8 Case Study: The continuous realization of growth synergies

Following the single case study approach for investigating our empirical research question, this chapter presents an in-depth case report of the continuous realization of growth synergies at our research site ElectroCorp. It provides the context and basis for our interference of constructs and propositions in the next chapter.

After a brief discussion of the company background (8.1), we introduce the corporate ‘One ElectroCorp’ initiative (8.2), which aligned the firm for the continuous realization of growth synergies. Subsequently, based on our observation of this alignment, we provide in-depth descriptions of the strategic concept (8.3) and organization design (8.4) that contribute to continuous growth synergy realization. We close our case description with a summary (8.5).

8.1 Company Background

This section gives a brief overview of ElectroCorp (8.1.1), its corporate structure (8.1.2) and its corporate strategy (8.1.3).

8.1.1 Company Overview

ElectroCorp is a publicly listed, global electrical engineering and electronics company which operates in the information and communication, automation and control, power, medical and lightning business. It offers a comprehensive range of products, systems and services in these business areas. Approximately 80% of its business involves investment goods and infrastructure systems. Specifically, the firm consists of 13 moderately related businesses that share common customers and technologies. The markets and industries in which these businesses operate are overall moderately dynamic. In 2006, ElectroCorp had well over 400,000 employees and sales of over 80 billion €.90

8.1.2 Corporate Structure

ElectroCorp’s primary corporate structure consists of the corporate executive committee, operative businesses and regional companies. The corporate executive committee is responsible for the strategic management of the combined firm. It determines the corporate priorities and policies and decides on the corporate strategy. This involves developing the corporate business portfolio, designing the corporate structure, leveraging cross-business synergies, conducting business reviews, approving business strategies, and assigning resources. Apart from a few exceptions, the executive committee has no operative responsibilities and assumes the role of a strategic investor. It fills

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90 Due to the requirement not to disclose the case we cannot provide detailed facts and figures about Electro-Corp’s businesses and thus have to keep the company overview exceptionally brief.
key company positions and coaches the businesses, regional companies and corporate departments through reviews and target agreements. Each member of the executive committee usually coaches a set of regions and businesses to balance these two primary strategic dimensions of the firm.  

The executive committee is supported in its governance and development tasks by a corporate center which executes guidelines coordinates and monitors functions, and supports the businesses and regional companies in implementing their business policies. Corporate center functions include ‘corporate finance’, ‘corporate personnel’, ‘corporate technology’, ’corporate development’, ‘corporate communications’, and ‘corporate information technology’. Transaction-oriented central service units that provide shared services to support the efficiency and cost-effectiveness of the company as a whole supplement the corporate center. Central service units include ‘real estate services’, ‘professional education services’, ‘legal services’, and ‘accounting services’.

The 13 businesses and 180 regional companies form a matrix and jointly bear the operative business responsibilities of the firm. They operate with great autonomy within the boundaries and policies determined by the corporate executive committee. The businesses have the global entrepreneurial responsibility for their markets. They are responsible for earnings and are in charge of research and development, production, and corporate sales activities. ElectroCorp’s 13 businesses (e.g., automation and control) are sub-divided into 90 divisions (e.g., logistics systems) and approximately 200 business segments (e.g., baggage handling) with individual profit and loss responsibility. The divisional level is ElectroCorp’s lowest strategic planning unit. Figure 8-1 (on the next page) provides an overview of the management levels at ElectroCorp and gives an example.

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91 As a corporate manager explained, this double responsibility for businesses and regions “puts the matrix in the head of the top executives.” (S14: 2).
The regional companies implement the businesses’ strategies within a specific geographical area. They have local entrepreneurial responsibility and a high degree of operational flexibility. Depending on local circumstances, regional companies differ in terms of competencies, legal form, and the nature and scope of their value-adding activities. Primarily, however, regional companies are responsible for local sales activities and closely related value added services.\(^{92}\) The structure of regional companies varies based on their tasks. Usually they mirror the business structure, i.e. they have business specific sales departments.

The matrix of businesses and regional companies is linked through a yearly planning and budgeting process, which results in binding business target agreements on the business level.

\(^{92}\) The number of ElectroCorp’s regional companies was not publicly disclosed at the time of the case study.
Exhibit 8-2 illustrates ElectroCorp’s corporate structure.

*Figure 8-2: ElectroCorp’s corporate structure (primary organization)*

ElectroCorp’s corporate managers unanimously stress the benefit and importance of the matrix structure, which is argued to provide flexibility and local responsiveness. Furthermore, they emphasize the strong culture of ‘decentralism’. There is a strong shared belief at ElectroCorp that businesses should be granted significant strategic and operational autonomy. Corporate budgets and corporate interventions are rare and executive management is cautious not to assume any operative responsibilities.

In summary, ElectroCorp is structured as a matrix organization with the two dimensions ‘product’ and ‘region’. A separate corporate executive board ‘outside’ the matrix structure governs the firm by acting as a strategic investor and without any operative responsibilities.

### 8.1.3 Corporate Strategy

The objective of ElectroCorp’s corporate strategy is to outperform its competitors in terms of returns, cash flows, and growth (profitable growth). To achieve this goal, corporate managers continuously focus organizational attention on vertical and horizontal optimization. *Vertical optimization* focuses on improving ElectroCorp’s individual businesses through superior strategic positioning and operational excellence. Corpo-
rate managers strive to position their businesses in attractive markets with sustainable growth, high earnings potential, and low volatility. They govern them to attain (1) leading market and technology positions through acquisitions, co-operations, and divestitures and (2) operational excellence through innovation leadership, global presence, and world-class processes.

*Horizontal optimization* focuses on improving ElectroCorp’s combined corporate potential through leveraging and developing cross-business synergies. Corporate managers continuously align the organization to realize efficiency synergies (e.g., shared service centers, common software licenses) and growth synergies (e.g., lead-sharing).

ElectroCorp drives and accentuates its corporate strategy through *corporate programs*, which are consistent sets of corporate initiatives for generating value through vertical and horizontal optimization. The current corporate program, which was initiated in mid-2004 and is to be executed by the end of 2007, has the overall objective to grow the combined firm at roughly twice the rate of the world’s average gross domestic product (GDP). The three-year program contains four major corporate initiatives:

- **Performance and Portfolio** defines the necessary steps for creating a portfolio that enables ElectroCorp to achieve sustainable profitable growth at twice the global GDP rate. It focuses on solving a number of strategic business reorientations, on establishing measures to ensure that businesses reach their target margins, and on the development of a portfolio that receives ‘tail-wind’ from megatrends.

- **Operational Excellence** focuses on improving the existing portfolio through driving innovation (growth), customer focus (growth), and global competitiveness (efficiency).

- **People Excellence** emphasizes the importance of leadership and human resources. It sets standards for selecting, evaluating, leading, and developing employees to achieve a high performance culture, to increase the global talent pool, and to strengthen expert careers.

- **Corporate Responsibility** ensures that ElectroCorp belongs to the best-in-class in corporate governance, sustainability, and corporate citizenship.

Since 2004, the executive committee has constantly increased its focus on horizontal optimization. Under the customer focus initiative of the operational excellence program, it initiated the *One ElectroCorp* (OneEC) initiative that had the goal to foster horizontal collaboration between businesses and regional companies for the ongoing realization of growth synergies. This initiative is at the focus of this chapter.
8.2 ‘One ElectroCorp’ – Alignment for Growth Synergies

This section discusses the objective (8.2.1), background (8.2.2), initiation (8.2.3), and success (8.2.3) of the OneEC initiative. It sets the stage for our in-depth description of the strategic concept and organization design that follows in the subsequent sections and is at the heart of our investigation.

8.2.1 Objective of the One ElectroCorp initiative

The OneEC initiative is ElectroCorp’s organic cross-business growth program and has the objective to align ElectroCorp for the continuous realization of growth synergies. The initiative aims to support profitable growth by increasing the penetration of common customers (increased market share) and providing industry specific cross-business solutions that leverage the unique portfolio of offerings across businesses (increased market coverage and differentiation). The overall objective is to bring ElectroCorp’s unique portfolio of products and services to customers to solve their problems.93

“One ElectroCorp is a cross-business growth initiative ... The idea is to increase sales and profits through innovative cross-business solutions and a better focus of our businesses on selected groups of common customers [cross-business customers] ... It is the breadth and depth of our product and service portfolio that differentiates us from our competitors ... With One ElectroCorp we aim to collaborate across our internal businesses to deliver that advantage to our customers.” (S14: 3)

8.2.2 Background of the One ElectroCorp initiative

Three forces triggered the OneEC initiative: (1) stagnating growth, (2) changing customer needs, and (3) severe capital market pressure.

(1) Stagnating growth

In 2003, ElectroCorp was not growing. Corporate sales were decreasing by almost 12% (compared to 2002). Furthermore, a book-to-bill ratio94 below one indicated underutilized productive capacity and further sales stagnation in the near future. The growth problem was aggravated by sales losses from several large divestments in the course of portfolio optimization. ElectroCorp’s growth issues had three main causes:

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93 We will provide a detailed account of the OneEC strategy in section 8.3.

94 The book-to-bill ratio is the technology industry's demand-to-supply ratio for orders on a "firm's book" to number of orders filled. It equals the dollar amount of goods that are booked for delivery divided by the dollar amount of those that have already been billed for. The ratio indicates whether the company has more orders than it can deliver (if greater than one), has the same number of orders that it can deliver (equals one), or has fewer orders than it can deliver (under one).
First, *continuous intense competition* was endangering market share and profitability. In 2003, most of ElectroCorp’s businesses were operating in highly competitive markets. Intense competition made it increasingly difficult to differentiate products, and commodity pressures, including price wars, were on the rise. Strong growth aspirations of major competitors indicated that competition would even intensify in the future. Competitors at the time were focusing aggressively on growth and had goals to achieve compound annual growth rates between 10% and 30%.

Second, some of ElectroCorp’s businesses were operating in regionally *saturated markets* with flat or negative growth rates (mature markets). Their vertical growth potential within their business boundaries was limited. As one country manager stated:

“It is really hard for us to grow in some of our markets ... growth in these markets is low and we already have high market shares for most of our products ... It is difficult to increase sales with existing customers in these markets and almost impossible to win new ones without endangering profitability ...” (S33)

Third, a *lack of internal sales coordination* across ElectroCorp’s businesses annoyed customers and became an increasing competitive disadvantage as many competitors had implemented more integrated cross-business sales approaches. As a corporate manager observed:

“Sometimes, our businesses are approaching the same customer without coordinating each other ... this is inconvenient for our customers ... they have to deal with different contact persons ... it is also bad for our business ... in the worst case it leads to internal price wars in front of our customers ... and certainly we do not present the full advantages of our corporate portfolio [of products and services] to our customers in that way.” (S3: 1)

The lack of sales coordination was not only a nuisance for customers. Due to insufficient cross-business coordination in the acquisition of large projects, ElectroCorp’s businesses failed to capture valuable opportunities. For instance, ElectroCorp did not utilize its full sales potential when new airports or power plants were built, particularly in the context of big events such as the Olympic Games.

(2) Changing customer requirements

To address the issue of stagnating growth, ElectroCorp’s top management reacted swiftly and initiated a dedicated growth program at the end of 2003. The program was termed the ‘*customer focus program*’ and supported businesses and regions in achiev-
ing profitable growth. The program was driven by ElectroCorp’s internal consulting unit and consisted of the three initiatives “winning customers”, “service”, and “cross-selling”. The ‘winning customers initiative’ focused on vertical sales growth within businesses. The objective was to increase the penetration of existing customers and to win new customers on a business level. The ‘service initiative’ focused on the expansion of revenues from product and operations related services in businesses and regions. The ‘cross-selling initiative’ focused on improving corporate account management to better address growth synergies. The cross-selling initiative specifically addressed the lack of internal sales coordination and helped businesses and regions operating in saturated markets to increase their sales through better penetrating common customers (mainly through lead-sharing).

As the ‘customer focus program’ progressed, corporate managers working on the ‘cross-selling initiative’ realized that the requirements of customers were changing. Due to globalization, technology disruption and networked operations, ElectroCorp’s customers were facing rapid changes in their markets and had to cope with an increasingly complex environment. A corporate manager illustrated these changes with the altered role of hotel owners in the hospitality industry:

“... just imagine the core competency hotel owners have to have to be a perfect host to their guests ... There was not much technology in a guest room 30 years ago. Perhaps a power plug and some lights? Today, guest rooms have sophisticated telecommunications equipment, internet, entertainment systems, video-on-demand, fire safety, security, access systems, room climate control, ambiance lighting, etc. And, how many of these complex systems just arrived in the last couple of years?” (S5: 2)

The increased dynamism and complexity of markets changed the requirements and buying behaviors of ElectroCorp’s customers. Customers were looking for more than just single products from their suppliers. They increasingly demanded solutions to their problems and advice from a trusted partner. The solutions usually consisted of offerings from several of ElectroCorp’s businesses.

(3) Severe financial market pressure

In mid-2004, financial markets were exerting increasing pressure on ElectroCorp. Financial markets valued the company below major competitors. While ElectroCorp had a price to earnings (P/E) ratio of 16 and market value to sales (MV/S) ratios of 0.7, competitors were valued at P/E ratios of 20 and MV/S ratios of 2.3. Furthermore, analysts calculated a significant conglomerate discount, suggesting that the combined company was destroying rather than adding value.
8.2.3 Initiation of the One ElectroCorp initiative

Corporate growth problems, changing customer requirements and the severe pressure from the financial market all underlined again the importance of growth synergies. First, the realization of growth synergies could compensate weak vertical growth rates of the firm’s businesses. Second, the increasing demand of customers for cross-business solutions indicated increasing growth synergy potential. Finally, growth synergies could reduce the conglomerate discount, which was a heavy burden on ElectroCorp’s corporate executives.

Thus, corporate executives decided to increase the corporate focus on growth synergies. Realizing that the regional cross-selling initiative was not sufficient to align the whole organization for the continuous realization of growth synergies, the CEO formally initiated the OneEC initiative in October 2004. Figure 8-3 provides an overview of the timeline and major developments that led to the OneEC initiative.

*Figure 8-3: Timeline and major developments that lead to the OneEC initiative*

The objective of OneEC was to establish a strategic concept and organizational design for the ongoing realization of growth synergies at ElectroCorp. To support the initiative and ongoing synergy realization, a dedicated “One ElectroCorp” department with over thirty full-time managers was founded at the corporate center. The OneEC department reported directly to the CEO. It was supplemented with an advisory board, which was headed by the CEO and which consisted of selected executive board members, business unit heads, regional heads and the head of corporate development. The advisory board convened four times a year to discuss the direction of the initiative.

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96 An advisory board is a group of individuals who offer advice, inform or notify. An advisory board differs from an elected board in that they do not have any oversight responsibilities.
Paul Patron, who also led the customer focus program, was selected to head the One EC initiative. Paul Patron had been with ElectroCorp for over 25 years and had held various managerial positions. He was president of several business segments and managing director of a regional company. Paul Patron was well connected throughout the company and had a strong record of accomplishment.

It should also be noted that the CEO was greatly committed to the initiative and was involved to a greater extent in the OneEC initiative than in any other corporate initiative. He was also well informed on the subject of cross-business synergies and had profound experience in synergy management. Prior to his appointment, he initiated and led a successful regional cross-selling initiative, which can be regarded as the forerunner of One EC.

### 8.2.4 Success of the One ElectroCorp initiative

Over the next months, the OneEC department designed a strategic concept and an organization design blueprint for continuous synergy realization and implemented it. The strategic concept and organization design had been highly successful in that they facilitated the continuous realization of growth synergies at ElectroCorp.

After the alignment of the organization, cross-business sales growth increased by over 40% annually in 2005 and 2006, even as business-specific (vertical) sales were stagnating. As profits also increased with cross-business sales (profitable corporate growth), growth synergies were realized. Since the beginning of 2005, over one hundred profitable growth synergy projects have been completed. Several of these cross-business projects have received favorable customer comments, which indicates that they increase customer utility and differentiate ElectroCorp from its competitors.

Rather subjectively, the overwhelming number of interviewed managers confirmed that the initiative has met its objective, the successful alignment of the firm for the continuous realization of growth synergies. On average, they rated the outcome of the initiative with a 7.5 on a 10-point Likert scale (1=low, 10=high).

In the following two sub-chapters, we will describe the successful strategic concept (8.3) and the organization design (8.4) that the members of the OneEC initiative implemented for the continuous realization of growth synergies.

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97 This number reflects the sales increase with corporate customers in cross-business markets that were targeted by the OneEC initiative. This sales increase is likely to be linked to the organizational alignment for the continuous realization of growth synergies, i.e. to the strategic concept and organization design that the OneEC initiative implemented, because corporate customers and cross-business markets that were not targeted by the initiative (i.e. for which strategy and design were not adjusted) did not grow at such high rates.
8.3 Strategic Concept for the continuous realization of growth synergies

The strategic concept that ElectroCorp’s managers established for the realization of growth synergies was based on the central objective to increase profitable corporate growth by bringing the firm’s unique portfolio of offerings to common customers across businesses for solving their problems. This objective was specified through norm strategies for deriving value from growth synergies (8.3.1) and a focus on profitable cross-business domains (8.3.2).

8.3.1 Norm Strategies for achieving growth synergies

Corporate managers defined ‘norm strategies’ for the realization of growth synergies that they recommended to businesses and regions. These strategies marked a shift in ElectroCorp’s corporate strategy from a vertically focused product company towards a horizontal solution provider. We first explain and compare the different norm strategies and then discuss the corporate shift towards solutions.

(1) Characteristics of norm strategies

Corporate managers defined three norm strategies for the realization of growth synergies: (a) lead-sharing, (b) cross-business bundling, and (c) cross-business integration. In the following, we briefly explain the characteristics of these strategies and discuss their value propositions. The value proposition links these strategies to corporate advantage.

(a) Lead-Sharing

Lead-sharing includes sharing and coordinating customer contacts and sales opportunities across ElectroCorp’s businesses. The objective is that businesses inform each other about fruitful sales opportunities. Furthermore, businesses are supposed to coordinate with each other to present ‘one-face to the customer’ whenever possible.

Lead-sharing generates additional value for ElectroCorp’s customers by increasing their convenience and reducing their buying costs because customers only have to deal with a few central contacts.

Lead-sharing increases ElectroCorp’s company value through higher sales and lower selling costs. Higher sales result from cross-selling offerings and higher customer loyalty. Sales costs are reduced due to the better utilization of customer relationships – not all businesses have to incur the costs of building them.
(b) Cross-business bundling

Cross-business bundling involves bringing separate and independent but related offerings from different businesses together into consistent ‘packages’ for common customers. Bundles provide solutions for specific customer problems. In contrast to lead-sharing, where offerings from ElectroCorp’s businesses are suggested to the customer ad-hoc, cross-business bundles are specifically designed and marketed as a ‘whole’.

From bundling, ElectroCorp generates value for its customers by reducing complexity and lowering customer search and transaction costs. Bundling eases and accelerates the customer search for a solution, simplifies their sourcing process through ‘one-stop shopping’, and provides a single point of contact for installation and service. Bundling addresses the changing requirements of ElectroCorp’s customers resulting from a more dynamic and complex environment, which we outlined before. Thus, bundling offers a strong customer value proposition.

With cross-business bundles, ElectroCorp aims to achieve differentiation advantages over its competitors that increase its company value:

“The breadth of our portfolio is one of our key advantages and a unique value proposition of One EC... few companies in the world can provide and deliver the range of products, systems, and services that we do ... few competitors have the track record, financial stability and long-term commitment that we have ... We can offer our customers unique bundles that most of our competitors cannot match ... even through partnering.”

(S5: 2)

ElectroCorp’s managers emphasized that unique product bundles lead to profitable sales growth (more projects and higher prices) and higher customer loyalty.

(c) Cross-business integration

The objective of cross-business integration is to integrate offerings from several of ElectroCorp’s businesses into coherent solutions for specific customer problems. As a solution provider, ElectroCorp acts as a strategic partner for its customers and focuses on optimizing customer core processes for enhancing their competitive strength. The integration strategy extends bundling. In addition to bundling, which only markets complementary offerings together, integration focuses on the technical assimilation of the offerings. Technical integration involves the development of coherent systems and the harmonization of interfaces, usually through information technology.

The customer value proposition of cross-business integration is based on decreased complexity, lower total costs of ownership, long-term customer commitment, and reduced customer transaction costs. While similar to that of bundling, the value proposition of integration is much stronger. Customers buying integrated solutions benefit
from better-aligned components that optimally support their business processes. Furthermore, integrated solutions reduce the total costs of ownership of customers and their implementation time and risk, which bundling does not.

Similar to bundling, cross-business integration enables ElectroCorp to increase its company value through differentiation advantages. However, these advantages do not only stem from the firm’s unique portfolio of offerings but also from its capability to integrate these offerings into seamless solutions better than other firms can. Furthermore, ElectroCorp’s risk diversification and financial stability permits it to make long-term commitments that smaller and more focused competitors cannot credibly make.
(2) **Comparison of norm strategies**

The three norm strategies differ with respect to customer benefits and company value. Figure 8-4 provides a summary and a comparative overview.

*Figure 8-4: Comparison of norm strategies for achieving growth synergies*

| Synergy Strategy       | Description                                                                 | Customer Benefits                        | Comparable Company Value Potential               |
|------------------------|----------------------------------------------------------------------------|------------------------------------------|-------------------------------------------------|
| Lead-Sharing           | ✈ Sharing of existing customer contacts and information between businesses regarding sales opportunities | ✈ One-face to the customer                | ✈ Moderate                                      | Sales increase but low differentiation advantages in competitive setting |
|                        |                                                                          | ▪ Reduced buying costs                    |                                                 |                                                                             |
|                        |                                                                          | ▪ Increased convenience                   |                                                 |                                                                             |
| Cross-business bundling| ✈ Offering of joint packages to allow customers “one-stop shopping”       | ✈ One-stop shopping                       | ✈ High                                          | Sales increase and differentiation advantages of portfolio                  |
|                        |                                                                          | ▪ Consistent offering solving a specific customer problem                   |                                                 |                                                                             |
|                        |                                                                          | ▪ Reduced complexity                      |                                                 |                                                                             |
|                        |                                                                          | ▪ Reduced buying costs and time           |                                                 |                                                                             |
|                        |                                                                          | ▪ Increased convenience                   |                                                 |                                                                             |
| Cross-business integration | ✈ Developing technically integrated cross-business solutions to support customers optimizing their business processes | ✈ Competitive strength                   | ✈ Highest                                       | Sales increase and differentiation advantage of unique portfolio *and* of unique integration capabilities |
|                        |                                                                          | ▪ Unique offering enhancing the customer’s competitive strength              |                                                 |                                                                             |
|                        |                                                                          | ▪ Reduced complexity                      |                                                 |                                                                             |
|                        |                                                                          | ▪ Increased convenience                   |                                                 |                                                                             |
|                        |                                                                          | ▪ Reduced buying costs and time           |                                                 |                                                                             |
|                        |                                                                          | ▪ Reduced total cost of ownership         |                                                 |                                                                             |
|                        |                                                                          | ▪ Long-term commitment of solution provider |                                               |                                                                             |

Source: author
All norm strategies have clear benefits for ElectroCorp’s customers: Through lead-sharing, customers benefit from improved coordination in their buying process (‘one-face to the customer’). Cross-business bundling provides customers with opportunities to reduce their complexity through ‘one-stop shopping’. Integrated cross-business solutions help customers to increase their competitive strength by optimizing their core business processes. The customer value proposition increases from lead-sharing over bundling to integration. Consequently, the value potential ElectroCorp can derive from lead-sharing is moderate, that of bundling is higher and that of integration is highest. Lead-sharing only offers moderate value potential for ElectroCorp as most competitors already provide ‘one-face’ to their customers. Furthermore, ElectroCorp can only leverage the full differentiation advantage of its unique portfolio through bundling and integration. Integration enhances differentiation even more than bundling as it permits ElectroCorp to leverage its (distinctive) technical integration skills.

ElectroCorp’s corporate managers emphasized that lead-sharing, bundling and integration are not mutually exclusive but complementary: Businesses can engage in lead-sharing for customers without offering them solutions. Similarly, they might bundle some offerings and integrate others depending on the specific market situation.

A further point that corporate managers stressed was the focus on replicable offerings in bundling and integration. If bundled or integrated solutions are sold to several customers, their development costs – which are significant – can be spread over a larger base and profitability improves. To develop replicable and innovative solutions that lead to first-mover advantages and can be sold repeatedly over the complete market cycle, corporate managers recommended their businesses to cooperate closely with lead customers. Lead customers are users that face needs that will become general in a marketplace – but they face them months or years before the bulk of the marketplace encounters them. ElectroCorp specifically defined lead customers as acknowledged innovation leaders in their respective industries or growth leaders in emerging market segments that apply advanced technology, services, processes, and business models.

(3) Corporate business model of solution provider

Over time, the ongoing realization of growth synergies led to the evolution of a corporate business model that positioned ElectroCorp as a solution provider. Bundling and integrating offerings across businesses to solve customer-specific problems meant that ElectroCorp was complementing the rather product centric vertical offerings of its businesses with horizontal solutions.

Corporate managers view cross-business solutions as a way to reduce the commodity pressures that several of ElectroCorp’s businesses are facing in their mature markets. Furthermore, solutions are seen as a way to guard ElectroCorp from newly emerging corporate level competitors from the IT Industry. Firms such as IBM threaten Electro-
Corp’s businesses through complementing their IT services with shop floor products from third party providers and integrating them into customer solutions that they sell to executive managers. ElectroCorp’s businesses produce many of the shop floor products that IT firms bundle with their offerings (e.g., automation products, communication equipment). Consequently, the danger is that they might lose their direct contact to the customer and that their products are degraded to exchangeable components. Cross-business solutions may help ElectroCorp’s businesses to prevent this from happening.

In stimulating businesses to pursue cross-business solutions, corporate managers are careful to emphasize that solutions are complementary offerings and not substitutes for products. They are well aware that an exclusive focus on solutions might lead to a loss of ElectroCorp’s capability to produce superior products in the long term:

“\textit{Innovative products are one of our core strengths, which differentiates us from our competitors. We still make over 80\% of our revenues from products. Solutions are important ... but make no mistake about it ... without good products there will never be good solutions. Products are and will always be our backbone. If we focus only on solutions, we will lose our ability to develop superior products.}” (S2: 2)

Furthermore, corporate managers recognize that solutions are not a viable strategy for all markets. They point out that similar markets can have huge global differences. For example, a corporate manager explained that the buying behavior of customers in the utility industry varies with the economic development state of the regions. The sustained economic growth in China and Southeast Asia increases the regional energy demand, which is met through new power plants. Customers in these markets place a high value on time and demand integrated solutions to reduce complexity and set-up time. In more saturated markets such as Europe and the United States, energy customers make replacement investments and usually do not demand solutions.

\subsection*{8.3.2 Cross-business domains for the realization of growth synergies}

In addition to suggesting norm strategies, the strategic concept developed by corporate managers determines cross-business domains for the continuous realization of growth synergies. The domains are product-market segments within ElectroCorp’s corporate scope that provide significant potential for growth synergies through lead-sharing, bundling, and integration. ElectroCorp’s corporate managers focused the realization of growth synergies on selected sectors with defined key customers. We first explain the characteristics and benefits of the sector concept and then describe how corporate managers selected specific sectors.
(1) Characteristics and benefits of sector concept

A sector is an industry segment that is characterized by a group of end customers with similar core business processes. ElectroCorp focuses the realization of growth synergies on 18 sectors. These include sectors such as ‘airports’, ‘hospitality’, ‘oil and gas’, and ‘automotive’. For these sectors, businesses are suggested to offer cross-business solutions.

For instance, several of ElectroCorp’s businesses collaborate to provide integrated logistics and infrastructure solutions for airports. These include passenger solutions with biometrical recognition, mobile check-in and all-round security systems, handling solutions with baggage conveying systems, security checks and baggage tracking, and control solutions that link all control stations in the airport to a central control room. Figure 8-5 gives an overview of airport solutions.

*Figure 8-5: Cross-business solutions for the airport sector*

Source: Company presentation (P9)

The major feature of sectors is that they define markets in terms of end customer needs. They provide an understanding of the customer’s value chains and core processes that is necessary to combine products from different divisions into cross-business solutions. Figure 8-6 on the next page illustrates this principle. It shows how products from different businesses are combined into solutions for customers in the airport sector: Components from ElectroCorp’s control systems business and the communication systems business are integrated into a system solution (e.g., mobile check-in) for the ‘check-in part’ of the customer core process ‘passenger handling’.
At the beginning of the One EC initiative, most businesses lacked a customer-centric view. They had product-centric market segmentations that only provided them a vertical perspective. This made the continuous realization of growth synergies, which requires a horizontal perspective, difficult. For instance, the businesses focusing on the market for control systems and on the market for communication systems did not realize that they had opportunities for growth synergies in the airport sector. Furthermore, they lacked the knowledge of the core business processes in the industry (e.g., passenger handling process) which is necessary to design joint solutions for implementing these opportunities. The sector perspective addressed these issues and supported businesses in the realization of growth synergies. Over time, corporate managers realized that the cross-business view on sectors also contributed to the elimination of white spots in the product portfolio and to increasing innovation. The joint view on end-customers along sectors helped businesses to identify profitable ‘white spots’ in their (joint) product portfolios that they had not recognized before. Furthermore, the sector view and the combination of competencies across businesses led to the development of innovative new offerings, which expanded ElectroCorp’s overall market.

To foster the development of repeatable solutions and to enable an efficient penetration of the sector, ElectroCorp’s managers determined key customers in each sector on which businesses are supposed to focus their sector activities. Key customers are ElectroCorp’s strategically most important customers and are usually lead users in their respective industries.

In aggregate, the sector concept defines key-customer sector clusters for the continuous realization of growth synergies. For each sector, the participating businesses are encouraged to develop sector strategies that include roadmaps for the cross-business portfolio, solutions, and the penetration of key customers.
(2) Definition and selection of sectors

The definition and selection of profitable sectors for growth synergies was a major effort of the OneEC initiative:

“One of the major strategic tasks ... was to create transparency on sectors and customers ... When we started [with One EC], we did not really know in which markets we had opportunities for synergies between our businesses ... There was no common approach to define cross-business markets ... Also, our view of the customer was driven by a single-business perspective ... and strong product orientation ... We did not have a sufficient understanding of our customer’s core processes and improvement potential to design cross-business solutions.” (S4: 2)

Corporate managers followed a three-step process to identify and establish sectors (see figure 8-7).

Figure 8-7: Identification and establishment of profitable sectors

| Perspective | Goals | Decision: Go/No Go | Decision: Setup of permanent cross-business team |
|-------------|-------|-------------------|-----------------------------------------------|
| Corporate   | • Transparency based on complete and consistent split of total ElectroCorp market into sectors | Step 1: Market Screening | Step 2: Sector Analysis |
|             | • Top-down analysis of total market potential |                                 | Step 3: Sector Operation |
|             | • Identification of ‘white market spaces’ |                                 |                                 |
| Corporate and businesses | • Transparency on specific sector and its potential for ElectroCorp | | |
| | • Evaluation of sector attractiveness based on market data and general sector information | | |
| | • Identification of current sector activities and potential sector solutions | | |
| Businesses | • Clear strategy for the specific sector | | |
| | • Roadmap for cross-group portfolio and solutions | | |
| | • Designated key accounts and lead customers for sector development | | |

Source: Company presentation (P2), modified

In a first step, they screened the overall market to identify all sectors within ElectroCorp’s scope and to address white spaces in the current market definition. In a next step, they analyzed the relevant sectors to identify the ones which were attractive for cross-business activities and thus had growth synergy potential. Finally, they selected the most attractive sectors and delegated the development of sector strategies for lead-sharing, bundling, and integration to the businesses which were closest to the market.

To identify the sectors within ElectroCorp’s scope, corporate managers screened the
market top-down from an outside-in perspective. Using NACE\textsuperscript{98} codes, they determined that ElectroCorp performed economic activities in 48 segments. To reduce complexity, in a next step, they aggregated these activities into 20 sectors and a number of sub-sectors. Criteria for aggregating activities into sectors were similarity and connection of core processes in the value chain, and end-customer similarity. The 20 sectors were then analyzed in greater depth to spot attractive ones. The analysis included a quantitative market overview, business drivers and market trends, customer structure and characteristics, the competitive landscape, and ElectroCorp’s current position in the sector. Figure 8-8 gives an overview.

\textit{Figure 8-8: In-depth sector analysis}

| Topic                        | Covered Items                                                                 |
|------------------------------|-------------------------------------------------------------------------------|
| Quantitative market overview | Total market volume, compound annual market growth rate (CAGR), ElectroCorp’s relevant spending based on current portfolio, volume and CAGR by region |
| Business drivers and trends  | General trends that impact the sector such as new technologies, changes in legislation, demographic changes. Sector specific trends such as business drivers for the sectors, changes in customer behavior, new business models, deregulation and privatization tendencies, regional trends |
| Customer structure and characteristics | ABC analysis of the sector, customer spending and buying behavior, further customer segmentation, e.g. by company size or business focus (if helpful). |
| Competitive landscape        | Competitor profiles including key figures, sector strategy, and offerings for and references in the sector. Overview of competitive landscape in the sector, e.g. Porter’s five forces |
| Own portfolio and position   | Solution map for products, solutions, and services for the sector; customer value proposition; identified current portfolio gaps; sales of the businesses in the sector in the last year |

Source: Company presentation (P2), modified

Corporate managers focused cross-business activities on sectors with the highest contemporary and future profit potential for ElectroCorp.\textsuperscript{99} For these sectors, key accounts and lead customers were designated. Furthermore, dedicated cross-business teams participating in the sector developed fine-grained sector strategies that included detailed solution roadmaps.

\textsuperscript{98} NACE stands for ‘Nomenclature générale des activités économiques dans les Communautés Européennes’; it is the common nomenclature for economic activities in Europe.

\textsuperscript{99} The market definition of these sectors (sector split) was binding for all of ElectroCorp’s businesses and regions.
In the corporate assessment of future profit potential of sectors, special attention was given to megatrends. Megatrends indicate a widespread trend of major impact which drives markets. Corporate managers at ElectroCorp focused on the two megatrends “changing demographics” and “growth of cities worldwide”. The first trend indicates that today’s population of more than six billion will increase to eight billion by 2020 and that life expectancy will increase in industrialized countries as well as in emerging markets. The second trend suggests that, in the future, the majority of humanity will be living in cities including so-called “megacities” with more than ten million inhabitants each. Based on trend reports, ElectroCorp expects that by 2015 there will be 22 mega-cities worldwide. Corporate managers derived consequences from these megatrends for ElectroCorp’s businesses and cross-business growth activities (see figure 8-9).

*Figure 8-9: Megatrends and business consequences*

| **Shortening of natural resources**: Fossil fuels will run out over the next few decades. Current projections forecast the exhaustion of crude oil – today’s primary energy resource – in 60 years. As a consequence, new exploitation methodologies and technologies are needed in order to seek and exploit new fossil fuel sources. |
| **Growing need for environmental care**: Climate change and rising pollution, especially in megacities, are now a reality. This trend increases the speed of development of alternative energy resources, implementation of environmental friendly production processes and gentle handling of existing resources. |
| **Growing demand for safety and security**: With new threats from international terrorism, cyberspace virus attacks, and increasing social gaps due to urbanization, the government sector, businesses, and individuals are making safety and security high priorities. Ensuring a safe and secure world and society is fundamental for an enjoyable life. |
| **Growing demand for healthcare/eldercare**: An aging population and the “silver market” in industrialized countries require new eldercare services and products. Simultaneously, infectious diseases (HIV or SARS) in developed and rural areas demand affordable solutions. Bringing costs down while improving the quality of care is paramount. |
| **Shift of economic gravity among the regions**: New centers of economic power with rising wealth, increasing living standards and better education demand customized products and services. In addition, an increased investment in these centers and the attraction of talent are prerequisites in order to be successful in these markets. |
| **Increasing mobility**: Mobility has become a major socioeconomic necessity across the globe. Road, air, rail and sea traffic volumes are already at a high level today and will continue to grow. Hence, intelligent solutions for integrated mobility systems and services are the basis for efficient and seamless management of future mobility challenges. |

Source: Company presentation (P6)
In detailed trend studies, the trend consequences were analyzed and sector growth opportunities were derived (see figure 8-10). For example, corporate managers identified business opportunities for specific integrated solutions in the healthcare sector resulting from an aging society.

*Figure 8-10: Deriving of sector growth opportunities from trends*

| Megatrends          | Sectors | Consequences                                      |
|---------------------|---------|---------------------------------------------------|
| Demographic change  |         | Increasing scarcity of natural resources          |
| Urbanization        |         | Regional shift in economic gravity                |
|                     |         | Growing need for environmental protection         |
|                     |         | Increasing mobility                               |
|                     |         | Growing demand for safety and security            |
|                     |         | Growing demand for healthcare/eldercare           |

Source: Company presentation (P2), modified

**8.3.3 Summary of Strategic Concept**

ElectroCorp’s corporate managers developed a strategic concept for the continuous realization of growth synergies that is based on three norm-strategies and focuses attention on selected profitable sectors with designated key accounts (figure 8-11).

*Figure 8-11: Summary of Strategic Concept*

- **Selection of profitable sectors**
  - Portfolio of growth sectors
- **Selection of key customers**
  - Portfolio of lead customers
- **Synergy realization**
  - Increased customer value and differentiation through lead-sharing, bundling, and integration
- **Profitable Growth**
  - Increased market shares
  - Increased market coverage
  - Market expansion

Source: author
Norm strategies provide the conceptual grounding for deriving economic value from synergy realization. Sectors introduce a ‘third dimension’ for managers to conceive their environment. They complement the ‘product’ and ‘geographic’ dimension established by ElectroCorp’s matrix with a horizontal, ‘customer-centric’ perspective for the realization of growth synergies. The focus on profitable growth sectors and the selection of key customers for the realization of growth synergies supports profitable growth. Lead-sharing increases the market shares of businesses. Comprehensive sector offerings and the elimination of ‘white spots’ in the portfolio increase market coverage. Innovative sector offerings that address customer needs beyond the current view expand the overall market.

### 8.4 Corporate Design for the continuous realization of growth synergies

In this section, we present the alignments in ElectroCorp’s organization design for implementing the strategic concept for continuous growth synergy realization. We begin with a discussion of the structural alignments (8.4.1). Subsequently, we describe the alignments of management systems and processes (8.4.2) and of rules and standards (8.4.3) that complement the structural alignments. We continue with the adjustments of human resource practices (6.4.4) and the normative frame (8.4.5). We close with a brief summary (6.4.6). Figure 8-12 provides an overview of the organizational alignments.

#### Figure 8-12: Overview of organizational alignments

| Category                  | Alignments                                                                 |
|---------------------------|-----------------------------------------------------------------------------|
| Structure                 | ▪ Secondary overlay structures without profit and loss responsibilities for sectors  
                            | ▪ Corporate service departments                                               |
| Management Systems and Processes | ▪ Horizontal perspective in the strategic planning process            
                            | ▪ Corporate level rewards                                                    
                            | ▪ Corporate IT systems for sales, R&D and community building                
                            | ▪ Corporate processes and tools for account management and solution selling |
| Rules and Standards        | ▪ Standards for cross-business project management                          
                            | ▪ Rules for transfer pricing                                                 |
| Human Resource Practices   | ▪ Formal Trainings                                                           
                            | ▪ Corporate career tracks in sales                                          
                            | ▪ Cross-business rotation of managers                                       |
| Normative Frame            | ▪ Collaborative corporate values                                            
                            | ▪ Vision and mission for the realization of growth synergies                |

Source: author
8.4.1 Alignment of Structures

The greatest and most obvious organizational alignments that we observed were structural. Corporate managers implemented secondary overlay structures (i.e. operating structures without profit and loss responsibilities) that support businesses and regional companies in the realization of growth synergies. Specifically, these structures form arenas for the continuous identification, selection, and implementation of growth synergy initiatives. We refer to growth synergy initiatives as every coordinated undertaking that is intended to realize growth synergies. At ElectroCorp, these initiatives were based on the previously discussed norm strategies and thus focused on realizing growth synergies through lead-sharing, bundling and integration.

We observed two different kinds of secondary overlay structures: The major structure is the sector organization, which supports the continuous exploitation of growth synergies in sectors. The sector organization is supplemented by business competence centers, which are minor (temporary) structures for special growth synergy situations. The corporate OneEC department governs these two structures. We begin with a description of the sector organization, followed by the business competence centers and then discuss the role of the OneEC department in these structures.

(1) Sector Organization

The purpose of the sector organization is to drive the continuous realization of growth synergies in defined sectors. It defines clear roles and responsibilities for synergy realization and links the businesses that are participating in the sector. The sector organization supports decision makers and middle managers that are closest to the market in the realization of growth synergies without exercising any corporate control. Consequently, the sector organization is a decentralized structure that enables businesses to realize growth synergies without any central involvement from corporate managers. ElectroCorp’s managers implemented the structure in 2004 after they had concluded that informal coordination mechanisms were insufficient for the continuous realization of growth synergies.

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100 The sector organization has no formal reporting relationship with corporate executives.
Figure 8-13 depicts the core elements of the sector organization.

*Figure 8-13: Core elements of the sector organization*

The sector organization consists of permanent cross-business boards for decision-making and permanent work teams for linking the value chains of the businesses. It integrates ElectroCorp’s portfolio activities (business development, research and development) with front-end customer activities (marketing and sales) for the development and sale of cross-business solutions in sectors.

The core of the sector organization is the *sector development board*. It is a cross-business board responsible for developing and penetrating the specific sector. It aligns ElectrocCorp’s portfolio across businesses with sector trends and the needs of key customers. Corporate managers installed a separate sector development board for every target sector. The *sector support team* is a permanent cross-business team that supports the sector development board in its strategic and operational portfolio activities. *Competence centers* of the businesses that participate in the sector bolster the sector support team through coordinating sector-specific portfolio activities across the divisions of a focal business. On the customer front-end, sector development boards are closely linked with corporate account management and regional companies. *Corporate account managers* represent ElectroCorp’s portfolio to key customers and develop solution business with lead customers in the sector. *Regional companies* are responsible for optimally exploiting the sector within their region (top regional company accounts and small/medium customers). The *sales board* is the overall decision-making body in...
the sector organization. As a strategic investor, it funds the various sector development boards and sets the overall sector targets.

In the following, we explain the detailed roles and responsibilities of the various cross-business coordination mechanisms in the sector organization.

(a) Sales Board (SB)

The sales board is the overall decision-making body of the sector organization. The sales board consists of the heads of ElectroCorp’s businesses (business unit heads) that participate in the various sector development boards. The sales board meets quarterly and is coached by a member of the central executive committee.101

The sales board has the overall responsibility for the sector organization. It represents the businesses and acts as a shareholder of the sector development boards focusing on return on investment. In the role of a strategic investor, it invests in the sector development boards and approves and tracks their goals, strategies and performance. Furthermore, it is responsible for promoting cross-business cooperation in the regional companies by approving the relevant fundamental regulations.

The sales board appoints the key leaders within the sector organization including the leaders of sector development boards, sector managers, and corporate and international account managers. Additionally, it allocates resources to the sectors and defines incentive guidelines for the sector organization. Furthermore, it resolves cross-business conflicts and coaches the sector development boards.

(b) Sector Development Board (SDB)

The sector development board is the decision-making body for a specific sector and reports to the sales board.

The SDB is responsible for the operations and development of the sector. This includes the following responsibilities: First, continuously aligning ElectroCorp’s corporate portfolio with the needs of the customers in the sector. Second, ensuring a coordinated and effective market presence for ElectroCorp in the sector and promoting the exploitation of sector accounts and projects within the framework of the account management system. Third, developing a sector concept for sales, marketing, innovation, and major project management and establishing a sector solution portfolio. Fourth, implementing incentive guidelines based on sector targets defined by the sales board and ensuring quarterly reporting to the sales board. Finally, supporting account man-

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101 Note the decentralized design of synergy realization at ElectroCorp: The sales board (business level) can decide autonomously on the realization of growth synergies. It is not accountable for synergy realization and does not have to report to the corporate executive committee (corporate level). The executive committee has only a coaching function in continuous growth synergy realization.
The main operational tasks of the SDB are the following\textsuperscript{102}: First, making recommendations to the sales board regarding the selection of account managers. Second, the appointment and functional steering of sector support team members. Third, approving the overall sector budget, the budget of the corporate account managers, customer and project development plans, and cross-business project teams (which are nominated by the sector support team). Finally, it nominates potentially new ElectroCorp businesses to become SDB members and negotiates their entry details.

The SDB consists of at least one division head per business, an assigned full-time sector manager and a “One EC” representative from the corporate center:

- The division heads are responsible for the global business within the sector scope. One of the division heads is appointed SDB speaker by the sales board. The SDB speaker represents the SDB activities and reports to the sales board. Furthermore, he is responsible for the sector manager in functional and general disciplinary matters. The SDB speaker is usually from the business with the strongest interest in the sector.

- The sector manager represents the customer view in the SDB. He is responsible for the sector-specific cross-business account management and the development of the sector. The sector manager ‘owns’ the sector market potential. He functionally reports to the SDB speaker and has a dedicated mentor from the sales board who is responsible for his personal development (coach) and supports him in his activities (power broker).

The main responsibilities of the sector manager are the following: First, increasing sector volume and market penetration, especially with corporate and international account managers; second, developing and implementing a sales concept for the sector; third, driving and developing a sector value proposition, a sector strategy, and a sector business plan in cooperation with the sector support team; fourth, developing and aligning regional sector sales concepts; fifth, driving business review and forecasting processes; and finally, the continuous improvement of sector account management processes and methods.

The sector manager mainly performs the following operational tasks: First, selecting and proposing potential sector account managers to the SDB in coordination with the regional companies and the sector support team. Second, leading and coaching sector account managers, including the determination and monitoring of

\textsuperscript{102} Corporate managers did not specify any processes for fulfilling these operational tasks. SDBs are allowed to organize their internal processes themselves.
their targets, the development of sales skills and sector expertise, and career planning. Third, observing the sector, customer, and project environment to identify trends and opportunities. Finally, driving and tracking major sector opportunities.

- The OneEC representative from the corporate center is a partner in the SDB. He is the interface between corporate management and the SDB and provides a corporate view. He ensures the alignment of the SDB with ElectroCorp’s account management, sector approach, and sector development methods and tools. Furthermore, he facilitates learning in the sector organization facilitating the exchange of cross-SDB experiences and best practices.

(c) Sector Support Team (SST)

The sector support team (SST) is the executive body of the SDB. It carries out the decisions of the SDB. The SST consists of the segment heads of the divisions that are participating in the sector.

The SST mainly performs the following tasks: First, it aligns the sector strategy and portfolio with businesses and regional companies. Integrating all businesses, the SST administers the sector-specific portfolio by performing market analyses and developing repeatable sector solutions along the customer’s value chain. Second, it develops sector marketing concepts and materials and coordinates sector lobbying. Third, it defines sector-specific targets and incentives for members of the competence centers. Fourth, it provides and coordinates support for major cross-business sector projects. Fifth, it provides technical and sales support for sector solutions. Sixth, it assists the regional companies in their sector activities by providing the link to the businesses and the solutions in progress, if required. Furthermore, it initiates sector specific conferences to facilitate best practice sharing, to communicate sector projects and solutions of businesses, and to transfer the required sector solutions to the relevant businesses, regional companies or competence centers. Finally, the SST supports the sector manager in the development of the sector value proposition, strategy and business plan and in the management of account managers.

(d) Competence Center (CC)

The competence centers support the work of the SST within the vertical businesses. They coordinate sector specific activities across the functions and divisions of the participating businesses. They help to ensure the transformation of sector requirements into business-level portfolios and solutions. Furthermore, CCs support account man-

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103 CCs are established by the businesses that participate in the sector and also cover the corresponding costs. The configuration of CCs varies across ElectroCorp’s businesses. It depends on the complexity of the business and its organization structure. However, most businesses have installed sector-specific competence centers with dedicated members.
agement teams by providing sector expertise in pre- and after-sales activities and by collecting best practices to be shared. CCs also provide sector process consulting, technical consulting and engineering, prepare advertising material and coordinate bids in technical and commercial matters.

(e) Account Management

In 2000, ElectroCorp installed an account management system for its key customers. Key customers are strategically important customers that buy from several of ElectroCorp’s businesses. The task of the account management system has been to coordinate the global sales activities with key customers across businesses and to build strategic relationships with them.

To align ElectroCorp for the continuous realization of growth synergies, the account management system was integrated into the sector organization as the sales front-end. Account managers sell solutions and provide sector teams (SDB and SST) with customer requirements and additional sector market insights for the development of the cross-business portfolio (e.g., trends, innovative sector business models). Furthermore, they build strategic relationships with lead customers and initiate partnerships with them for the joint development of solutions.

In the following, we briefly describe ElectroCorp’s account management system and explain how it is embedded in the sector organization. We first discuss the classification of the key accounts and then elucidate the different account management roles.

Classification of key accounts: The basis of ElectroCorp’s account management system is a classification of different kinds of key accounts. Key accounts are nominated based on the customer’s business volume (potential new orders and sales), global activity and mindset (centralized decision-making in sourcing, seeking of strategic partnering relationships), and the fit with ElectroCorp’s strategy, portfolio and culture. Two kinds of key accounts are relevant for the development and penetration of sectors: corporate accounts and international accounts. Corporate accounts are dedicated to ElectroCorp’s most important cross-business customers, which often are lead-customers. Corporate accounts are the accounts with the highest business volume, the greatest international reach, and the highest strategic importance. International accounts are cross-business accounts of strategic importance but have less potential and/or less international reach than corporate accounts.

ElectroCorp has defined a third kind of key account: global accounts. Global accounts are of strategic importance for ElectroCorp’s single businesses but have less cross-business potential and/or less international reach than corporate accounts. They are therefore of little importance to driving cross-business growth in the sector organization.
Sector development boards, businesses, and regional companies can propose new corporate and international accounts to the sales board, which either approves or denies the requests. All key accounts are evaluated annually by the sector development boards and approved or denominated by the sales board. This ensures that resources are not wasted on customers that do not fulfill the key account requirements anymore.

**Account manager roles**: The account management is anchored in ElectroCorp’s structure through account managers, who are full-time integration managers that coordinate customer interaction across businesses, regions and sectors. Below, we discuss their roles and responsibilities in the sector organization.

- **Corporate Account Manager (CAM)**: For each customer that has been confirmed as a corporate account, a corporate account manager is appointed. The CAM represents ElectroCorp’s global sector business interests with his assigned customer worldwide. He is based at the location of the customer’s headquarters and is usually a full-time resource. The businesses and regional companies include him in all topics related to his customer. The CAM reports to the sector manager in functional matters and on the development of the corporate account. In disciplinary matters, the CAM reports to the region-head of the customers’ headquarters location. The regional company provides the CAM with infrastructure, general support, and HR related services; however, the CAM is regionally independent.

The CAM has the responsibility for developing the overall strategic business with the customer and is responsible for achieving the account targets defined by the sector manager.

The CAM performs a variety of activities to develop his corporate account: First, in close cooperation with the respective businesses and regions, he develops a global strategy for his account and drives and tracks business opportunities. Based on a thorough understanding of the customer’s business goals and processes, he positions ElectroCorp as a strategic supplier and develops new business opportunities with the customer’s top management. He ensures that the customer knows the scope of supplies, services and usage options of ElectroCorp’s portfolio. To do so, the CAM works closely with the businesses’ sales departments. Second, the CAM proactively observes the relevant sectors and project environments and evaluates customer requirements. As the customer interface of the sector organization, the CAM feeds sector developments and customer requirements back to the sector development board. Finally, the CAM ensures transparency on his account and coordinates between businesses and regions. If the involvement of a business opportunity by a specific region and business is not clear, he negotiates agreements with the units concerned that are in the best interest of the customer.
• **International Account Managers (IAM):** International accounts are of strategic importance to the SDB but have less potential and/or less international reach than corporate accounts. For these customers, the sector development board and the regional company sometimes appoint a cross-business international account manager; however, in contrast to a corporate account manager an appointment is not compulsory. If assigned, the IAM performs the same activities as a corporate account manager.

• **Regional Company Account Manager (AM):** The regional company account manager is responsible for the business with a specific account within a region or country. He functionally leads the cross-business account team for the account locations within a regional company.

The AMs are appointed by the heads of the regional companies. If the customer assigned to the account is part of a corporate/international account, the corporate and international account managers and the associated sector development boards are involved in the appointment. In such a case, the AM reports to the sector manager in functional matters. The sector manager then defines the targets and incentives of the AM in joint agreement with the regional company in order to achieve the sector goals.

The AMs perform activities similar to those of a corporate account manager, adapted to regional circumstances. In particular, AMs provide sectors with information on customer needs, regional market data and trends, business opportunities, and regional business figures.

• **Account Teams (AT):** Account teams are cross-business or cross-regional teams that support selected customers on behalf of businesses, divisions, and regional companies. The relevant groups and regional companies appoint the account team members in close cooperation with the corporate account manager. Account team members work part-time for the relevant account and report to their original units on disciplinary matters.

(f) **Sector Support of Regional Companies (RC)**

In the sector organization, regional companies are responsible for the optimal sector exploitation in their region based on mutual agreements with the sector development boards. The primary responsibility of the regional company is the effective management of regional accounts. Regional companies ensure a coordinated market presence, efficient crisis management, and conflict-free cooperation between the relevant businesses in the region. Furthermore, they develop and realize local sector opportunities, propose and provide qualified personnel for the sectors (international account manager and regional account manager), and provide sector account managers with region specific market observations.
Corporate managers give regional companies considerable autonomy to structure their sector activities. They only make non-binding recommendations during regional coaching workshops on sector operations. Most large regional companies, however, have assigned a dedicated ‘OneEC’ manager and several regional sector managers. The OneEC manager is then responsible for the regional sector activities and reports directly to the head of the regional company. He coaches account managers and regional sector managers, drives untapped sector opportunities, and exchanges best practices through the global ‘OneEC’ community. Regional sector managers coordinate the exploitation of sectors in the region, steer the regional account manager, and coordinate with the sector development boards.

**Summary of Sector Organization**

Figure 8-14 summarizes the roles and relationships of the key structures in the sector organization. As a strategic investor, the sales board manages the different sector development boards which are responsible for developing the sector as a strategic investor. The sector development board steers the corporate and regional account managers that may work for several and is supported by a sector support team. Account managers can theoretically report to several sectors. Practically, however, most account managers are affiliated only with one sector.

*Figure 8-14: Roles and relationships of the key structures in the sector organization*

Source: author
In summary, the sector organization extends the primary matrix structure of businesses and regions with a third, ‘virtual’ sector-dimension that cuts across businesses and regions without profit and loss responsibilities. It is a decentralized structure which is operated and funded by the businesses. The sector organization consists of a sales focused front-end (key accounts and regional accounts) and a back-end focused on the portfolio (sector support team and business competence centers). These two ends of the sector value chain are integrated through the sector development board. Figure 8-15 schematically depicts the sector organization within ElectroCorp’s primary corporate structure.

*Figure 8-15: Integration of sector organization into ElectroCorp’s primary structure*

(2) Business Competence Centers

The sector organization is supplemented with business competence centers (BCC). The purpose of BCCs is to coordinate the exploitation of repeatable growth synergy opportunities that are not covered by the sector organization for a limited time. BCCs are centrally operated and funded corporate structures that provide coordination services for the businesses and regions and report to corporate management. Corporate managers establish BCCs if significant growth synergy opportunities exist but businesses are not willing to exploit them. The BCC then incubates these opportunities for up to three years. After that time, the center is terminated and it is up to the businesses to continue the coordination effort. BCCs are an exception to the normal approach of
synergy realization and represent a minority compared to sector structures. Electro-Corp operates two BCCs compared to 18 sectors.

The core task of BCCs is the creation of demand for certain kinds of repeatable growth synergy opportunities and the coordination of businesses and regions to fulfill these demands without assuming any operational responsibilities.\(^\text{105}\) Their tasks are similar to that of the sector development board and its support team. In the role of a service center, BCCs analyze the relevant cross-business market, identify opportunities, develop a solution strategy, define a solution portfolio in cooperation with the businesses, conduct first customer contacts, coordinate worldwide marketing and partnering, drive concrete sales activities, prepare bidding and contracting, and coach businesses on BCC-related projects.

In the following, we use the example of the BCC ‘Big Events’ to explain the mode of operations of BCCs in more detail. Big events are large regional events such as Olympic Games and Soccer World Cups. These events trigger major infrastructure investments (e.g., building of airports, stadiums, hotels, and power plants), which provide significant growth synergy opportunities for ElectroCorp. The BCC ‘Big Events’ ensures the maximum exploitation of these growth synergies through centrally coordinating demand creation and fulfillment for the ‘big event’ market (see figure 8-16).

**Figure 8-16: Role and function of BCCs**

Source: Company presentation (P3), modified

\(^{105}\) The profit and loss responsibility remains within businesses and regional companies.
Based on solid market intelligence (market structure, key players, etc.), the BCC develops a market and competitive strategy for big events, which includes positioning, portfolio definition, partner selection, and marketing mix determination. It coordinates the businesses and sector development boards to facilitate information exchange and to stimulate the development of event-specific solutions (demand fulfillment). Furthermore, it continuously screens the event cluster to identify emerging opportunities. It makes first customer contacts, coordinates ElectroCorp’s worldwide sponsoring in the event market and lobbies to influence key decision makers such as committees (demand creation). Once concrete sales opportunities arise, it works together with the regions to set up project offices that pursue these opportunities. Finally, the BCC systematically develops domain experience in the event market, which it uses to coach the businesses and regions on event-related issues.\textsuperscript{106}

In summary, the BCC structure is a centrally operated and funded service structure that cuts across businesses, regions, and sectors (see figure 8-17). It is temporary and designed to ‘get the business going’ and ‘kick-start’ decentralized collaboration. BCCs are an exception to the rule of the otherwise decentralized realization of growth synergies at ElectroCorp for ‘special situations’.

\textbf{Figure 8-17: Integration of BCCs into ElectroCorp’s primary structure}

\textsuperscript{106} This knowledge management function of BCCs is especially relevant in the market for big events. Big events are usually once-in-a-lifetime events for regions. The Olympic Games, for instance, take usually several decades to return to a region, if they return at all. Thus, the regions involved usually do not have the necessary project experience. This frequently leads to a sub-optimal realization of growth synergy potential because program offices are set up too late (big events have lengthy preparation times of three to six years).
(3) Corporate OneEC Department

The corporate OneEC department governs the strategic and organizational approach for the realization of growth synergies. Furthermore, it drives and supports sectors and regions in the continuous realization of growth synergies (without any formal authority). Moreover, it hosts the business competence centers. The OneEC department reports directly to the CEO and an advisory board, which is headed by the CEO and which consists of selected executive board members, business unit heads, regional heads and the head of corporate development. The advisory board convenes four times a year to discuss the status of the OneEC initiative, i.e. the organizational alignment for the continuous realization of growth synergies. Figure 8-18 (on the next page) depicts the organization and role of the department.

Figure 8-18: Organization and Role of the OneEC department

Source: Company presentation (P7), modified

Note that the OneEC department governs the approach for synergy realization but not the actual realization of growth synergies, for which businesses and regions are responsible.

As of 2006, the OneEC department had over 30 full-time employees. It is expected that the department size will be reduced once the sector organization has been sufficiently optimized and the sector approach has been established as standard business practice. Several of the OneEC tasks such as best-practice exchange are then expected to be performed by the OneEC community, which consists of the key players in the sector organization including sector managers, sector support team managers, account managers, and regional OneEC managers.
The OneEC department performs the following two activities: First, it maintains and continuously improves the sector approach. This means it preserves the sector split, adjusts the roles and responsibilities of the sector organization, and improves account management tools and processes. Second, it coaches sector development boards and regional companies, identifies and transfers best practices between sectors, and coordinates the worldwide community of sector managers. To facilitate knowledge exchange, the OneEC department organizes an annual OneEC conference at which the latest developments regarding the sector organization are communicated and examples of success from different SDBs and regions are presented. The conference gives managers from the sector organization plenty of opportunities to communicate and build informal networks.

### 8.4.2 Alignment of Management Systems and Processes

In addition to the structural alignments, we observed several alignments in Electro-Corp’s corporate management systems and processes including: (1) corporate strategic planning, (2) corporate financial planning and control, (3) corporate incentive systems, (4) corporate information technology systems, and (5) corporate sales processes and tools.

#### (1) Corporate Strategic Planning

Corporate strategic planning at ElectroCorp guides the configuration and development of the overall business portfolio. Before OneEC, strategic planning had a vertical focus. It was concerned with investments in and divestments of specific businesses. To improve the focus on growth synergies, corporate managers supplemented the strategic planning process with a horizontal perspective to accommodate cross-business issues. The renewed process considers the ‘horizontal’ influence of investments and divestments on the new corporate business model of a solution provider. Corporate planners now employ cross-business sectors as an additional unit of analysis to businesses and regions. Businesses are not viewed as independent planning entities anymore but – at least to some extent – as an interdependent system for exploring and exploiting cross-business sectors. Corporate planners now develop businesses and sectors in a co-evolutionary fashion. For instance, based on the new horizontal perspective, Electro-Corp’s corporate executives decided not to divest its low performing IT services business. Instead, they strengthened the business with several acquisitions of industrial IT companies because in-house IT capabilities are indispensable for building integrated solutions. Several other acquisitions followed that were sector-specific rather than business-specific and that would not have been conducted under the former vertical corporate strategic planning approach.

Over time, a corporate business model evolved in which different businesses assumed different roles, such as IT specialist, product expert and integration expert. Corporate
planners used these roles to plan the corporate development path and the corporate capability base.

The horizontal perspective in the strategic planning process is supported by a three-dimensional market model, which segments ElectroCorp’s corporate market along the three dimensions ‘businesses’, ‘regions’ and ‘sectors’. Furthermore, central sector market intelligence is built up on an ongoing basis. A new corporate market intelligence department continuously analyzes the development of sector markets including macroeconomic factors, market trends, and competitor dynamics. The analysis results in strategic implications and recommendations which are used for portfolio development and are made available to sector development boards for the formulation of their sector strategy. Furthermore, the sector market intelligence is used for corporate level and sector level portfolio decisions.

A further change in the corporate strategic planning process concerns the agenda of strategic planning meetings. These are meetings where the business unit heads convene quarterly with the executive board to discuss and justify their business strategies. Before OneEC, these meetings predominantly addressed business-specific issues. Every business presented its strategy and reported on its (vertical) strategic initiatives. Discussion of cross-business topics were the exception. To improve the realization of growth synergies, these meetings are now used to discuss and challenge cross-business issues. In the style of ‘strategic conversations’, the executive board and the businesses discuss cross-business topics such as horizontal initiatives, modifications of the corporate business model, and changes in market trends and customer requirements that affect several businesses.

(2) Corporate Financial Planning and Control

Corporate financial planning and control at ElectroCorp involve the setting, monitoring, and enforcement of performance targets. While strategic planning was supplemented with a horizontal perspective, financial plans and controls remained business-specific. In line with the decentralized approach of synergy realization, businesses are held responsible for their vertical performance only and not for any cross-business goals. In the annual target agreement process, corporate executives, business unit heads, and regional company heads agree on business-specific performance targets. The cross-business goals for the sector development boards are independent of the corporate financial planning and control process. They are negotiated on the business level between the sales board and the individual sector development boards without any corporate involvement. Figure 8-19 on the next page depicts the financial planning and control relationships between businesses, regional companies and sectors.
Even though corporate managers do not exert any control for the realization of growth synergies, they monitor the performance of corporate accounts and sectors through cross-business scorecards.\textsuperscript{109} The performance information provides feedback for the continuous improvement of the sector approach and the overall alignment of the corporate structure.\textsuperscript{110}

(3) Corporate Incentive Systems

Corporate managers provide corporate-level incentives for business unit heads, corporate account managers and sector managers. These managers receive approximately 20\% of their variable compensation (annual bonus) based on ElectroCorp’s corporate performance.

Independent of corporate managers, the sales board (on the business level) decides on the design of incentives for other key employees of the sector organization – notably the division heads in the sector development boards and the business segment heads in the sector support team.\textsuperscript{111} Most business heads included sector work in the job re-

\textsuperscript{109} Cross-business scorecards compare the flow of new orders between periods and calculate penetration measures that indicate how well the potential of key customers and sectors is exploited.

\textsuperscript{110} Performance feedback allows corporate managers to improve the account management system and sector setup and permits them to challenge businesses (without formal control) when sectors clearly do not exploit their potential. Furthermore, corporate managers receive information for the alignment of corporate structures. For instance, if a sector grows fast, it may require more autonomy. Corporate managers may then decide to transform the sector into a division or even a business. To make such ‘patching’ decisions, corporate managers need information on the sector performance.

\textsuperscript{111} The argument of corporate managers for giving business autonomy in the creation of cross-business incentives for division and segment managers was the following: In contrast to the full-time sector managers and
sponsibilities of their division and segment heads and refrained from providing additional corporate incentives.

Similar to business managers, the heads of the regional companies can autonomously decide on their incentive schemes for the realization of growth synergies. These schemes vary greatly depending on the specific role of the region in synergy realization. Based on a review of best practices, OneEC (corporate) managers recommend three regional incentive schemes for different kinds of cross-business collaboration:

- The first concept concerns *unplanned cross-business collaboration by individual sales representatives* for lead-sharing (identification and proactive sharing of business opportunities outside the individual responsibility). For this case, corporate managers recommend simple monetary incentives without any a priori sales targets for all employees with customer contact. Lump sum bonuses should be paid for successful follow-ups on shared leads that keep management involvement and administrative work to a minimum.

- The second concept concerns *planned cross-business collaboration by ad-hoc project teams*. For this case, corporate managers recommend that the responsible sales managers derive sales targets jointly with cross-business project teams. Based on the achievement of these targets, the team should be rewarded with monetary and non-monetary incentives.

- The third concept concerns *planned cross-business collaboration by sector account teams and regional sector managers*. For this case, corporate managers recommend that businesses, sector development boards and regional management engage in a systematic process to agree on individual targets for account team members based on their specific roles in the team. Depending on the achievement of these targets, individual team members should be rewarded with monetary and non-monetary incentives. Target fulfillment should be monitored with great care and significant management involvement. Furthermore, rewards should account for a significant part of the total variable income (30-50%).

Generally, corporate managers recommend businesses and regions to use at least some non-monetary rewards for the realization of growth synergies. Figure 8-20 (on the next page) provides an overview of the different categories of non-monetary rewards that were suggested and gives examples.
Fig. 8-20: Categories of non-monetary rewards

| Incentive Category | Example |
|--------------------|---------|
| Recognition        | - Simple informal acknowledgements  
                    | - Lunch or dinner with top management  
                    | - Formal recognition in public (e.g., mention in staff newsletter) |
| Job enrichment     | - Assignment of new and challenging job tasks  
                    | - Opportunity for more self-management and flexibility  
                    | - Enhanced access to information and communication |
| Career development | - Job rotation to broaden knowledge and face new challenges  
                    | - Promotion to higher hierarchy level  
                    | - Individual coaching sessions/feedback to trigger skill development |
| Status indicators  | - Invitation to higher-level meetings or conferences  
                    | - Allowance of corporate car  
                    | - Eligibility to travel first or business class |
| Others             | - Extra team events (e.g., workshop in 5-star wellness hotel)  
                    | - Journey for eligible and partner |

Source: Company presentation (P8)

(4) Corporate Information Technology Systems

To cope with the increased lateral flow of information between businesses in the realization of growth synergies, corporate managers implemented several corporate information technology (IT) systems including (a) an account management portal, (b) a corporate solution database, and (c) an intranet platform.

(a) Corporate Account Management Portal / Corporate CRM System

Corporate managers introduced an account team portal which hosts account information for account managers that work across businesses and regions. The account team portal provides ElectroCorp’s corporate account managers a transparent and secure information platform for joint customer development. The portal hosts a customer relationship database, a virtual workspace for account teams, a sales opportunity management system, and planning and reporting tools. Corporate managers optimized the portal to support systematic lead-sharing and solution-selling. The portal provides account team members with customer profiles, relevant customer offerings, and account plans. Customer profiles include selling opportunities and specific customer data such as customer sales, profits, employees, strategic objectives, and organization structure. For every customer, the system suggests a list with relevant offerings from ElectroCorp’s corporate portfolio that improve customer core processes and allow the customer to reach his strategic objectives. The account plan contains the overall objectives for customer development, the strategy for their implementation, and a concrete action list.
with assigned responsibilities across businesses and regions.

An ongoing project at ElectroCorp aims to expand the account team portal into a corporate customer relationship management system (CRM) that coordinates the identification, acquisition, and retention of customers across multiple channels, departments, lines of businesses, and regions. The objective of the corporate CRM is to extend the information that is provided by the account team portal only for a small number of key accounts to a larger cross-business and cross-regional customer base. The corporate CRM integrates the incompatible CRM applications of ElectroCorp’s vertical businesses and regions into a standardized horizontal sales support system. Once implemented, the CRM system will combine multiple sources of input from businesses, sectors and regions into a holistic 360 degree view of the customer. This holistic view will improve the identification of sales opportunities across businesses and their exploitation through lead-sharing and solution selling.

(b) Corporate Solution Database / Corporate PLM System

To support sales managers and sector support teams in the development and sale of solutions, corporate managers introduced a corporate solution database which provides a sector specific overview of ElectroCorp’s offerings portfolio. The database links solution components and products from different businesses to integrated system solutions for the various sectors. It thus provides a sector-specific view of ElectroCorp’s portfolio of offerings. This information supports the penetration and development of the corporate portfolio. Knowing the complete sector portfolio, sales managers can improve their selling efforts in the sectors. Recognizing the full breadth of ElectroCorp’s offerings, sector managers can better perceive ‘white spots’ and can develop higher quality solution roadmaps.

An ongoing effort at ElectroCorp aims to integrate the solution database into a corporate product lifecycle management system (PLM) to synchronize vertical product management and horizontal solution management. A PLM system covers lifecycle planning, product portfolio management and the development, continuous improvement, and termination of individual products. A corporate PLM system extends these activities from vertical products to horizontal solutions and thus improves the realization of growth synergies.

(c) OneEC Intranet Platform

Corporate managers developed an intranet platform for the OneEC community. The platform provides cross-business tools for the realization of growth synergies such as guidelines, sector market intelligence, success stories, use cases, best-practices, a contact database, and self-assessments. Furthermore, the platform hosts webcasts and announcements regarding cross-business growth by the CEO and OneEC management. Overall, the platform facilitates and supports an active OneEC community.
(5) Corporate Sales Processes and Tools

To support the continuous realization of growth synergies, corporate managers made further adjustments in corporate sales processes and tools. They (a) professionalized the key account management process and (b) developed a sales approach for solution selling.

(a) Key account management process

The key account management process is a systematic approach for the planning and development of key accounts. Corporate managers designed a four-step key account management process. Exhibit 8-21 (on the next page) provides a brief overview.
The key account management process consists of the four steps outlined below:

**Kick-off**
During the kick-off phase, account-specific data is gathered and the relevant participants for the process are identified and informed.

**Account Plan Workshop**
The account plan workshop is a joint workshop of account managers with the customer with the objective to identify business opportunities and derive strategies for customer development. The workshop runs through three specific steps:

1. **Situation Analysis**: Analysis of customer business processes, collection of information on ElectroCorp’s position and competitor strategies, identification of risks/strength/weaknesses, etc.;
2. **Idea Generation**: Identification of primary business opportunities in a creative session, preparation of customer interview (questions on the enterprise, business opportunities, and ElectroCorp as a partner);
3. **Customer Interview and Conclusion**: Interview with the customer to identify new ideas on how to support the customer’s strategic investments; evaluation of interview, generation of new business opportunities, review of previously defined opportunities, setting of objectives and strategy for the account team, creation of a to-do list

**Business Development**
Business development involves different activities for developing the business with the customer including the pinpointing of concrete customer benefits (customer value proposition) and development of sales promotion strategies.

Business development activities are monitored and controlled through five specific degrees of implementation (DI) that key account managers use to report their sales status to sector managers:

- **DI 1** = Specific opportunity described; **DI 2** = Action described; **DI 3** = Action fully elaborated; **DI 4** = Action substantively implemented; **DI 5** = Action implemented with impact on sales.

**Customer Relationship Management**
Different activities for managing the customer relationship including the nomination of an account team, the development of a customer support concept, gathering of customer feedback to agree on the form of strategic partnership, and a customer-specific business plan and target agreement.

Source: Company presentation (P1), modified

The major features of the account planning process are its elaborate process steps and the improved monitoring of identified cross-business opportunities through ‘degree of implementation’ controlling. The ‘degree of implementation’ (DI) provides transparency on the sales status on a five-point scale ranging from ‘description of sales opportunity’ to ‘full implementation of action with impact on sales’ (for full description of all five DIs see exhibit 8-21). DI controlling enables sector managers to steer their ac-
account managers in the sales front-end better. Based on the degree of implementation, they can act appropriately to the situation. For example, if account managers have lined up several sales leads that are in the first degree of implementation (sales opportunity described), the sector manager could focus account managers more on following up on these leads instead of searching for new opportunities.

**b) Sales approach for solution selling**

A further alignment in the corporate sales function was the development of methods and tools for solution selling. The shift towards a corporate business model of a solution provider requires that corporate account managers become trusted advisors to and strategic partners of their customers. Instead of pushing products onto their customers or selling on the technology level, they are now supposed to engage in consultative value selling that tailors solutions to customers’ changing needs. ElectroCorp’s sales managers need to develop a common view with their customers on how to improve the customer’s business. In close cooperation with the sectors, account managers have to gain an understanding of customer core processes and the strategic environment the customer is operating in to recommend customers solutions that improve their profitability and enable them to meet their future challenges. Moreover, sales managers need to anticipate new customer needs and communicate them to the sectors to drive sector innovation and repeatable solutions at the beginning of the market cycle. As a corporate presentation put it: “[account managers] are not only able to sell on demand but are also ready (...) to shape the upcoming demands and wallets of the future” (P6: 157).

To support sector and account managers, corporate managers (1) developed methods and tools for solution selling, (2) introduced a new type of joint customer meetings – EC days –, and (3) initiated a top executive relationship program for key customers.

- **Methods and Tools**: Together with external consultants and ElectroCorp’s internal management education provider, corporate managers developed several methods and tools for solution selling. The methods and tools include guidelines on conducting a customer situation analysis, analyzing industries and value chains, performing customer interviews, performing cost/benefit analyses, presenting innovative ideas, demonstrating thought leadership, developing customer value propositions, selecting lead customers, and customer sales financing.

- **EC Days**: Corporate managers introduced a new type of joint meeting with key customers, termed ‘EC Days’. At these meetings, sector managers, account managers, and customers discuss strategic topics that are of joint interest such as ‘new exploration techniques in the oil and gas industry’ or ‘innovation in travel’. The objectives of OneEC Days are to improve the understanding of customers and their sectors, to position ElectroCorp as a strategic partner and trusted advisor, and to
explore new sales opportunities.

- **Top Executive Relationship Program**: As top executives of the customer usually initiate (or approve) the significant investments in the cross-business solutions that ElectroCorp sells, strategic long-term customer relationships at the executive level need to be established. To strengthen and establish these relationships, corporate managers introduced the top executive relationship program, which involves the members of the corporate executive committee more actively in the sales process. In close cooperation with key account managers, executive managers at Electro-Corp are now supposed to establish trusting relationships with the top managers of key customer accounts.

### 8.4.3 Alignment of rules and standards

Corporate managers established several operative rules for the fulfillment of cross-business projects, which they termed ‘rules of the game’. These rules included (1) standards for managing cross-business projects and (2) rules for transfer pricing between businesses.

**1) Standards for Cross-business Project Management**

Cross-business project management standards establish binding procedures for specific issues in the management of cross-business projects\(^{112}\) including:

- operative cooperation model and contracting (e.g., contract split, open consortium, silent consortium, general contracting),
- margin distribution between businesses,
- operative risk sharing between businesses (e.g., each business assumes risk for its own part of the operation, risk shared between businesses, lead business assumes complete project risk),
- determination of project lead and controlling (e.g., each division for its own part, each division with lead division as coordinator, or lead division only),
- customer contact partner selection (e.g., each division for its own part, lead division).

Furthermore, standards codified best practices for the operative management of cross-business projects.

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\(^{112}\) The management process of cross-business projects involves four phases: (1) **Pre-acquisition phase** including identification of internal partners and lead group, project overview, and go/no-go decision. (2) **Acquisition phase** including development of a sales strategy that is aligned with sector goals, decision on the collaboration model, and bid/no-bid decision. (3) **Bid preparation and negotiation** including decision on margin sharing, price calculation, offer preparation, joint risk assessment, common negotiation strategy, and consortium agreement. (4) **Project realization and warranty** including nomination of project manager with clear mandate from all businesses, decision on project organization, escalation model for unforeseen events, cooperation model for after sales phase, and debriefing with focus on cross-business learning.
(2) Rules for Transfer Pricing

The fulfillment of cross-business projects at ElectroCorp frequently involves transfer pricing. The transfer price is the price at which one business transfers resources (e.g., components, products, service, employees) to another business in the course of building the customer solution. Corporate managers established clear rules for transfer prices. All cross-business transfers have to follow the arm’s length principle, i.e. the transfer price has to be equal to the compensation that would be paid in the respective transaction under similar conditions if the transaction were conducted with an external third party. In other words, the transfer price set must be such that the business manager concerned would be prepared to provide or receive the same goods or services to or from an independent third party under the same or similar terms and conditions (market-oriented prices). The specific transfer pricing rules at ElectroCorp under the arm’s length principle are the following:

- market prices are essential – simple margin addition is prohibited,
- internal prices/costs have to be proven by benchmarking,
- ‘open book’ calculation is mandatory.

8.4.4 Alignment of Human Resource Practices

To ensure that sector employees have the required skills for the realization of growth synergies, corporate managers aligned several HR practices.

The jobs in the sector organization are demanding. Account managers are required to possess solution-selling skills and profound knowledge of ElectroCorp’s diverse portfolio. Furthermore, they need to be able to lead and integrate globally dispersed cross-business teams, in some cases laterally, without formal authority. Sector managers have a similarly challenging task. As integration managers responsible for the development of the sector, they are required to possess strong strategic, entrepreneurial, and coordinative skills and have to be able to lead laterally across regions and businesses without the disciplinary power of a line manager. Sector support team members need to be familiar with ElectroCorp’s broad portfolio and are required to have a substantial body of technical knowledge to foster technically integrated solutions. To make sure that the right people are in the right positions and that key managers in the sector organization have the required skills, corporate managers introduced several human resource (HR) practices:

- **Formal Training**: Corporate managers initiated the development of training courses in solution selling, account management and lateral leadership. Subsequently, the internal management education unit (a kind of corporate university) trains key employees of the sector organization along these courses.

- **Corporate Sales Career Track**: The sales function is critical in the sector approach.
However, due to the historic engineering focus of the company, the sales function was not well developed at ElectroCorp. Consequently, it was difficult to staff account management positions adequately. To increase the internal pipeline of account managers, corporate managers upgraded the status of account management in the organization and developed dedicated corporate sales and account management career tracks.

- *Cross-business Rotation:* Traditionally, at ElectroCorp most careers have been vertical, i.e. business-specific. Consequently, managers frequently lack a horizontal perspective and mindset. They only have very limited knowledge of their sister businesses, the corporate portfolio and corporate strategy. Furthermore, their cross-business network is usually not well developed. This personal lack of corporate understanding, embeddedness and identity increases the difficulty of lateral leadership tasks in the sector organization. To address this issue, corporate managers planned to increase the rotation of managers across businesses and envisioned cross-business assignments as qualifying ‘stepping-stones’ for higher management responsibilities.

### 8.4.5 Alignment of the Normative Frame: Vision, Mission and Values

A major and ongoing task of corporate managers has been the alignment of ElectroCorp’s normative frame to establish a culture of collaboration for the realization of growth synergies:

> “Getting our businesses to work together is a major cultural change ... after our decentralization in 1989 and more than a decade of vertical optimization and restructuring you cannot establish cooperation overnight ... in the past synergy was a ‘taboo word’ at our firm ... changing the minds of our business managers ... communicating our new ‘EC One’ philosophy ... is a long-term task.” (S14: 2)

At the end of 1989, ElectroCorp conducted a major restructuring of its businesses. The large businesses were split into smaller, decentralized units to foster decision speed and local responsiveness. Over the next decade, the dominant focus was on vertical business optimization. The realization of cross-business synergies was not a corporate priority until 2002. The work across businesses was discouraged because it drew attention away from restructuring the businesses. Consequently, horizontal coordination was diminished and businesses developed strong vertical cultures. To bring the minds of the people together again and to establish a corporate identity and collaborative culture (being ‘one firm’), corporate managers aligned the normative frame.

They introduced new *corporate values* that stressed the importance of collaboration and joint focus on the customer. Furthermore, they created a normative framework for OneEC. The framework includes a dedicated vision, mission, value proposition, and
specific messages. The *vision* describes the contribution of OneEC to the overall company goal. The *mission* breaks the broad vision down and states how the relevant organizational entities for the realization of growth synergies – sector development boards, business competence centers, and regional companies – act to make the vision come true. The *value proposition* defines the specific benefit and promise to the customers. It delivers the ‘reasons to believe’. *Messages* transform the strategic rationale of OneEC into regionally adjusted core statements. Figure 8-23 describes the different elements of the normative framework.

*Figure 8-22: Normative Frame for OneEC*

| Vision |
|--------------------|
| Driving ElectroCorp’s profit and growth and turning the conglomerate discount into a conglomerate surplus by: |
| • increasing the penetration of existing customers and winning new customers within and across our businesses |
| • increasing the transparency on our markets, sectors and customers |
| • by systematically understanding our customers’ business |
| • helping our customers to gain competitive advantage through customized solutions based on our product portfolio |

| Mission (differentiated by entity) |
|-----------------------------------|
| **One EC department**: Supporting the businesses to act as one ElectroCorp by applying a systematic customer perspective and challenging them |
| **SDB / BCC**: Driving business by creating (integrated) solutions in sectors to better meet customer needs |
| **Regional companies**: Driving (cross-business) business and supporting the businesses to act as one ElectroCorp |

| Value Proposition |
|-------------------|
| We are leveraging ElectroCorp’s full potential to keep our customers one step ahead in terms of productivity or a strong competitive position by: |
| • focusing on solving the customers’ individual business needs |
| • offering scalable solutions at the degree of single sourcing the customer wants |
| • reducing complexity in large-scale projects and multi-vendor environments |
| • ensuring a long-time commitment covering the solutions’ whole lifecycle (longer than consortia can do) |
| • providing proven-successful and future-ready solutions that can meet both current needs and future market potentials |
| • in time and on budget. |

“OneEC leverages ElectroCorp’s full potential to keep our customers one step ahead by bringing together the competencies of different businesses to offer comprehensive, customized solutions”
**Key Messages**

The One EC approach is intended to contribute to the conglomerate bonus:

- with incremental cross-business revenues...
- by bridging the gap between customers’ needs and ElectroCorp’s organizational set-up and thereby winning new customers as well as increasing penetration among existing customers...
- fostering repeatable offerings in focused sectors and solutions...

developed, driven, supported and challenged by the corporate One EC department, by the regions and the sector development boards and business competence centers.

Source: Company presentation (P4), modified

The new normative frame was communicated through an intense and continuing global campaign, which followed a cascading ‘communication pyramid’. The target audiences were the members of the OneEC organization, top managers, and regional sales people. These managers then had the task to multiply the message to address all of ElectroCorp’s employees. Communication was differentiated and had target audience-specific objectives. Corporate managers expected that employees would internalize the OneEC philosophy over time and that permanent cross-business collaboration for the continuous realization of growth synergies would become part of the usual way to do business at ElectroCorp.

### 8.4.6 Summary of corporate design

ElectroCorp established two dedicated secondary structures for the continuous realization of growth synergies. A decentralized sector organization integrates the businesses and regions for the continuous realization of growth synergies. Centralized service centers supplement the sector organization for incubating cross-business opportunities that businesses initially decline to exploit. A corporate center department maintains and supports the secondary structures. The secondary structures are complemented with a corporate planning process that establishes a horizontal cross-business perspective and corporate-level incentives. Newly installed corporate information technology systems help to cope with the increased lateral flow of information in synergy realization. Updated corporate sales processes improve the sale of cross-business solutions. Newly established standards and rules ensure the smooth fulfillment of cross-business projects. New human resource practices and a normative frame focused on collaboration align the skills and minds of people for the ongoing realization of growth synergies.
8.5 Summary

In this chapter, we presented one of the first cases in strategic management that provides a detailed account of the continuous realization of growth synergies at a global multi-business firm (based on direct observation of this phenomenon). Following a successful corporate initiative, we described the strategic concept and organization design that aligned the organization with its environment for the ongoing realization of growth synergies. Figure 8-24 on the next page provides a summary.

Figure 8-23: Summary of Case Study

Stagnating growth, changing customer requirements, and severe financial market pressure triggered the pursuit of growth synergies at ElectroCorp. A strategic concept focused the realization of growth synergies on profitable sectors with designated key customers. The strategic concept was implemented through a dedicated organization design that involved structures, management systems and processes, human resource practices, and a normative frame.

This case provides the context for the induction of constructs and propositions (i.e. success factors) regarding the continuous realization of growth synergies in the next chapter.