

Managing Organizational Change

Case Analysis: Revolution at Oticon A/S (A)

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- 1. What are the competitive requirements of Oticon in the audiology industry?*
- 2. What are the features of Lars Kolind's (CEO of Oticon) proposed revolution, and is this business process reengineering or simply a disguised cost-cutting program?*
- 3. Assess and advise whether or not Lars Kolind should proceed with the proposed new organization (un)structure, and whether this strategy is adequate to the competitive and manufacturing requirements you identified in the 2 questions above.*

1. What are the competitive requirements of Oticon in the audiology industry? Define a strategy for achieving competitive advantage in this industry. Compare and evaluate your strategy with the specific actions taken by Lars Kolind after assuming his position as CEO of Oticon A/S.

Oticon was number one in market shares of 15% in worldwide hearing aids products in the end of the 70' because their technology advancement in miniaturization enabled them for the mass production of hearing aids. This position was challenged by the invention of the ITE (in the ear hearing aids device) that was a better technological substitute than the BTE which dominated by Oticon. The market share of Oticon dropped from 15% to 7% by 1987 since the introduction of the ITE. Lacking the economies of scale from BTE, Oticon became the number three hearing aids behind Siemens Audiologische Technik (Erlangen, Germany) and Starkey (Minneapolis, USA). With these conditions, we can address the competitive requirements of Oticon in the audiology industry. Being number three is very difficult to sustain any profitable business because it can not compete with the market leaders in financial resources, marketing, brand equity, as well as technology creation with the companies like Siemens and Starkey. To survive they need to improve from their current strengths of high quality and high cost manufacturer to agile company with highly selected customer focus since quality hearing aids is the standard of regular products.

The strategic plan for achieving competitive advantage in this industry can be addressed using 1) technology advancement 2) economies of scale 3) customers 4) organization innovation. The breakthrough invention of ITE that eroded the market share

of BTE is the best way for any company to gain the competitive advantage. The know-how on how the mass produce the needed hearing aids can realize the economies of scales for the new invention like ITE. Targeting specific market segment for the best ROI as well as making a company more agile are also valid method to achieve competitive advantage in audiology industry.

After Lars Kolind assumed the position of Oticon's CEO, he cut 10-15% of corporate employees and loss-money businesses. He also realized that the company can not compete with two bigger competitors in technology, marketing and sales because of the financial resources. With these constraints, he could only try to focus on customers and organization innovation. Oticon was targeting the high-priced segment of the market as well as emphasizing to nearly 5000 key hearing aid dispensers and hearing clinics. In the organizational change to make Oticon more agile, he thought if he wanted to compete with big company like Siemens, he could not just make 10% change and expected to beat Siemens. This change has to be radical, the radical new organization will not have formal hierarchical reporting relationships but with a resource allocation system build around self-organized project teams.

2. What are the features of Lars Kolind's proposed revolution, and is this business process reengineering or simply a disguised cost-cutting program? Identify the critical issues concerning the introduction of "Think the Unthinkable" and Lars Kolind's efforts in gathering sufficient momentum for adoption of these new ideas.

With the globalization of the hearing aid productions and the price pressure from the competition, the best production in the industry is not good enough as the foundation to sustain the business for Oticon. For Oticon to survive and to succeed in this industry, it will need to reduce total cost of conducting the business by 30%. With this figure set as the ultimate goal, a project for Oticon was formed as project 330 to achieve 30% business expense reduction in 3 year. To accomplish this goal, the current organization structure needed to be overhauled. Sustainable competitive advantage can only be achieved with an organization that is creative, innovative as well as flexible. Two tangible actable steps: "Dialogue" and "Action" can be used to support this conceptual road map to construct this new organization. This organization should be unique and fast moving as well as highly efficient. The basic characteristics of this new organization are (1) self-defined role (employee can initiate, participate and assemble a project to complete for proper funding) (2) multi-level role (every employee should participated at least 3 projects, in different fields) (3) transparency (knowledge is shared organization wise). This new organization would be a team-based (project-based) organization without formal structure. Two key inhibitors needed to be removed for this new organization: (1) paper, the document that circulates around offices and (2) wall, the partition among offices. The "dialogue" and "action" is a more efficient way for communication. With the intention to disband the old, formal hierarchical structure of Oticon A/S, the process to establish a new organization is truly a revolution in business reengineering.

After the cost cutting and tweaking the company, Lars Kolind started to turn the company around by producing profit of DKK 22 million in 1989. He knew this business model was not sustainable. He needed to use a radical approach for reorganization to find a sustainable business model. On January 1, 1990, Kolind wrote a 4-page memo (asked all Oticon employees to “think the unthinkable”) for change, it was the revolution needed for the organization change in Oticon. Two critical issues of creating an agile team of 150 employees in head quarter could be identified from this case study

(1) The disagreement among “old” and “young” employees on this changing process, “old” – managers and older employees and “young” – newer employees that felt the need for the change.

(2) Culture barrier in Oticon’s functional departments that located in different cities, R/D versus Corporate administration. To create this cross-functional team-based organization, he need to breakdown the barrier among internal functional divisions. He felt it would be a disaster to merge these two distinct departments with different cultures. He proposed to have every department to third place to start a brand new corporate culture.

To gathering sufficient momentum for adoption of these new ideas, Kolind devoted himself to preparing employees to move to this new head quarter. He hired Sten Davidsen to manage the change process. Davidsen prepared a one-page “map” of the change process to informed the progress and steps for employees to follow. Three groups were involved in this changing process (1) one group worked directly with the architects

and engineers as they designed the new buildings for the new head quarter (2) one group edited and published “projected 330,” the newsletter to keep every employee posted on the progress (3) one group was formed with 13 people to train other employee to use the new IT system. Monthly meetings were help to keep every employee with the concept of new organization as well as the new business model.

3. Assess and advise whether or not Lars Kolind should proceed with the proposed new organization (un)structure, and whether this strategy is adequate to the competitive and manufacturing requirements you identified in the 2 questions above.

Without the production of new innovative ITE, Oticon slipped to number three market share in the global market. Although the tweaking of the business by cutting 10-15% corporation employees and some money-loss business to turn the company around with profit. This cut and cut business model is not sustainable. Being number three, the Oticon lacked the financial resources to compete with Siemens in every business aspects from R/D spending for new technology, marketing, branding, even distribution channels or targeting specific customer segment. The only way to complete with Siemens and Starkey were to create an agile organization that can not be replicated. The thought of non-replicated organization was the main reason for the “think the unthinkable” manifesto written by him on January 1, 1990. As discussed on question 1 and question 2, the only way to compete and survive is to create a total different organization that is agile and competent. As a CEO, Kolind had done enough to prepare his troops to march to the field for the flight. It is always the internal inertia of the “old” that prevents this advancement. The perception of the company was performed OK created a false impression the change was not needed, to see a CEO full charged for this radical change was viewed as trouble-some by a lot of “old” employees.

The goal was clear, and the road map for this change was shown to every employee in the company, right steps were taken, the only concern was the stone-wall of the “old” employees. This road map provides the steps to the goal but it was ill-defined for who will be doing what? For the “young” it is not problem for them to define the road

in front of them, projects to initiate, assemble, and participate. It is a grate opportunities for the “young” to adopt and learn and gain. But for the “old” and established, this non-organizational structure will destroy their authority and usefulness as a manager. Without the structure and authority, there is not need for such position to exist, and these manager might not have proper skill to take on three projects and be the participant to be lead by one of their subordinator. To reduce the attrition of these “old” employee to sustain the royalty of this good culture of Oticon company, the pre-arrangement is needed to reassure and reassignment these “old” employees to some proper positions like manufacturing positions, or project funding/allocation examiner. With the “young” enjoying the challenging process and the “old” would have a more tangible position, this change initiated by Kolind would be a great success.