and the managers were evaluated on the basis of Citibank's profitability in their respective countries. The bank's chief executive officer at the time, John Reed, fixed the problem, primarily by taking responsibility for profit away from the country managers and rewarding them for the service they provided to multinational corporations.

ABB, like IBM, ranks projects to guarantee that resources go to the most important ones. Resource-owning units are allowed to opt out of only the less crucial opportunities. To smooth negotiations, ABB gives opportunity managers and resource owners open access to all key information, such as estimates of a project's cost and expected revenues broken down by product,



by geography (of the customer, the internal unit, or both), and by customer (projects sometimes serve more than one). The company also provides negotiators with clear guidelines for deciding how much lending and borrowing should take place. “Common codes” help as well: ABB uses one currency—dollars—and one language—English—around the world.

Managers at ABB and at Citigroup know that the game has many rounds: if they make undue demands for resources or negotiate in bad faith, they will damage their reputations and prejudice their chances of prevailing in the future. Because of the need to work across boundaries, opportunity leaders typically can’t compel anyone to work with them; they can attract strong teams only by showing that their projects have promise. In essence, staffers themselves identify the most attractive product or technology development opportunities by voting with their feet. At Intel’s Architecture Labs, a technology and product development facility, one ultimately successful project began with a single person working part-time; through word of mouth, the project’s staff soon grew to include ten full-timers.

Managers who make excessive demands for resources hurt their **chances of prevailing** later on

3. Getting diverse resources to work together

In traditional organizations, most interactions occur within business units, among people who probably have similar perspectives and goals. But in opportunity-based organizations, people from a variety of units are thrown together, often for a short time, creating a situation rife with potential conflict. Employees serving on a number of project teams may have as many bosses as projects, and the demands of those bosses can often create conflicts. Too much focus on a particular opportunity could harm an employee’s career in the resource-owning unit; too much loyalty to that unit could alienate the opportunity owner. From the company’s perspective, there is also the danger that no one will be able to judge such an employee’s overall effort, causing personal accountability to slip, along with the company’s performance.

At many of the companies we studied, a typical senior manager puts substantial energy into promoting collaboration. Their corporate policy bibles espouse norms of cooperation and of doing what is right for the whole company; they insist on fact-based decision making that is free of politics; and they base evaluations and promotions on a demonstrated talent for working with others. Talent is developed through job rotation and training, collaboration through new-product meetings, project-management classes, and intranet groups. Consider Degussa Metals Catalysts Cerdec (DMC²),

a company based in Germany. Its Auto Catalyst Division, which depends on global collaboration across functions, trains all levels of managers in problem solving and conflict resolution. According to a senior Degussa

Degussa managers are expected to be able to ‘have a good fight and then **go out for a beer,**’ reported a high-ranking manager

manager, they are expected to be able to “have a good fight and then go out for a beer.”

To create accountability around opportunities, most of the companies we studied have established permanent opportunity-based units:

customer teams, project teams, or solutions teams. These companies grant opportunity team managers high status as well as the authority to evaluate the contributions of the people they borrow. To ensure that those employees serve both their old and their new masters diligently and well, resource owners also evaluate them.

4. Developing flexible, world-class resources

Entrepreneurs in opportunity-based companies are happy to borrow resources and to shed the responsibilities that go with owning them. Even a manager responsible for resources—say, the functional head of a pool of applications engineers—thinks like a steward rather than an owner. Such managers assume the obligation of making sure that their resources are deployed to their best advantage across the organization and that those resources (including people, specialized knowledge, facilities, and relationships with outside partners) are well cared for and continuously improved.

How do companies get both sides to let go? Transfer-pricing and costing systems can help by making sure that lenders are fairly compensated. More important is recruiting people with the right characteristics. DMC²'s Auto Catalyst Division, for example, favors employees who network and collaborate well, tolerate ambiguity, are good at resolving conflicts, and enjoy travel. The division searches for entrepreneurial people who can overcome the hierarchy and spot opportunities. IBM evaluates its executives by their willingness to serve the greater good of IBM rather than a particular unit or function.

Opportunity-based companies need to reward such people for more than just doing a job or hitting the numbers. At IBM Europe, the size of a customer-industry segment leader's stock option grant—which can be anything from zero to double the regular take-home pay—is based entirely on that person's overall contribution to the company. Rather than simply examining the segment's profitability, a personnel committee polls the employee's colleagues

about such key nonquantitative factors as an ability to spot opportunities, a commitment to developing subordinates, and a willingness to provide resources for key projects.

In many industries, it is becoming essential to pursue opportunities that require working across business units. This is hard to do. But it is precisely because cultivating these opportunities is difficult that the companies best able to do so may well be creating a long-term platform for competitive advantage. *MQ*