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Building the Velcro organization: Creating value through integration and maintaining organization-wide efficiency

By Joseph L. Bower

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Building the Velcro organization: Creating value through integration and maintaining organization-wide efficiency

To become flexible, a decided asset in today's global environment of business, a company's infrastructure needs be like Velcro, cohesive and workable when in place, but capable of being easily re-arranged when circumstances and strategy call for it. But developing a Velcro-like infrastructure requires formidable mastery of the basics. This noted management expert has some helpful advice for executives.

By Joseph L. Bower

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In the winter of 1996, the entertainment giant, Viacom, was prospering under the leadership of Frank Biondi. The worldwide producer and distributor of entertainment content was showcasing its solid strategic foundation with the continued success of Paramount studios and the MTV, Nickelodeon and VH1 cable networks. Paramount's movies earned money in their own right, but they were especially lucrative when sold as a library to international cable networks that found Hollywood movies an irresistible lure to subscribers. In turn, the MTV brand of music video entertainment proved very popular worldwide. Biondi managed these businesses as independent divisions, with careful planning and tight financial controls, rapid decision-making, and high performance-based incentives for the top managers.

The only strategic threat on the horizon appeared to be Rupert Murdoch's NewsCorp. Murdoch's strategy was based on monopoly control of the satellite platform and the cable distribution used to distribute network and movie content. He also acquired Fox studios to strengthen his hand. The international divisions of MTV and Nickelodeon found that where Murdoch controlled the distribution, the power of their brand to reach viewers was limited. On at least one occasion they needed the power of their sister division, Paramount, to negotiate an acceptable arrangement with Murdoch-controlled distribution.

When Kirch, the German publishing and video giant, began to renegotiate its agreement with Paramount, Nickelodeon saw it as an opportunity to gain some leverage in its effort to penetrate the German market. MTV was also concerned with the structure of the deal. The Paramount group was uninterested, however, and proceeded to negotiate a $ 1 billion deal independently. All during the fall of 1996, the concerns of the divisions echoed through the halls of Viacom's corporate offices as Biondi sought to get the divisions to settle the matter among themselves.

Finally in January, Sumner Redstone, the controlling shareholder and chairman of Viacom fired Biondi, traveled to Europe, met Kirch and his rivals, and developed an auction for the Paramount product. In something like a month, a $2 billion deal was concluded that included Nickelodeon and MTV.

This summary of a dramatic series of decisions highlights many of the challenges facing the managers of today's large, global multi-business corporations. To begin, the global markets reward scale and world-class quality and costs, as well as the power that goes with them. An aggressive first mover like MTV can take U.S. pop music to most countries in the world. Fluid capital and technology have enabled aggressive companies to take their strategy around the globe. Murdoch's satellites carry programming in the UK, India, China, Australia, the U.S. and Latin America. Only in the U.S. do anti-trust laws substantially constrain his actions. In more

mature businesses such as automobiles, chemicals and steel, the export-driven growth strategies of industrializing nations have created hyper-competitive conditions in many markets, but they also have served, inevitably, to pry open their home market to international forces. Finally, there is a "winners take all" phenomenon developing in the global markets. As consumers -- both industrial and retail-learn about the global brands, they appear to be content with relatively few choices. That makes it hard for smaller groups to compete.

Under these circumstances, the challenge for corporate managements is to insure that the operating units of their business achieve world-class standards of performance and at the same time that the opportunities for creating value through strategic integration are realized. Large firms have to be organized in small pieces that permit hands on managers to support the intense work that goes into being competitive. They use strategic business units (SBU's) and country organizations to manage operating activities. And typically-like Viacom-they plan and measure performance tightly and reward success with incentive compensation. Recently, there has been a trend toward the use of EVA type measures of performance that benchmark the use of capital against the external cost of capital.

But just like Viacom, most firms face opportunities that require the cooperation of their operating units in order to achieve scale, vertical links among related businesses, horizontal leverage from cooperation among similar groups, and increasingly, the ability to address opportunities posed by the blurring of boundaries between industries and between markets. Digital convergence is one example, while the erosion of product boundaries in finance permitted by deregulation is another. The problem that these firms face is similar to Biondi's dilemma. The managers of the individual business units often feel that they have very limited incentive to cooperate. Indeed, the high performance- based compensation focuses them clearly on individual unit objectives. EVA type compensation is especially pernicious in this regard because there is no way to account for the benefits of cross-business unit collaboration.

In the Viacom case, Sumner Redstone dealt with his problem by intervening, directly asserting the power that he held as an owner and negotiating for the entire corporation rather than one of its pieces. My research includes other such examples, each one an ad hoc effort by a CEO who has identified an important strategic opportunity that was not being addressed by the business units acting individually. The question addressed here is how company management can continuously and effortlessly combine and recombine resources to address new and evolving opportunities that lie across the boundaries of existing business units, while maintaining efficiency in the management of the current business. It is a "getting the best of both worlds" problem. The answer to the apparent contradiction between accountability for performance and strategic integration is what I call the "Velcro organization."

Framing the management question

In my research and experience, it is evident that progress on "the best of both worlds problem" does not occur all at once. The capabilities of the company must be strengthened at both the corporate and business unit levels. The challenge can be viewed in the table below.

Dimensions of Corporate Strength

Quality of Unit Performance

High

B

C

A

D

Low

Low

High

Ability to Leverage Corporate Capacity

Most business-unit management systems are designed to help move companies from A toward B. Companies that are at A and try to move directly to D inevitably fail at the task. It takes a great deal of management capability to work across units, and units whose individual performance is low seldom have the "extra capability" needed to manage collaboration. Instead, companies work hard to improve the capability of individual units by using the arsenal of tools developed to aid restructuring. These tools range from TQM to activity-based costing to EVA. Ironically, in the process of making these infrastructure improvements, they often build barriers that block their way by first turning their attention to the strategic opportunities that require a high capacity for leveraging resources.

For example, the marketing services giant WPP is built on the strategic premise that it can provide better service to its huge multi-national clients with subsidiary companies cooperating to deliver a full service package. But the managers of the most significant of those subsidiaries are focused on the hard work of winning business and improving profitability. That is how they are paid, and to a significant extent how they contribute to Wall Street's valuation of their parent. Said one manager, "We can spend an hour with one of our small sister companies and pick up $4 million of business. We can spend an hour with a client and maybe pick up $25 million." (Where's the incentive to move from A to D?) At least as important, adjusting their own operations to service global clients profitably required difficult changes in the management practices of the individual subsidiaries. Better resource allocation and tight global coordination meant the jobs of the barons running local offices would have to change. More centralized focus on the subsidiary's needs was required, not some ephemeral cross subsidiary cooperative project. (It's hard enough working to move people from A to B.)

Returning to the Viacom example, the head of the Paramount division had huge personal and divisional stakes. The deal he was negotiating would guarantee a stream of income over ten years. And his bonus was structured so that good divisional performance against budget could yield bonuses of up to 300 percent of an already handsome salary. It was easy to feel frustrated when the needs of colleagues from other divisions slowed the conclusion of a deal.

In another study, we found that in virtually all cases where local daily newspapers sought to build "on-line" editions, the organizations supporting the traditional paper-from the advertising sales force to the newsroom-refused to support the new venture. Their concern was that their business would be cannibalized and their editorial values compromised, not that their parent organization was missing a huge new opportunity. Why cooperate?

The reason these barriers to strategic integration are so troubling is that in the hyper-competitive conditions cited in the introduction, it is typical for rival high performing competitors to compete away the benefits of quality and productivity improvement they have worked so hard to achieve. If many firms get from A to B, the consumer gets all the benefit. In today's world, above average returns flow from product and process innovation. These often require recombination and especially sharing of resources and capabilities for success. If we see that the strategy requires it, how can we get to D? (The definition of return is not irrelevant to this discussion. We are talking here of return on investment rather than total return to shareholders. In their book, Creative Destruction, Richard Foster and Sarah Kaplan emphasize and illustrate the importance of newness to total return.) They find that the only fresh approaches to an industry yield above-average returns because stable patterns are soon understood and valued by the stock market so that their returns are average.

Organizing to leverage capabilities

It's hard! The nature of the organization design problem becomes clear when we try to apply the classic prescription, that structure should follow strategy, to the list of the strategic needs of a modern multinational. To highlight the problem, I have organized in a table a list of strategic needs and the typical organizational response that companies devise to resolve those needs. It's pretty clear that a company cannot have a single organizational arrangement that

fits all the prescriptions in the right-hand column of the table.

Strategic Objective	Traditional Organizational Solution
Achieve scale advantages	
Financial	Organize by function
Global brands	Organize with product divisions
World class, minimal efficient scale factories	Organize by function
Reduce hold-up risk	Organize by stage of production and integrate vertically
Reduce risk of obsolescent fixed assets	Outsource
Share country expertise – close to local customers	Organize by geography with strong country units
Share technological expertise	Organize by function
Achieve distribution economies	Organize by function or process

The original solution to this problem was developed in the period after World War I at DuPont and really elaborated on and rolled out in the 1950's at GE, in the form of product divisions. The corporation was organized by major product groups, and each group had its own powerful functions. To achieve strong cross-group sharing of functional expertise, powerful corporate functional staffs coordinated activities. By the 1980s, this approach was often found to be too fragmented for the effective development of powerful business strategies, and too slow and expensive for competitive execution.

The matrix organization: The classic solution

Even in the 1960s, however, some companies with truly scarce functional expertise were finding that it wasn't feasible to break up functions and spread them across product divisions. Especially, high technology and defense contractors found that they needed powerful functional organizations as well as strong product management. The solution was the matrix organization in which many managers had functional and project bosses. The same approach was adopted by many multinationals in the 1970s and 1980s. They had product and geographic organizations. The head of a product business in a country reported to the country manager where he was located and to the product manager at headquarters.

Many companies today continue to use the matrix form. Percy Barnevik used it as a key ingredient of his turn-around of the newly merged Asea and Brown Boveri. At ABB, 450 profit centers linked with a modern enterprise-reporting system exposed local product managers to profit pressure. A very small headquarters group worked to insure that the global sum of these activities made strategic sense. The same basic form is used at Unilever, where strong country organizations deliver strong global brands to local customers.

The many discussions of the matrix organization all agree on two things: it is very hard to manage, and it can slow down decision-making. The problem is that the managers who live at the intersection of product and function, or product and geography, have a very hard time dealing with two bosses, especially when each is paid according to an incentive system tied to performance. As well, there is often a question of what that "country product manager" or project manager or brand manager is actually responsible for. In one multi-national manufacturer and distributor of consumer durable products that I studied, the country manager was responsible for local prices, advertising, promotion and negotiations involving product features between mega-retailers and the factories. Product managers controlled the product lines, the development budgets, and scheduling. Brand managers were supposed to execute on brand strategies that delivered coordinated product-market programs by country. They could call meetings, but otherwise were powerless. Worse, the potential power of the brands was diluted by the sporadic use of development and marketing resources.

The challenge, of course, is that the reality of doing business in several countries with several product lines is that *there is a matrix of issues* to consider. The multi-national needs world-class performance by the functions directed in a way that is responsive to local competitive conditions. The high tech company has to allocate scarce technical talent across programs. To realize those

objectives, executives must always manage with their colleagues' needs in mind. That basically means knowing when to pick up the phone and say, "I have the following challenge and here's what I'm thinking of doing. But before I do that, what problems does it cause for you? Maybe I can modify my plan." Or, "it would help me no end if you …" The matrix must be in their heads as a problem to be managed, not on paper as some kind of fixed wiring diagram.

That kind of cooperation is especially difficult when modern pay-performance systems focus the attention of managers on this quarter's performance measured carefully by function and business unit. Such systems are associated with quantified milestones such as unit costs, yields, or customer penetration. When the bar is set high, especially when a system like EVA is used rigorously by business unit, it is very difficult for executives to back off and think of the higher cross-unit or corporate need. In the case of Viacom noted at the beginning of this article, millions of compensation dollars were at stake.

What companies need is what I call the *Velcro organization*, an organization that provides a firm, clear connection for managers to work with when appropriate, but permits rapid shifts in configuration so that managers can exploit different connections when those are needed. Like Velcro fasteners, the relationships should be tight when managers are in operating modes, but be capable of being loosened quickly for reassembly, when managers have to work in temporary groups on projects, studies, or tasks like new business development with strategic horizons.

The Velcro organization

When I've talked with leaders about the idea of the Velcro Organization, their reaction is usually positive. "Right," they say, "how do I build it?" The problem is that it doesn't come easy. You can't just design a Velcro organization and then install it in your company. A set of capabilities must be in place:

- The strategic matrix must be in the managers' heads. The executives of the organization understand the different objectives of the company and the roles that they need to play depending upon the objective. That means that they understand the corporate strategy as well as the business unit strategies that are relevant to their roles.
- Members of the organization are aware of the portfolio of skills and perspectives in their company, how they can contribute, and why they may be complementary rather than competitive. That usually means they have seen or heard about the power of cross-unit teams at work.
- Managers know where those skills are located and have come to trust the effectiveness of those who possess them. They have been exposed to the reservoirs of talent in their company and trained to use it.
- The measurement system tracks outcomes such that you get the same performance measurement no matter how you choose to slice and dice the data. Untold meeting hours can be wasted trying to figure out why the same decision looks different when measured through the varying lenses of different organizational units.
- The compensation is based on measures of outcomes aligned with the strategy as opposed to inputs, processes, or sub-unit targets. Good managers will sometimes look past apparent problems with the way the compensation system will affect their personal rewards, but it is hard to rely on good will for sustainable, systematic results.
- The work environment has to enshrine values such as candor and fact based problem solving. Bullies, surfers, and timid souls can derail progress towards a Velcro organization.

Building these capabilities takes time and commitment. They may be impossible to achieve in an environment characterized by ongoing down sizing or a take-no-prisoners pay for performance system. People in those situations are too focused on delivering on their commitments to take seriously the benefits of working together. Extreme examples of this kind of harsh environment were observed in Al Dunlop's Sunbeam, and Enron. In these instances, unrelenting uninformed pressure for short-term results appear to have led to illegal behavior.

But in much healthier circumstances, it may well be

that the emphasis has to be on short-term cost cutting and restructuring. In that case, Velcro must be deferred. In my research at GE, Jack Welch indicated that the kind of boundaryless organization with positive values that he tried to build at GE at the end of the 1980s would have been impossible to achieve during the period when "destaffing and delayering" were the names of the game.

What companies need is what I call the *Velcro organization,* an organization that provides a firm, clear connection for managers to work with when appropriate, but permits rapid shifts in configuration so that managers can exploit different connections when those are needed

In other words, building a Velcro organization requires a certain amount of business health and competitiveness as a pre-condition.

A simple illustration of this idea of knowing how to play in a Velcro organization is the contrast between soccer and rugby. Soccer is a position game. Different players have specific talents and roles, and they are taught to stay in their position, passing to their teammates who can be relied upon to be in their position. Rugby is a bit different. Players have particular positions, but when the ball is loose they move to get the ball and then, while in play, reassemble themselves in formation to advance the ball forward. Great companies can do the same thing because the managers know that for certain purposes-usually related to operating on plan-they must perform assigned tasks in predictable ways, but in other assignments they must use their knowledge and skills to work on cross-unit challenges. They can do this because they understand in each role what the company is trying to achieve.

How do we get those capabilities?

To start, it is important to accept the wisdom of Welch's observation. You don't have to buy in to GE's system in order to understand that if your company is managed by an encrusted bureaucracy, if it is overstaffed, and if the individual units and functions are less than competitive, you can't make progress through sophisticated organizational arrangements. Returning to the introductory discussion, you can't get from the A box to D directly.

Share strategy

Developing a shared understanding of corporate purpose as well as the specific competitive strategies of individual business units is a central responsibility of the leadership of any company. The most powerful way to achieve that understanding is to have managers take part in the crafting of the strategy. For the rest, communicate. Managers seeking to leverage capabilities spend an inordinate amount of time communicating their view of the world around them and the way the company has chosen to compete. They go everywhere inside and outside the company to tell their story. (Which is not to be confused with specifics of deals or plans for people.) Sometimes, this is called a vision, but when well crafted it has the effect of helping mangers throughout the organization to understand how to frame the specific problems they are facing.

My favorite example is Jack Welch's "Be #1 or #2 (worldwide) in everything we do." Under Welch's predecessor, GE had elaborate strategic planning. But good performance meant growing 25 percent faster than the U.S. GNP and meeting profit objectives that were higher than the previous year. The competition was the other divisions that were seeking capital funds for investment. In one sentence, Welch re-focused his managers' attention on global competitors and the strategic challenge of being one of the top two in the game. It is a revolution in strategic framing.

The corollary to Welch's charge is "If you aren't #1 or #2, fix it, sell it or disengage." Every business unit manager at GE understood his or her role. They may not have liked where they were classified, but they understood it. Interestingly, a decade and a half later, GE found #1 or #2 requirement was warping the way business units assessed a wide range of opportunities in markets where a leading share could not be assured. A new strategy was crafted.

Recognize the power of leveraging

Recognizing the need to drive forward strategically is one pre-requisite for Velcro. Recognizing that other business units have the capability to help is another. For that to happen, it is necessary to get past the instinctive reaction to reject when dealing with a new face from another organization. It is a mixture of turf protection, NIH, and simple distrust of a stranger whose skills have not been calibrated.

At WPP, cooperating with other subsidiaries meant sharing billings and sharing credit. Managers responsible for the P&L instinctively saw business opportunities as belonging to them, just as they saw the talent of their most creative people as belonging to them rather than some joint venture. Some of the specialists saw their counterparts in other subsidiaries as stars with whom to compete rather than colleagues from whom one could learn. And account managers responsible for large pieces of long-term business were reluctant to include in their teams, individuals from other subsidiaries whose skills they did not know intimately. Companies try to overcome these natural barriers through programs of sharing best practices, knowledge management, and ad hoc structural arrangements. While many firms create directories of their members by specialty, most of which are now Web based, the challenge is to get executives to use them.

In my research, no one factor is more critical to the success of a Velcro organization than compensation

At WPP, outstanding specialists were asked to hold cross-company workshops in their field at which executives from other divisions could present case studies illustrating new ideas or practices. After two days of discussion and socializing, the quality and value of people who had barely existed as names became quite obvious. These workshops led to the creation of on-line communities by which the participants could continue to work with each other across considerable geographic distances and organizational lines. A competition was instituted that provided significant cash awards as well as recognition for the most successful cross-subsidiary client project. And in two cases, virtual companies were created that provided a unified face to the market for what in fact are a series of ad hoc cooperative ventures in response to a client need for a multi-disciplinary project. One of these, The Common Health, has had the highest billings in the health care field for several years running.

At McKinsey & Co., an elaborate overlay of knowledge communities organized by industry, functional, and process specialties has been created to help consultants around the world bring their capabilities to bear on client projects and in developing new products to market. The management consulting firm, Accenture, has invested in an extensive web based knowledge sharing system to achieve some of the same benefits.

Move from awareness to trust

In fact, the challenge at McKinsey is very different from that at WPP. Like Goldman Sachs and the old JP Morgan (when it was a commercial bank), McKinsey is a "one firm" firm. A very strong culture emphasizes that one is working for a single global entity. Travel to work with "partners" for a client in another part of world is common. Here the biggest obstacle to leverage is the busyness of the professionals and a desire to earn professional and economic recognition from authorship of innovation for oneself. Training and workshops and web facilitated knowledge bases and communities make it easier and normal to behave in ways that are deeply ingrained in a culture.

WPP is typical of many firms today that have been assembled through acquisitions. Wall Street would call it a "marketing service industry roll-up." While the strategy of serving giant multi-national clients better by teaming up with sister subsidiaries offering different disciplines is clear, the barriers to cross subsidiary cooperation are severe. Some parts of the firm, like J. W. Thompson, have powerful cultures of their own based on 120 years of history. They compete directly with other parts of the firm, like Ogilvy & Mather and Young & Rubican, for business. Their executives' cash compensation is tied to their own subsidiary's performance (they also have stock options based on group performance). While these giants rarely

cooperate, the work to leverage knowledge and capabilities described above has enabled the firm to serve some global clients more completely and effectively. The WPP group does not report the sales or profits of cooperative activity, but in its Annual Reports describes the contributions as material. Interviews suggest that the executives that support the initiative do so because they are able to differentiate themselves from stand-alone competitors, and because they have learned to use the leverage to serve clients well.

At Viacom, the Paramount, Nickelodeon, and Simon & Schuster divisions have cooperated on numerous projects. Cartoon characters developed for TV have been the subject of movies and books, permitting Viacom the luxury of developing highly profitable movies without the staggering cost of star talent.

Effective enterprise measurement

The issue of having proper data for examining questions that cross business lines is often thought of as technical, and boring - just accounting. Nothing could be less true. Working on strategic problems is hard. One is forced to make critical judgments about the future. A vital piece of that analysis is present performance and the trend that it represents. "Where are we making money?" is a critical question. So is "How are we making money?" The sad fact is that many companies don't know. Sometimes, they do not gather data that permit one to know the costs associated with the activity involved in a business. A related problem is when costs are gathered but poorly matched with revenues. In today's manufacturing world, when labor represents a small portion of many businesses, too many fixed costs are allocated on the basis of labor hours. In services businesses where talented knowledge workers are often a fixed cost, inadequate attention is paid to the productive use of time.

Even if companies believe that they can assess the profitability of different parts of their business, a problem arises when this estimate changes depending upon where in the company one estimates the profit to be. One can't have a business that appears profitable when assessed by a country manager turn unprofitable when viewed by the business unit management. It is hard enough to make the right strategic judgment without having different numbers.

This dilemma can be aggravated by the role of transfer prices and allocations in the calculation of profit by division. Where these accounting policies play a major role, decision-making can get bogged down with disputes over numbers instead of strategy. In one senior management discussion at a financial services firm, I asked one of the top executives newly arrived from a leading competitor to account for the speed with which new products were brought to market and exploited. He noted, "Back at my old firm, we'd take months to figure out how to attribute the costs and profits, and these guys would already be in the market. Here, all we discuss is whether the product is good and how to sell it. Then we do it. We trust Max [the ceo] to divide things up fairly."

When firms turn to improving their information systems, another serious problem faces them. Installing an effective enterprise reporting system involves a major investment, a lot of time, and a substantial risk of failure. There are numerous examples of companies that spent tens if not hundreds of millions of dollars over two or three years attempting to build a useful system without success. Nonetheless acquiring such a system is a necessary step, but one plagued with problems that need to be managed closely.

Compensation

In my research, no one factor is more critical to the success of a Velcro organization than compensation. Managers try hard to do what they are paid to do. Many companies have gone to considerable length to design systems that provide high incentive to reach their planned objectives. Meeting divisional targets can be worth a 100 percent bonus. Surpassing target can be worth two or three times that amount before considering stock options. It is not surprising when executives working in systems like that are narrowly focused on their own division's objectives.

It helps when the compensation system makes it easy for executives to shift position so that they can truly put themselves in "the other guys shoes." Such a system has several characteristics:

- **A truly significant proportion of variable**

compensation is based on corporate, rather than business unit, performance. This is rather obvious, but a surprising number of companies say that they want a corporate perspective and then pay for a divisional one.

- **Performance measurement includes contribution to cross-business activity**. While it is easy to insert language about cooperation into a formal evaluation system, making it a reality inevitably involves a high degree of subjectivity. Worse, the external market is seldom aware of such contributions. When market comparisons are mechanically factored into compensation, narrowness can be exacerbated. Managing compensation in a Velcro organization so that the subjective judgments are perceived as fair requires a great deal of top management's time.
- **Base compensation and title move with the manager as he or she shifts roles**. Systems that compensate the job rather than the manager often serve to frustrate cross unit strategic work. Even though a new venture may have high strategic importance, the jobs making it happen will tend to have low "points" in formal job rating systems because there are few direct reports, no comparable jobs in the market, and limited revenues.
- **An independent HR function that reports to the CEO or one of the CEO's direct reports**. This helps enormously to insure fair score keeping. There is a remarkable effect when an executive with whom you are fiercely fighting gives you a raise or a bonus because he or she was told to by HR. It also helps when a corporation uses money or promotion to recognize that in retrospect you were right, even if you lost the battle at the time. It is very hard to obtain these kinds of reminders of the corporate perspective when compensation is exclusively in the sole hands of a hard charging line organization.
- **Performance evaluation that works hard to include assessments by more than the line supervisor**. Many corporations today use some kind of 360 system for performance evaluation. Subordinates, peers and executives from higher levels (not just the direct superior) are asked to assess each manager. This information is used for feedback, and in some organizations is tied directly to performance. (The latter practice inevitably generates a politics that needs to be managed closely.)
- **Important promotion decisions reflect cross business unit inputs**. An interesting example of the use of evaluation and compensation to create a corporate perspective is provided by the bankers Morgan Stanley, prior to their merger with Dean Witter. Although the firm was built up organically, they were organized by lines of business such as corporate finance, m&a, equities, fixed income and trading. While not separate subsidiaries as at WPP, the divisions were very much individual baronies. At the same time, clients were seeking solutions that required cooperation across division lines leaving the leadership with the same sort of dilemma as at WPP. Part of the solution was to introduce a 360 system, but the critical aspect of the system at Morgan Stanley was that the barons-the previously independent division heads-were asked to meet together and reach a consensus on who ought to be made managing directors of their company. It was those discussions which quickly turned to what Morgan Stanley was all about that began the process of welding the firm together.

* **The work environment**. The work environment of a firm is shaped "by three elements: the prevailing performance standards that set the pace and quality of people's efforts; the business concepts that define what the company is like and how it operates; and the people concepts and values that prevail and define what it's like to work there." (Joseph L. Bower, *The Craft of General Management*, see, Andrall E. Pearson, *Six Basics for General Managers*, Harvard Business School Press, 1991) For the Velcro organization to succeed, the performance standards must be high but intelligently set, the company must be defined as a "one firm" firm, and the values must provide enough sense of partnership among the managers and professionals so that the natural competitiveness of engaged, talented people is balanced.

- That kind of company invests in people so that they can learn about the firm and develop the

skills they need, in the process of which they come to know the people from other parts of the company with whom they will work.
- There is low turnover so that over time managers have a large network of colleagues who know and trust them and with whom they in turn have calibrated.
- Promotion is substantially from within so that the senior levels know the people of the firm.
- The firm sees itself as a whole, even if a great deal of running room is given to managers responsible for individual businesses.
- The value system elevates candor, integrity, consideration and cooperation even though there is often aggressive dispute as to appropriate action alternatives.

At GE for example, the CEO "owns" the top 500 executives and actively takes part in the management of their careers. The firm also seeks to be "boundaryless," integrated in its diversity. By those words, management means that good ideas move rapidly across the firm, and talent, technology and capital are quickly brought to bear wherever they can be used advantageously. Intel is another company where debate is encouraged, commitment is fierce, but managers move about the organization in task forces and projects in order to serve the firm as strategy shifts.

The speed of change in the contemporary business environment is a constant theme of discussion. Flexibility is regularly urged as a virtue that companies should pursue. But for a large enterprise, it is easier to assert the value of flexibility than achieve it. Most often, the company's organization and systems block efforts to be flexible. I have argued that companies need to think of their structure and systems like Velcro, firm when they are in place, but easily rearranged to address new circumstances and strategy. But developing the infrastructure of a Velcro organization is not straightforward because it requires formidable mastery of the basics as a first step. Individual units have to be well run before they can learn to cooperate in order to leverage collective strengths. This is very hard work. On the other hand, dealing with the hyper-competition that characterizes today's global environment requires exactly that combination of individual and collective strength in order to survive and prosper. I