Lea Stadtler / Achim Schmitt / Patricia Klarner / Thomas Straub

More than Bricks in the Wall:
Organizational Perspectives for Sustainable Success

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A Tribute to Prof. Dr. Gilbert Probst

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Endorsement for Prof. Probst's Commemorative Publication

Markus Sulzberger (President of the SGO Swiss Association for Organization and Management) and Robert J. Zaugg (Vice-President President of the SGO Swiss Association for Organization and Management)

More than Bricks in the Wall: Organizational Perspectives for Sustainable Success

The relationship between Gilbert J. B. Probst and SGO is multifaceted, enriching and valuable. It was forged some 20 years ago. Since that time our common interests have complemented each other perfectly on numerous topics and concerns. Foremost among them are the themes of organization, management and leadership. The characteristic elements here, were a broad focus, an international outlook, a comprehensive analysis of the subject matter and an increasingly integrative view over the years. Our close bond has also been cemented by our shared energy and the creative unrest to continue developing, researching and publishing content and applications with tireless rigour.

Gilbert Probst has devoted himself, in exemplary fashion, to bringing academia and the business world together and to actively fostering dialogue with the relevant parties. Given that the building of such bridges is a key concern for SGO as well, we have been able to achieve impressive results though our work together on projects and events.

In 1991, Gilbert Probst was elected to the Managing Board of SGO. At that time he was still engaged in work with the University of St. Gallen. After his appointment to the University of Geneva, the time he was able to spare for SGO activities became less and less, which led to his resignation in 2006. But since then Gilbert Probst has continued to support SGO and ASO (Association Suisse d'Organisation et de Management) wholeheartedly wherever possible. The project management seminars at the University of Geneva remain unforgettable. These focused in particular on practical relevance, with Gilbert always placing great value on ensuring that the students had the ability to translate knowledge into action.

The year 1994 marked an important and forward-looking joint venture. The research project and publication of "Organisationales Lernen. Wettbewerbsvorteile der Zukunft" (Organizational Learning. The competitive advantage of the future) by Gilbert Probst and Bettina Büchel was the starting point for the SGO series of publications – later to be titled "uniscope." This first work in the series has been followed by 40 more research papers and publications to date – almost all in several editions. Over the years, this has given valuable momentum time and again to the dialogue between academia and the business world. Thanks to the initiatives and expert research work of Gilbert Probst a further two works have appeared in the "uniscope" series: "Risikofaktor Wissen. Wie Banken sich vor Wissensverlusten schützen" (Knowledge as risk factor. How banks protect themselves against loss of knowledge) by Gilbert Probst and Brigit Knaese (1998) as well as "Wege zum Wachstum. Wie Sie nachhaltigen Unternehmenserfolg erzielen" (Paths to growth. How to achieve sustainable business success) by Sebastian Raisch, Gilbert Probst and Peter Gomez (2007).

In all these projects we have been motivated and bound together by the joy of encouraging young talent and the desire to spread the knowledge we have accumulated as far afield as possible.

SGO warmly congratulates Gilbert Probst on his 60th birthday. Every unit and representative of SGO also wishes to take this opportunity to thank him sincerely for his immense and valuable support over all these years and for his always open, inspiring and friendly collaborative manner. Our work on this commemorative publication underlines our appreciation of his valued contribution and is also intended to document our firm resolve to pursue the further development of organization, management and leadership.

We wish you, dear Gilbert, all the best for the future, both personally and professionally, and look forward to working with you in the same tried-and-tested manner for many more years to come.

Dr. Markus Sulzberger **Prof. Dr. Robert J. Zaugg**

President ***Vice-President***

SGO Swiss Association for Organization and Management

Glattbrugg, June 2010

Foreword

Peter Gomez, University of St. Gallen

Gilbert Spiderman

Those were the days … when Gilbert Probst presented his innumerable lectures on systems thinking to executives wearing a T-shirt showing a spidernet; the serious and respected professor impersonating the famous Spiderman? Far from it! Systems thinking translated in German means “Vernetztes Denken”, in clumsy English “Thinking in Networks” – just like the spiderweb. A more precise term would be “Thinking in Circles”, but Gilbert was always looking for good effects – and this with great success, the executives loved it.

Gilbert and myself were a good team in the 80s and 90s of the last century. In the form of team teaching we introduced literally thousands of executives and students to the secrets of systems thinking. Somehow like Simon & Garfunkel - he was Art Garfunkel, the front man, I performed the background vocals as did Paul Simon. It took us a long time to develop our product to perfection. Starting in the 70s in the team of our esteemed teacher and scientific mentor Hans Ulrich at the University of St. Gallen, we developed a methodology for handling complex problems in a holistic way. It was a long way from the dissertational work laying the foundations to a “product” that lives up to Einsteins’ claim “always to be as simple as possible, but not simpler”. Our common work was characterized by a multitude of feedback cycles, involving students and managers alike. Mirroring our methodology we chose a recursive way to match rigor and relevance. And this with quite some success, as “Vernetztes Denken” is still an important part of university curricula, especially at St. Gallen and Geneva, as well as of executive education.

In the middle of the 90s we decided from one day to the other to stop our team teaching activities – as we already had done so in the 80s with respect to smoking the pipe. We simply lacked the inner fire and wanted to take new roads. Today we regularly play golf together – and talk about good old times. Gilbert intensified his research and teaching in Geneva in the areas of knowledge management and growth strategies of multinational companies and we founded a common research center CORE which has proven to be quite successful in an international context, as some contributions to this book illustrate. We also still supervise doctoral theses together.

In the 00s again we have again taken the same road to build up a balanced work portfolio with respect to academia and managerial practice. Gilbert is Professor in Geneva and Managing Director of the World Economic Forum; I for myself share the Professorship in St. Gallen with the Chairmanship of the Swiss Stock Exchange.

This all started at the beginning of the 70s when I supervised Gilbert’s master thesis as an assistant to Professor Hans Ulrich. It was the common framework of systems thinking that fascinated both of us. And from the very beginning we wanted to contribute to the spreading of this framework and methodology. Looking back the last 40 years it was worthwhile, not least because it founded a lifelong friendship. Congratulations to your birthday, dear Gilbert, and to many birdies on our common golf rounds.

Prof. Dr. Peter Gomez

Dean, ES-HSG University of St. Gallen
Chairman of the Swiss Stock Exchange

Foreword

Klaus Schwab, Founder and Executive Chairman, World Economic Forum

The world is experiencing one of the most extraordinary periods in history. The power equation continues to shift from North to South, from West to East, while rapid changes unfold in the marketplace, reshaping both the political landscape and the interactions between governments and business. It is in difficult times, however, that the power of collaboration bears fruit, helping us better understand the challenges we face and encouraging us to unleash our imagination and capitalize on the opportunities ahead.

At no other time has the role of Education in society been as important as it is today. Education is one of the cornerstones of lasting development and the foundation of civic engagement and political participation. It serves as a fundamental mechanism for fueling innovation and attaining sustainable economic development and societal progress, all critical drivers of national competitiveness and the most powerful means to reduce world poverty and inequality.

All too often, I find that leaders within global organizations are still restricted to their own particular spheres. Yet the problems of today – and tomorrow, in particular – demand a more wide-ranging, interdisciplinary approach. We are living in times of enormous complexity and fragility in a truly interdependent world. The next generation of leaders will face an entirely new set of challenges. They will have to find new responses and innovative ways of dealing with the responsibilities that come their way. Education has the power to develop the skills that generate an entrepreneurial mindset in preparing future leaders for solving these challenges.

More than ever, the world needs effective global leaders and stronger educational systems that prepare the current and future generations of entrepreneurs, workers, teachers, managers and individuals with the skills needed to succeed and help others. It is thus critically important that we integrate the global challenges in our educational system while ensuring that principles of human dignity and ecological responsibility are firmly anchored in this global space and abided by all.

Teaching a wide range of behavioral and cognitive skills enables students to succeed in a highly diversified, integrated, and competitive world. Increasingly, Institutions today seek to improve the quality of their education and attract students globally. Their programs have been developed towards an international standard of education. This improved global interconnectivity has enabled universities to serve an increasing number of students in other countries. For example, the world's leading business schools have launched transnational MBA programs in which they teach students in different parts of the world.

As implementers and enablers of a nation's education goals, teachers and professors catalyze the development of effective education programs. In this respect, academic professors play two particular roles in successfully meeting the current and future challenges of globalization. First, the international community of scholars and scientists validates existing and generates new knowledge. Second, academic teaching directly contributes to the creation and development of an indispensable global resource: the educated individual.

In his academic position at the HEC University of Geneva, and as a member of my leadership team at the World Economic Forum, Gilbert has actively contributed towards effectively addressing today's educational challenges. As Dean of the Global Leadership Fellows program, Gilbert fosters and

accelerates the development of individuals in their knowledge and skill domains through an integrated program of professional experience, teaching and training, as well as personal development.

For more than three years at the World Economic Forum, Gilbert has demonstrated that true leadership is exemplified by those who are able to energize and empower individuals and teams; build and strengthen communities; and nurture the talents around them. The contributions of his colleagues and former doctoral students are prime examples of Gilbert's unique ability to educate individuals towards developing a global mindset, one that assumes greater visionary leadership, accountability and service in the global public interest.

Prof. Dr. Klaus Schwab

Founder and Executive Chairman
World Economic Forum

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Chapter 1: Corporate Growth

Graduation Day: How New Growth Initiatives Turn into Sizable Businesses

Sebastian Raisch, HEC, University of Geneva

Abstract

Incumbent firms face the managerial challenge of turning new growth initiatives into the sizable businesses that ensure their future success. While many studies have investigated how large companies launch new growth initiatives, this article is among the first to focus on how they manage the transition to scale. Based on our analysis of new growth initiatives in companies such as BMW, Deutsche Bank, General Electric, and IBM, we found that managing the transition to scale properly may be as important as launching new initiatives in the first place. In this article, we reveal the triggers that drive the transition to scale and discuss four essential managerial activities for successfully managing transitions.

Keywords: *Corporate growth, corporate initiatives, innovation, leadership*

Have you ever asked yourself where large businesses come from? They were of course born a long time ago and grew over time. But why do some new growth initiatives turn into sizable businesses, while others fail and perish in the process? On analyzing more and less successful new growth initiatives, we find that success is often a question of how companies manage the transition to scale. Managers have to engage in challenging transition activities to turn new initiatives into the sizable businesses that ensure their company's long-term success.

Large firms are prone to failure in the face of disruptive industry change. New growth opportunities are frequently captured by new entrants rather than the behemoths that dominated the industry before (Christensen, 1997; Henderson & Clark, 1990; Hill & Rothaermel, 2003). Examples are legion: IBM lost the software business to Microsoft and Microsoft the Internet business to Google. Eastman Kodak lost its edge in the camera business, General Motors in car production, and Kmart in retail (Probst & Raisch, 2005). Ironically, incumbents' difficulties with capturing new growth opportunities arise from their strengths. Relentless dedication to making their existing businesses stronger made them what they are today, but it also diverted their attention from the new growth opportunities that help write tomorrow's success stories.

To overcome these challenges, organization theory scholars suggest that companies create separate units outside their mainstream organizations (O'Reilly & Tushman, 2004; O'Reilly & Tushman, 2008; Raisch & Birkinshaw, 2008; Raisch et al., 2009). While the main organization remains focused on the core business, the separated units are free to explore new growth opportunities. These separate units are shaped to create an environment that is significantly more entrepreneurial and dynamic. Successful examples, such as the global food giant Nestlé's US$ 2 billion Nespresso portioned coffee business, showcase the potential of structural separation (Probst et al., 2008; Raisch & Ferlic, 2008). However, many other examples of separate growth businesses – including the German car manufacturer BMW's C1 concept scooter – never made it to a sizable business.

Launching new growth initiatives is certainly important, but what large companies really care about is whether they can turn these initiatives into multi-billion dollar businesses. To date, we do not know much about the transition from new growth initiatives to sizable businesses. To find out what makes transitions successful, we investigated new business initiatives in multinational companies such as BMW, Deutsche Bank, General Electric, IBM, and Siemens. We found that managing the transition to

scale properly may be as important as launching new initiatives in the first place. New growth initiatives have to demonstrate their economic viability to the corporate team to be granted permission to graduate to full-fledged businesses. What's more, they have to earn other group businesses' acceptance as a valuable partner to gain their support for scaling up their operations. As we examined the case histories of successful transitions, we were struck by a remarkable consistency in the way these companies managed transition. Specifically, they all engaged in four essential managerial activities:

- Selling the initiative internally to gain top management support.
- Changing the team composition to inject skills to manage sizable businesses.
- Delegating decision-making authority to empower new business leaders.
- Building cross-business networks to create scalable operating platforms.
- Before we describe these four activities in detail, let's begin by taking a closer look at how the process of launching and transitioning new growth initiatives works.

Launching New Growth Initiatives

All the companies that we analyzed used structural separation to launch their new growth initiatives. The objective was to shield the initiative from the core organization, allowing the separate unit to explore new products and markets. At Nestlé, for example, the idea of a portioned coffee system faced considerable internal opposition. The existing Nescafé coffee unit feared that the new coffee system would cannibalize its own highly profitable business. There were also considerable technological challenges. Not only was the coffee capsule technology entirely new, they also had to start developing coffee machines. The corporate team decided to set up a separate unit, fully owned by Nestlé, but completely independent of the main organization. The Nespresso unit had to develop its own processes and pursue new ways of doing business and approaching customers.

The corporate team played a very active role in setting up the new growth initiative. They monitored the new unit closely and injected resources and knowledge that were essential for establishing the business. When BMW created its luxury car business Rolls-Royce, for example, they relied on their experienced team of engineers to transfer technological know-how and support product development. The corporate team delegated experienced managers to transfer the 'BMW DNA.' However, the corporate team also gave the Rolls-Royce unit the right to acquire new resources externally. Sometimes, the resources were simply not available within the organization. In other situations, BMW had the resources, but the corporate team explicitly wanted a different skill set to enable the Rolls-Royce unit to do things differently and to develop truly new products and concepts.

Simultaneously, the new growth units engaged in efforts to strengthen their boundaries against the core organization. The objective of these activities was to shape a distinct identity that would allow for new ways of thinking. At Deutsche Bank's Maxblue online banking initiative, for example, the business leaders purposely strived for a different culture by recruiting people who were more flexible and creative than those at Deutsche Bank. Maxblue selected a new brand name and logo to clearly separate their unit from Deutsche Bank's retail business. The adoption of different targets, incentives, and leadership principles further helped shape a different behavior. Over time, a different identity emerged, enabling the Maxblue initiative to explore new products and processes (Raisch, 2008).

The initial organizational setup at Maxblue and other growth initiatives was thus marked by close senior team supervision and a growing distance from the existing core businesses – both of which contributed to the separate unit's ability to explore new growth opportunities.

The Transition to Scale

An important transition occurs when new growth initiatives 'graduate' to become full-scale businesses. We observed this transition at the corporate team level and the unit level. At the corporate level, the transition occurred when the corporate team reduced its supervision activities to grant the separate unit greater autonomy. At the unit level, the transition occurred when the separate unit started sharing assets and knowledge with the core business units. While these transitions could be found in successful new growth initiatives, the failed initiatives did not fully transition to scale. A comparison of these contrasting cases helped us better understand the triggers behind the transition to scale, which we now discuss in greater detail.

At the corporate team level, economic success played an essential role in legitimizing a new growth initiative. Deutsche Bank's new X-markets retail derivative business, for example, was initially closely supervised by the corporate team. This changed when the X-markets unit produced its first blockbuster product. The corporate team increasingly felt that this could turn into a huge market opportunity and that the X-markets unit had become strong enough to compete successfully on its own. The voices calling for the new unit's autonomy to be curtailed fell silent and the corporate team granted it greater decision-making rights. New growth initiatives graduate when the corporate team perceives them as economically viable. At this transition point, the corporate teams allow the new units to assume greater business responsibility and to strengthen their decision-making autonomy.

In the less successful new growth initiatives, this transition failed as their economic viability was questioned within the corporate team, which led to stronger (rather than reduced) supervision. At BMW's Alphabet fleet management initiative, for example, the lack of success deprived the unit's management of good arguments to defend their independence. As large investments were at stake, the corporate team took control, regardless of whether this was the best solution for the new initiative or not. Alphabet lost much of its autonomy and became increasingly dependent on the Group's support. The Frankfurt-based back office functions were relocated and integrated with BMW's Munich-based Group Support functions. Alphabet had to take over most of the group processes, which reduced their operational control and the ability to explore new practices. The lack of economic success reduced the initiative's legitimacy at the corporate team level, which hindered the transition to a full-scale business.

At the unit level, new growth initiatives have to earn other group businesses' acceptance as a valuable partner to gain their support in scaling up operations. At Nespresso, for example, the existing Nescafé coffee unit was initially anything but happy that two Nestlé businesses were going to compete in the same market. Over time, the differences between the two businesses became obvious in areas such as target customer groups, pricing, distribution channels, and branding. Moreover, managers at Nescafé started to understand that Nespresso had gained new expertise that could complement their skills. As both sides had developed a shared understanding of how the territories were divided, they started to work together and share assets for mutual benefit. Today, Nescafé and Nespresso share product development centers, maintain joint production facilities, and collaborate in coffee sourcing. The emergence of a shared understanding of the two units' distinct capabilities and the boundaries between their activities enabled this collaboration and allowed the new unit to be recognized as a full-fledged member of the Nestlé group of businesses.

In the less successful growth initiatives, there were difficulties that hindered the formation of this shared understanding. Two types of difficulties generally explain failed transitions at the unit level. In the first case, the new initiatives fail to establish a distinctive identity, which blurs their boundaries with those of the core organization. At Deutsche Bank, for example, the retail banking division had difficulties understanding how the new Maxblue online banking business was sufficiently

differentiated from its own activities. While Maxblue was initially perceived as something entirely new, the retail bank subsequently established its own online banking services, which were quite similar to those offered by Maxblue. Since both units worked on pretty much the same tasks and products, more and more activities were integrated until the Maxblue unit was almost entirely absorbed by the retail bank. In the absence of a shared understanding of the differences between the two businesses, the sharing of assets became so strong that the boundaries between the two units faded.

In several other cases, the situation was quite contrary to the one described above. The difficulties arose from the new business seeming so alien to the core organization, that both businesses had difficulties understanding how they could interact for mutual benefit. At BMW, for example, the Alphabet fleet management business was perceived as 'a foreign body' or 'the odd man out who was never accepted.' The fleet business required the unit to finance all kinds of cars regardless of the brand. Sometimes, they even had to offer better leasing conditions for an Audi than a BMW. The core BMW organization thus perceived the Alphabet unit as hostile and failed to understand why their activities made sense for the BMW Group. BMW retailers refused to support Alphabet as long as the unit "fraternizes with competitors." In these cases, the transition to scale was hindered by a lack of shared understanding of how the two businesses could combine their complementary skills for mutual benefit.

The transition from a new business initiative to a full-scale business thus requires both a shared perception of economic viability at the corporate team level and a shared perception of complementarity at the unit level. If the corporate team perceives a new business initiative as economically viable, it grants decision-making rights that establish the initiative as a full-fledged business unit. Simultaneously, the existing business units have to accept the new growth initiative as a full member of the corporate family by sharing resources that enable the new initiative's transition to a sizable business. For companies to have any hope of this kind of successful transition, they need to actively manage the transition process. This involves four essential managerial transition activities, to which we now turn.

Activity 1: Selling the Initiative Internally

New growth initiatives have to demonstrate economic viability to the corporate team to be granted permission to graduate to full-fledged businesses. In the absence of hard financial and market data, the corporate team generally uses criteria such as a clearly articulated strategy for profit contribution, early market success, and a proven customer value proposition to evaluate the initiative's future economic potential. The initiative's leaders thus have to provide evidence of their progress by actively communicating concrete milestones and success stories to the corporate team. They spend a great deal of time and effort selling the initiative internally by constantly talking to senior management team members and asking them for their support. This involves activities such as enlisting corporate sponsors, building internal coalitions, and using influencing tactics to convince those who are more skeptical of the initiative's prospects.

Selling the initiative internally was crucial for the successful transition of IBM's Pervasive Computing initiative to a full-scale business (Garvin & Levesque, 2005). Pervasive Computing is the term used by IBM to describe its efforts to bring the Internet to non-PC devices such as smart phones, wired homes, and networked automobiles (O'Reilly et al., 2009). In 1998, CEO Lou Gerstner assigned an experienced researcher, renowned as a visionary in cutting-edge technologies, as the leader of the initiative. The team invested broadly in developing technology for a whole product portfolio. Many of these efforts failed to meet immediate market demand, leading corporate managers to question the group's focus and lack of priorities. The initiative's leader had difficulties convincing the corporate

team of his idea to ramp up quickly by building substantial development, marketing, and sales capabilities. His request for a massive USD 300 million budget fell through, as the corporate team wanted to see a convincing value proposition before building a large organization.

In 2001, the leadership of the initiative was passed on to Rod Adkins, a 21-year IBM veteran who had managed the company's desktop computer business. He brought a different perspective to the initiative by focusing more on business priorities than on technology research. In collaboration with the sales team, he selected 25 IBM customers to explore possibilities for in-market experiments. These experiments focused on a small number of products and had clear short-term objectives. The first market successes from these experiments were reported at monthly review meetings with John M. Thompson, the Vice Chairman of IBM. Thompson became a strong supporter, which strengthened Adkins's position within the group. Adkins recalls, "We used Thompson's name to get things done. It gave us the leverage to create alignment." Adkins also worked with a corporate strategy team to create a more customer-focused strategy. He continued to sell the story internally to all the parties involved in order to enlist additional supporters. The refined strategy and the results from the in-market experiments helped convince Steve Mills, Head of the Software Group, to sponsor the initiative. Funding grew and Adkins started to grow the organization. He brought in new sales and marketing people to generate greater interest for the initiative both internally and at the marketplace.

With the business strategy in place, Thompson and Adkins installed a milestone tracking system for Pervasive Computing that shifted the focus from purely financial measures. Success criteria were metrics such as the number of customer pilots or the number of times the initiative's products were covered in key press such as *The New York Times*. These metrics provided some sense of accountability and helped show the progress made in the initiative. Project-based milestones were tracked and discussed in monthly review meetings with corporate managers. In late 2003, Pervasive Computing had become a major contributor to IBM's sales and the corporate team decided to transition the initiative to a full-fledged business.

Activity 2: Changing the Team Composition

When new growth initiatives graduate, there is a fundamental change in the leadership capabilities required to manage the business. While launching new initiatives requires managers who like to explore and experiment and who challenge assumptions, managing for scale requires people who can introduce an operating rhythm to build reliable organizations. Leadership studies show that visionary leaders who build new businesses from scratch have very different personalities than pragmatic leaders whose strengths lie in execution (Edmondson, 2008; Schmid & Probst, 2007; Zaleznik, 2004). In many cases, the transition to scale thus requires significant changes in the initiative's leadership team.

These changes are hard to implement. It comprises 'rewarding' the leaders for their tremendous effort in building a new business by handing their creation over to someone else. Unsurprisingly, the initiative's leaders often do not perceive the need for change as, under time pressure, they are totally focused on solving operational challenges. At this transition point, it is absolutely essential that the top management team steps in and acts as a change agent. Top managers have to make the necessary changes in the leadership team composition and constantly communicate with the people affected by these changes to smoothen the transition.

These leadership changes played an important role in the success of the GE Money Bank's M-Budget Card initiative (Tushman et al., 2009). GE Money Bank is a Swiss subsidiary of the General Electric Corporation. The M-Budget Card initiative was the first in a series of highly successful projects that established GE Money Bank as a new player in the Swiss credit card market. The business concept was to cooperate with the country's leading retailer MIGROS to develop an innovative credit card

offering, the M-Budget card. The M-Budget card was launched a mere six months later and was an immediate success. The demand for the card exceeded expectations by far and the bank was inundated by more than 100,000 applications in the first weeks. A backlog in application processing and the overburdened call centers led to customer complaints. The initiative's leadership team, led by the then 30-year old French manager Pierre Lambert, had to go back into project mode and figure out how to resolve the operational challenges.

While the start-up difficulties after the market launch had been overcome by the end of 2007, there were growing concerns about the new business's operational efficiency in the long run. More formal processes were needed to prepare the business for future growth and profitability. The top management team played an important role in managing the transition to scale. CEO John O'Leary made several changes in the initiative’s leadership team, replacing people with only project expertise with those who had an operational background. In the context of this transition, Pierre Lambert handed over the card business's leadership to Roger Egger, a 49-year-old operations specialist, who had worked in leading positions at GE Money Bank for many years and had a deep understanding of the bank's operational processes. His initial task was to transition the card initiative to stable operations.

The transition to the new leadership was painful for the whole team. CEO John O'Leary remembers, “It's like saying, 'thank you very much, but we will now take your creation away, and give it to a different team to manage.” This process has to be carefully managed by the CEO, as it often hurts people who are directly involved - both intellectually and emotionally. “You have to convince people that this transition is the ultimate reward. They did such a great job that their project can now manage on its own and they can go off to do something else,” says John O'Leary. After handing over the responsibility for the M-Budget card business, Pierre Lambert was promoted to the management board and became responsible for the bank's overall product management. Several other team members took on major responsibilities within the company.

Activity 3: Delegating Decision-making Authority

Successful transitions to scale require the delegation of considerable decision-making authority to lower-level managers. While the corporate team initially plays an important role in supervising and supporting the new business initiative, the very same activities can squeeze the new business in the later stages of development. The transition to scale can work if the corporate managers are *willing* to set the new business free and the business unit managers are *capable* of taking on greater responsibility. This depends strongly on the leadership style at the top. Transitions are easier to manage in companies with a culture of decentralized decision making and empowered lower-level managers. Successful companies combine this penchant for decentralization with an overarching vision and strategic intent to direct collective efforts.

The delegation of decision-making authority was crucial for transitioning the Nestlé Nutrition initiative to a full-scale business. When the initiative was initiated in 1997, the line management continued to make the ultimate decisions on what nutritional products to adopt and how much capital to invest, how to design advertising campaigns, and how to sell the products to customers. The reporting lines went from the initiative to the market heads, who reported to the corporate team. In 2005, the Nutrition initiative became a full-fledged business with global profit and loss responsibility. Nestlé Nutrition gained direct control of the research and development, production, and all the administrative functions. The business could now independently decide on product launches, capital spending, and advertising campaigns. The new reporting lines went from the markets to the head of the Nutrition unit, who reported directly to the corporate team. The increased autonomy empowered the new business leaders to pursue new ways of conducting business. For example, the Nutrition unit

became the first Nestlé business to invest strongly in value-added services that directly addressed the end customer.

Making changes to decision rights is a fairly difficult and sensitive process which requires time for implementation. At Nestlé, the transition worked smoothly, as the company brides itself on a culture of delegating authority within the confines of an overarching group vision. As the CEO of Nestlé Nutrition explains, "We walk the fine line of independence while remaining part of the Group. This is certainly made easier by the strong culture that we share. We all feel like Nestlé citizen and want to give back to the Group." There are monthly executive board meetings and many less formal committees at all levels to link the Nutrition unit to the Group. The Group CEO frequently visits the unit to stay involved in decisions. While Nutrition remains a part of the global Nestlé Group, it enjoys the decision-making autonomy to explore new practices and procedures to reach its true potential in the nutrition business.

Activity 4: Building Cross-business Networks

New growth initiatives have to earn other group businesses' acceptance as a valuable partner to gain their support in scaling up operations. Collaboration with the line businesses is crucial for sharing operational assets and realizing synergies that enable efficient operations. Without this support, the new businesses may not reach the critical scale that is required to compete successfully in the marketplace. As the new businesses are more dependent on the collaboration than the already well-established core businesses, the new business leaders have to actively engage in building cross-business networks.

Building cross-business networks requires experienced managers who know the company well and can leverage their personal networks to establish collaboration. New businesses have to invest in the partnership by freely sharing their newly acquired capabilities with the line businesses. If the established businesses value the benefits created from the collaboration, they generally become more receptive to sharing assets and knowledge in future partnerships. While top managers can certainly encourage these collaborative efforts, it is essential to establish a trustful and mutually beneficial relationship at the business unit level.

The establishment of cross-business networks was crucial for BMW's Rolls-Royce luxury car unit's transition to a full-scale business. BMW had bought the Rolls-Royce brand name for USD 65 million in 1998 to expand into the luxury car segment. A separate team of designers, engineers, and marketing experts developed and launched an all-new Rolls-Royce saloon in Goodwood, England. In 2003, the Phantom model entered the market and was an immediate success in the luxury segment. Subsequently, Rolls-Royce focused on expanding its product line to reach a critical scale and become a substantial sales and profit contributor to the BMW Group. This transition required the support of the BMW car business in areas such as component development and production. Several components, including the aluminum body, are now assembled in BMW's German plants. The sharing of assets allowed better capacity utilization, operating synergies, and the elimination of duplicate functions. Rolls-Royce now has the scalable operating platform required to grow its activities into a sizable business.

The collaboration across units was facilitated by various Rolls-Royce managers' past assignments at the BMW car unit, which allowed them to leverage their personal networks. These informal contacts were used to establish cross-unit task forces and communities of practice in areas such as safety, electronics, emissions, and materials technology. "Initially, we had to trade favors to mobilize our BMW colleagues, but then they started to see the benefits from our collaboration," says a Rolls-Royce production manager.

Rolls-Royce was very active in transferring knowledge back to BMW. They shared knowledge on small-series production, marketing to premium customers, and process simplification. For example, the aluminum space frame technology used for the Phantom model was shared with BMW for use in future models. BMW had less experience in these areas and could benefit from the new skills acquired from Rolls-Royce. Over time, the BMW car division and the Rolls-Royce unit increasingly exchanged managers with different skill sets. While former Rolls-Royce managers took on leading positions in the BMW production department, Rolls-Royce continued to hire former BMW engineers. These measures helped to institutionalize the cross-business collaboration, providing Rolls-Royce with a platform for efficient operations.

Conclusion

Well-established firms often fail to establish new growth businesses that ensure their long-term survival and prosperity. While launching new growth initiatives is challenging, companies have similar difficulties managing the transition from a new initiative to a full-scale business. In this paper, we discussed the main drivers behind that transition and presented four essential managerial activities for successful transitions. These activities require the active involvement of both corporate team and business-level managers. Corporate managers need to change the composition of the initiative's leadership team, while delegating considerable decision-making authority to empower the new leaders. Managers at the business-level have to sell the initiative internally and to build cross-business networks. Successful transitions result from the careful orchestration of these four managerial activities. It is our hope that future research will further expand our understanding of transition activities in the process of new business generation.

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