Integrating the Enterprise

Sumantra Ghoshal / Lynda Gratton
Summary by Karsten Kilian

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Creating Autonomous Subunits (Empowered Management)

- **Advantages**
  - Entrepreneurial flair, allowing managers considerable freedom to manage their own operations and holding them accountable for achieving their performance goals
  - A relatively simple and clear system for monitoring and evaluating their individual performance
  - Improved speed and quality of the responsiveness to market demands, leading to new initiatives and innovations
  - Reduced corporate-level overhead costs
  - Transparent internal governance processes due to reduced complexity

- **Disadvantages**
  - Fragmentation and deficiencies in internal integration and cohesion
  - Few incentives for sharing knowledge and other resources

Four Drivers of Integration

- Customer Satisfaction & Relationship Management
- Technological Convergence & Innovations Management
- Corporate Restructuring & Mergers & Acquisitions
- Growth & Globalization
(1) Operational Integration …

… through Standardized Technological Infrastructure:

- In the 1990s: Reengineering and rationalization of production and distribution infrastructures as primary focus of operational integration
- Now: Shift to support functions (finance, HR, planning, service)
- Goal: Integrated IT system (one!)
(2) Intellectual Integration ...

... through Shared Knowledge Base*:

- **Task:** Develop mechanisms for the creating, sharing, and exchanging knowledge across different parts of the company
- **Goal:**
  - Link knowledge (IT system and social structure) with strategy
  - Support extensive conversation and dialogue
  - Establish “soft bonds” that support the spirit of sharing and using knowledge
  - Develop internal trust that underlines intellectual integration

* that truly integrates a company's intellectual capital

(3) Social Integration ...

... through Collective Bonds of Performance:

- **Up to now:** Learning and sharing mostly done horizontally, in peer-to-peer forums
- **Now:** Extension to vertical processes
- **Example BP.**
  - **Peer Assist:** Allows managers of an under-performing unit to have the benefit of the expertise of his or her peers to improve performance
  - **Peer Challenge:** Peer groups drive the performance management and resource allocation processes via annual performance contracts with the top management and their approval by their peers (avoids sandbagging)
    - 50% of the bonus depends on a unit manager’s own unit performance
    - 50% of the bonus depends on the performance of the peer group
  - **Addition:** Three top performing business units are responsible for improving the performance of the bottom three
- **Goal:** Bringing the peers together in a collective bond of performance
(4) Emotional Integration

... through Shared Identity and Meaning:

- **Focus**: Collective action
- **Example Goldman Sachs:**
  - One-Firm Identity
  - Internal challenge to be the best and help each other be the best
  - Pride in the quality of colleagues
  - High investment in recruitment and continuous training and development
  - Linkage between purpose, talent and the pride of belonging
- **Goal**: Coordinated and aligned action across the different parts of an organization

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**The Co-Evolution of Autonomy & Horizontal Integration**

- Growing self confidence of managers
- Development of a culture of collaboration
- Mutual trust and friendship
- Support through peers and infrastructure
- Entrepreneurial spirit and initiative
- Superior Business Performance
- Top management willingness to delegate and empower
- Investment in infrastructure and communication
- Horizontal Integration

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Background Information


Contact

Karsten Kilian
Sonnenhalde 7
97922 Lauda-Königshofen
Deutschland

Phone: ++49-9343 / 50 90-31
Fax: ++49-9343 / 50 90-32

Mail: kilian@markenlexikon.com
Web: www.markenlexikon.com