Frederick Taylor, the founding father of scientific management, explicitly sought to design work in a way that would remove initiative on the part of the worker. In 1907, he stated, "[O]ur scheme does not ask any initiative in a man. *We do not care for his initiative* [emphasis added]."[23] Worker-based initiative, Taylor worried, would interfere with the proper functioning of production technology, sapping that technology of its potential efficiencies. In return for higher daily wages, the shop worker would jettison initiative and simply do what he was told.

American industry prospered, indeed flourished, through much of the century while applying these principles. Nevertheless, critics sprang up almost immediately. Some focused on the perceived harshness of an approach that purposefully drained workers of initiative. Others doubted whether scientific management paid adequate attention to worker satisfaction and individual motivation. These two strands came together in the **human relations movement**, a group of social scientists who focused on noneconomic social factors that, they believed, profoundly affected both the quality of work and the quality of the workers' lives. (Exhibit 5-5 summarizes the key beliefs of the human relations movement.)

In the later decades of the twentieth century, as adaptability emerged as a competitive necessity, organizations came to rely on the commitment of lower-level employees to adjust to a changing competitive landscape. In a highly dynamic business environment, lower-level employees needed to be able to respond both quickly and in an informed way to rapid external shifts.

In search of high commitment, managers began to ask a new set of questions about job design. What if managers sought to *increase* rather than eliminate initiative? How might they think about designing jobs in order to enhance their potential to evoke initiative and motivation? Hackman and Oldham offered a job characteristic model to suggest alternative job design options meant to enhance motivation and initiative.[25]

All jobs, they said, regardless of specific organizational levels or assigned responsibilities, can be understood as having the same core dimensions. By enhancing or enriching work on any or all of those dimensions, jobs will become more motivational.

Key Beliefs of Human Relations Movement[24]

Worker satisfaction	Worker satisfaction and individual motivation can positively impact productivity.
Social context	The social context of work—both the work group and the organization as a whole—can positively impact performance.
Distribution of capabilities	Workers are as capable, and as willing, as managers to make positive contributions to the accomplishment of the organization's tasks.
Tangible and intangible incentives	Adequate pay is necessary but not sufficient to release workers' innate creative energies; managers must also look at intangible motivators such as the opportunity for challenge, growth, and learning.

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Using Job Enrichment to Increase Commitment[26]

Job Dimension	Description	Enrichment Action
Skill variety	The degree to which a job requires a variety of different activities in carrying out the work, involving the use of a number of different skills and talents.	Enlarging task requirements to involve multiple and varied skills.
Task identity	The degree to which the job requires completion of a "whole" and identifiable piece of work; that is, doing a job from beginning to end with a tangible outcome.	Combining individuals into a team with shared responsibility for the final product.
Task significance	The degree to which the performance of the task has a substantial impact on outcomes that are deemed to be important to employees, to the organization, and/or to society as a whole.	Communicating regularly and clearly how individual and group effort contributes to overall performance of company.
Autonomy	The degree to which the job provides substantial discretion to the individual in scheduling work and determining procedures for carrying it out.	Allowing individuals or groups to schedule work and assign specific tasks consistent with achieving performance goal.
Feedback	The degree to which carrying out work activities required by the job results in the individual acquiring direct and clear information about the effectiveness of his or her performance.	Communicating frequently concerning progress toward work goals.

Key learning

By enriching jobs along any or all of five characteristics— skill variety, task identity, task significance, autonomy, and feedback—organizations can increase the motivation and commitment of employees performing those tasks.

Exhibit 5-6 presents the five universal job dimensions as well as sample actions managers can take to enrich work and increase employee commitment.

Managers seeking to change job design as a way of affecting employee commitment now had something of a road map. Take *skill variety* as an example. Instead of having an employee perform a single job over and over again, the skills required of that worker in the performance of his job could be enlarged. A machine worker, for instance, might be asked to meet with suppliers or customers. By adding some measure of discretion to that employee's scheduling—say, providing that employee with a monthly

production schedule but allowing the individual to make decisions concerning daily and weekly production schedules—managers could also enhance *autonomy*.

Providing regular information about the quality of work and the progress being made toward achieving the goal adds greater *feedback*. Communicating regularly to that employee about how her effort contributes both to the overall product or service being offered by the company and how that product or service helps advance the strategic purpose of the business enhances *identity* and *significance*. The job characteristics model offered a systematic way of redesigning jobs in order to build employee commitment and achieve outstanding performance for the organization.

BUILDING TEAMWORK

Given the growing complexity and interdependence of today's workplace, it is not surprising that teams have emerged as a common design element. Pacific-Bell, General Mills, Pratt and Whitney, and Texas Instruments are among the many companies that adopted teams as a way of enhancing coordination and achieving outstanding performance.[27]

Teams, which are interdependent groups with shared responsibility for an outcome, come in many forms: product development teams, project management teams, customer service teams, and process innovation teams such as the ones created by Tom Glazer at MDS. A summary of the main team prototypes is presented in Exhibit 5-7.

CROSS-FUNCTIONAL TEAMS

Traditional organizations are often made up of a collection of freestanding functional silos. Activities such as market research, design, engineering, manufacturing, quality checking, distribution, and sales all take place within discrete domains. Although those functional units provide required differentiation, organizations also need to achieve integration across functions in order to be effective. **Cross-functional teams**, which are teams that span multiple organizational functions, provide a way of achieving that integration.

EXHIBIT 5-7 Team Types

Work team	By sharing responsibilities, developing multiple skills, and performing varied tasks, motivation and quality are enhanced.
Product development team	Through concurrent rather than sequential development activities, speed to market and innovation are enhanced while costs associated with rework are diminished.
Problem-solving team	By bringing together individuals from multiple functions, problems associated with handoffs and cross-functional interactions can be creatively addressed.
Project management team	The multiple functions and tasks of the value chain are linked in order to enhance quality, coordination, and customer responsiveness.

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Tom Glazer turned to cross-functional teams to address a performance problem: the difficulty of highly differentiated functions in pulling together into seamless, well-integrated processes. By creating cross-functional teams, organizations such as MDS seek to eliminate handoff problems that produce waste, high cost, quality problems, and sluggish response time. The teams are intended to create a seamless, interconnected web of activities.[28]

CREATING TEAMWORK

Although the creation of teams has become something of a management "fad," there is no question that effective team*work* can offer a powerful boost to performance. Pfeffer reported on a number of positive results that followed the implementation of teams:

> In a manufacturing plant, a 38% reduction in the defect rate and a 20% increase in productivity followed the introduction of teams. Honeywell's defense avionics plant credits improved on-time delivery—reaching 99% in the first quarter of 1996 as compared to below 40% in the 1980s—to the implementation of teams. A study of the implementation of teams in one Bell telephone operating company found that "self-directed groups in customer services reported higher customer service quality and had 15.4% higher monthly sales revenues." In the case of network technicians, the implementation of self-directed work teams saved "an average of $52,000 in indirect labor costs for each self-directed team initiated."[29]

Creating teams is not the same as designing for effective teamwork, however. Putting employees together in a group and labeling them a team will not, in and of itself, lead to teamwork. An implementation effort that creates teams but not teamwork will fail to generate the desired performance improvement.

Effective teamwork derives from four design factors (see Exhibit 5-8). The first requirement of effective teamwork is that team members transcend the individual or functional agendas each brings to the effort and create *shared purpose*. Creating shared purpose can be a slow and difficult process. Individuals who have spent much of their professional lives within a function or unit adopt, often unconsciously, a particular lens through which they view all organizational problems. When they become members of a cross-functional team, their agenda—at least initially—is to optimize the interests of their own function or unit, often at the cost of others. Effective teamwork starts with the need to create a central purpose focused on companywide goals and equally accepted by all members.

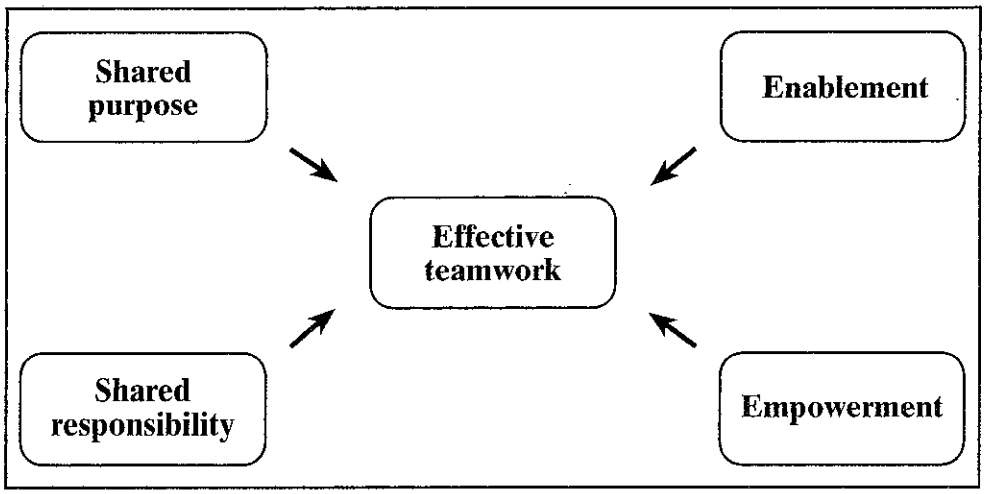
Key learning

Creating effective teamwork requires providing a group of individuals with shared purpose and responsibility, empowering those individuals to make shared decisions, and making sure they have the competencies and resources required to be effective as a team.

Effective teamwork is unlikely to flow from a group of individuals who do not feel equally and jointly accountable for an agreed-upon outcome. Therefore, effective teams develop *shared responsibility*. On effective teams, members evolve beyond seeing themselves as individuals with narrowly defined and measured outcomes. Instead, they take full responsibility for and joint ownership over every aspect, every contribution, every input, and every outcome of the team's task.

The creation of a cross-functional team creates the possibility that its activities will come in conflict with the traditional functional organization. Therefore, the third design requirement is for *team empowerment*. Unless affirmative actions are taken to equalize power, the functional organization

Teamwork Effectiveness Model



From Bert Spector, *Taking Charge and Letting Go: A Breakthrough Strategy for Creating and Managing the Horizontal Company* (New York: Free Press, 1995). Used by permission.

will likely overwhelm. That is because the functional organization is entrenched in tradition and is imbued with hierarchical power. Unless upper management takes affirmative steps to equalize that power base, cross-functional initiatives will be discouraged, even crushed.

Finally, *team enablement* represents the confluence of forces, other than traditional organizational power, that allows a team to operate effectively. Working on a team provides a member with a new set of competencies. There are certainly business skills involved. In order to master all aspects of a task or process, team members will have to become conversant, if not expert, in a wide range of skills typically assigned to functional specialists. Additionally, individuals who previously had little if anything to do with the process of strategic planning and implementation may become part of the process that was previously left solely in the hands of upper management.

Effective teamwork also requires that team members possess a set of behavioral competencies, including critical thinking, brainstorming, problem solving, nondefensive communications, process facilitation, and conflict management. Many employees lack those skills. They have, after all, spent the better part of their lives learning how to work, think, and act as individuals. If an organization intends on enabling teams to operate effectively, then they have to provide individuals with the required competencies of teamwork.

Not surprisingly, as companies evolve toward increasing reliance on teamwork, they increasingly require training for these required skills. Much of that training focuses on providing employees with multiple skills to enable them to understand all parts of the organization so they can operate more effectively in a cross-functional environment.[30] Training in specific teamwork skills also becomes vital. One of the most striking findings of a recent international study of high-performing companies (rated by profits, productivity, and quality of output) was that 100 percent of the high performers had trained their employees in problem-solving techniques compared to less than 20 percent of the low performers.[31]

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Key learning

Teams succeed or fail in organizations based not just on the efforts of team members but on the overall design and context of the organization, which must support and reinforce joint effort.

Ultimately, no matter how successful an organization might be in creating teams, the success of teamwork depends on a culture and a context within the larger organization that supports coordinated efforts: recruiting and developing individuals with teamwork competencies; holding team members jointly accountable for joint efforts; removing barriers to effective cross-functional coordination. All of these actions help create a culture in which teams—and, more importantly, teamwork—are simply part of the way of operating. Most important of all, teamwork in the operations of the organization relies on teamwork at the *top* of the organization. The requirement for building teamwork among the top management will be addressed in Chapter 8.

CHANGING ORGANIZATION DESIGN

Organizations such as MDS engage in redesign as a way of implementing change. Typically, design problems become manifest in ways that negatively impact performance. Honeywell's Building Controls Division (BCD) experienced the manifestations of design problems as their competitive environment shifted.[32] New competitors and rapidly changing technologies demanded the speedy development and deployment of new products. BCD's new product development processes, however, proved to be clumsy, slow, and costly.

Notice the fragmented approach to product development as described by Donnellon and Margolis:

> In the old system of product development, the product passed through each functional area in a sequence of discrete steps: marketers conceived of a product idea and passed it along to design engineers, who would design the product and pass the design to process engineers; process engineers determined how to make the product and then dropped the plans into the laps of manufacturing engineers and the plants. *At each stage in the sequence, people encountered problems created by work done at earlier stages* [emphasis added].

Functional infighting and animosity led groups to pass on their problems—"tossing the bear over the wall."[33]

BCD faced performance problems that typically arise when an organization's design no longer meets the contingencies of its competitive environment. Poor coordination, excessive conflict, slow decision making, and low responsiveness all suggest that organizational leaders should consider addressing the dynamics of their current design.[34]

Key learning

Organizational design involves both formal and informal elements; effective implementation targets informal design elements first and then addresses more formal elements, such as structure and systems, later in the process.

Implementation processes that move prematurely to formal design elements such as rewards and reporting relationships can undercut their effectiveness. Formal design creates a new status quo that will be more difficult to alter than informal arrangements because it involves visible and, perhaps, significant alteration in titles based on organizational position as well as in compensation. Early focus on these formal elements can reduce employee willingness to engage in experimentation and learning and simultaneously increase the possibility of resistance.

To allow ongoing learning and adaptation, early stage redesign can focus more on informal elements. Just as Tom Glazer had done at MDS, Honeywell's Buildings

Control Division experimented with informal design—in that case, a single cross-function product development team—before addressing more formal structures and systems. Those formal design elements can be targeted in later-stage interventions.

CONCLUSION

Organizational design refers to the ways an organization defines roles that employees enact and relationships among employees both within their own functions, units, and divisions as well as across those boundaries. No matter how well designed an organization may be at any one time, a dynamic competitive environment is likely to demand that the design be reconsidered.

Poor coordination, high levels of dysfunctional conflict, slow decision making, and low responsiveness to shifts in the external environment are all symptomatic of an organization whose design has outlived its functionality. When a diagnostic intervention reveals that these types of issues hinder the implementation of an organization's strategy or the achievement of outstanding performance, leaders will need to consider addressing the redesign challenge as the next sequential step in the change process.

That does not mean, however, that *all* design issues need to be addressed at an early stage of change implementation. Organizational design has two interrelated but separate components. Formal aspects of design relate mainly to reporting relationships as depicted on the "official" organization chart and systems such as pay and performance measurement. Informal elements of design relate to how an organization meets the challenges of differentiation and integration, of controls and creativity, and of decision-making allocation. Informal design also encompasses how an organization seeks to build employee commitment and coordination.

Both elements of design—formal and informal—need to be addressed in a change implementation process. It is useful, however, to separate the two sequentially: addressing informal design challenges first and formal design challenges later. Effective change implementation requires experimentation and learning. No leader knows precisely what solutions will be needed. Even if she did, the impositions of solutions from above would engender resistance.

When design changes are informal, employees at multiple levels and from numerous units and divisions can try things out. Ideas on how to approach the challenges posed of differentiation and integration, the tension between control and creativity, and the allocation of decision-making rights can be tested: maintained if they succeed, discarded otherwise. As experimentation and learning unfold, employees can seek to "refreeze" (Lewin's term—see Chapter 2) desired behaviors by calling on more formal design mechanisms.

The next step in the change implementation process involves addressing an organization's human resource policies and practices, both as a way of helping to develop required new behaviors and of reinforcing those behaviors among the organization's employees.

Chapter Vocabulary

Business process an interconnected set of activities that converts inputs into outputs.

Organization design the arrangements, both formal and informal, that an organization calls upon in order to shape employee behavior.

Organizational redesign the process of changing an organization's design in response to shifting dynamics in the organization's environment.

Differentiation the degree to which different functions, departments, and units in an organization

are allowed to develop their own approaches in response to their particular goals and unique competitive environments.

Integration the required level of coordination across differentiated functions, units, and divisions.

Environmental complexity the number of external factors that impact how the organization operates.

Environmental dynamism the rate of change that is occurring in a firm's external environment.

Control design choices called upon to shape employee behavior in alignment with the requirements of outstanding performance.

Organic controls an approach to shaping employee behavior that emphasizes shared values, a common understanding of strategy, loosely defined roles and responsibilities, and overall organizational performance.

Decision-making rights the determination of who should make what decisions in organizations.

Synergies the advantages of efficiency and effectiveness conferred by the combined effect of interaction and collaboration among multiple units.

Employee commitment the internalized desire of employees to expend energy and discretionary effort on behalf of the goals of the organization.

Job design organizational expectations for how tasks will be performed in order to meet both individual task requirements and the overall performance requirements of the organization.

Scientific management an approach to job design, developed in the late nineteenth–early twentieth century, emphasizing the division of labor into small, discrete, and controllable components.

Human relations movement a group of social scientists who explicitly rejected the tenets of scientific management and focused on noneconomic social factors that impacted both the quality of work and the quality of the workers' lives.

Teams interdependent groups with shared responsibility for an outcome.

Cross-functional teams teams made up from representatives of multiple organization functions typically intended to achieve required coordination along a chain of interrelated activities and processes.

Discussion Questions

1. How would you evaluate Tom Glazer's efforts to regain the confidence of Midwest Data Services' customers? What steps would you recommend he consider next?
2. Why do organizations find it so difficult to address the requirements of differentiation and integration simultaneously?
3. What are the advantages and disadvantages of allowing for high levels of autonomy within divisions of multidivisional organizations? What are some effective means of coordinating efforts among divisions?
4. Why is it so difficult to achieve high levels of employee commitment within today's business organizations? List the factors that are working against commitment and the potential benefits to be achieved through high commitment.
5. Some people have argued that there is far too much emphasis on "teamwork" in today's business world and that the danger is that individual creativity and initiative is being sacrificed. Do you agree or disagree? Explain.
6. The chapter argues that change efforts should address informal design before addressing formal design. Do you agree with that theory? Explain your thinking.

Case Discussion

Read: "Matthew Espe Transforms Ikon's Business Model" and prepare the following discussion questions:

1. What types of organizational changes will Ikon's new "business model" require? Pay particular attention to the design changes that should occur.
2. What are the forces leading Espe to attempt a change in business model?
3. Specifically, how would you evaluate Espe's interventions intended to alter the business model? Have they been appropriate? Useful?
4. What next steps would you suggest Espe could take?

Matthew Espe Transforms Ikon's Business Model

Beth Sexton, head of human resources for Pennsylvania-based Ikon Office Solutions, addressed the company's board.[35] They were preparing to hire a new CEO and Sexton offered this advice: "I hope you don't hire some General Electric headbanger."[36] That is, however, exactly what the board did, bringing in 43-year-old Matthew Espe, former chief executive of GE's lighting division.

Espe arrived at Ikon in 2002, well versed in General Electric's leadership style, heavily influenced by Jack Welch: Take bold steps, attack bureaucracy, tackle performance problems with a sense of urgency and directness, work through your organization's culture, and build on its human resources. While Espe intended to be much more than a GE "headbanger," Sexton's concern still remained: Could Espe translate GE's magic to a company with a very different history and culture?

COMPANY BACKGROUND

Founded in 1969, Ikon Office Solutions is a value-added reseller and service provider for office equipment: mainly photocopying and printing machines. By 2000, the company had developed the largest network of independent copier and office equipment dealers in North America. While collaborating with a number of manufacturers, Ikon concentrated on equipment made by Canon and Ricoh. Ikon focused its attention mainly on the mid- to high-end document management business because of its relatively high margins.

Beginning in the mid-1990s, Ikon's leaders engaged in their first strategic renewal: deciding to compete head-on with EDS and Anderson Consulting, two global leaders in information-technology-based services. Ikon's considerably smaller size would, executives believed, provide them with a competitive advantage. Mike Anderer, vice president of systems integration, believed that Ikon could find a profitable niche among midsize corporate customers:

> It's our strategy to offer high-end services without costly overhead. If we can offer the same level of service that an EDS or Anderson Consulting offers, but with much less overhead, we can provide a better return to our customers. We can adapt to local demands and conditions, and keep our best talent out close to the customers—not in an ivory tower.[37]

With company revenues at $4.6 billion in 1996, Anderer looked to grow the business to $10 billion by 2000.

To help achieve that projected growth, Ikon embarked on a shopping spree, acquiring 100 companies in 1996 alone. Ikon operated essentially as a holding company for what now totaled over 450 local acquisitions. The results of the strategy implementation, however, were disastrous. Revenues grew slightly and then began a steady decline. The company's shopping spree was now dismissed by outside observers as "an ill-planned acquisition binge [that] left the company bloated with unprofitable businesses."[38]

Burdened with debt, Ikon called on a new chief executive, James Forese, to rid the company of acknowledged "duds." Embarking on what was called "an ambitious restructuring effort," Forese once again refocused the company's strategy, now taking aim at the high-end segment of the office supply businesses. Particularly helpful to Ikon in the late 1990s was the deteriorating market position of their main competitor, Xerox. Ikon was able to increase its own share in the high-end office space market from almost nothing to 8 percent. With the company healthier financially, Forese stepped down.

At the same time, GE announced its intention to combine its appliance and lighting business into one unit, GE Consumer Products. Mathew Espe, the head of what was a $3 billion lighting business, suddenly became available. That was when the Ikon board decided, against their human resource chief's urging, to import a new leader from GE.

MATTHEW ESPE

Espe had worked at GE since 1980. After accepting the Ikon assignment, Espe traveled to Minnesota to meet with a former GE colleague. Jim McNerney had left the company the previous year to take the reins of 3M. Espe wanted insight on making a smooth transition. McNerney gave him two pieces of advice: "Take your time to understand the business and the team around you," he said, and "respect the culture—don't try to eradicate it."[39]

GE had long been considered a major supplier of business leaders for corporate America. At the time of Espe's move from GE to Ikon, former GE colleagues were CEOs at Home Depot, 3M, Albertsons,

Boeing, and Honeywell. Not all GE transplants proved equally successful. A *Fortune* magazine survey of 34 GE transplants found that when compared with industry competitors, their new companies split evenly: Half outperformed industry standards, half underperformed their industry. For every success story (Larry Bossidy at AlliedSignal and Stanley Gault at Rubbermaid), there were far less successful outcomes (Gary Wendt at Conseco and Glen Hiner at Owens Corning). GE's own human resource director noted that success was influenced not just by the tools and skills brought by former GE executives but also by the culture of the receiving company: "Unless you get a culture that is warmly receptive to these kinds of tools, they're not going to work."[40]

Espe's Arrival at Ikon

Fighting his instinct to take immediate and urgent action—"I fought every fiber of my GE DNA to avoid pulling the trigger on moves I thought we needed to make in the first 60 to 90 days"[41]—Espe instead enrolled in classes offered by the company's training department. In addition, he traveled around the country, hosting 35 employee roundtables and four mass town meetings, plus dozens of sit-downs with customers. He listened to frustrated employees blaming each other and other functions for screwups and bad performance.

Espe admitted that much of his leadership style was a direct result of his experience at GE. He remembered the confrontational style of GE's CEO, Jack Welch. At a meeting with Welch, attempting to show his business's revenue mix, Espe presented a complex graph. To his own dismay, not to mention the obvious disapproval of his boss, Espe found himself unable to explain the meaning of the graph. "So what you're telling me," Welch said, "is that it's just an awful chart." The real lesson, Espe recalled, lay in what Welch said next. "Maybe next time you can give us a revenue chart we can understand." Espe took away two lessons from that encounter. First, keep it simple. You don't need 20-page sales order forms when 1 page will do. You don't need 43 dispatch centers when 4 will do. And second, create a culture that allows, even encourages, direct and honest communication.

Nine months after his arrival, Espe announced two important initiatives, both with obvious antecedents in his GE experience. First, he eliminated a layer of bureaucracy. Welch was famous for saying that every layer of bureaucracy was bad. Second, Espe announced that Ikon would undertake a Six-Sigma initiative—a quality improvement approach borrowed by General Electric from Motorola—in order to increase customer satisfaction while improving productivity. "Ikon is focused on the needs of today's businesses," he said as part of the Six-Sigma launch, "and we are working to align our internal structure and our processes to best meet our customers' needs and grow shareholder value."[42]

Strategic Renewal Through a New Business Model

"Our market is reaching a point where the quality of services and support is as important as the quality of the products offered," Espe announced in February 2004. Less than two years into his tenure as head of Ikon, Espe prepared to announce what he called a "refined business model" that would allow Ikon to "focus more on our customers' needs for immediate and longer term document management services."

Understanding the Business Model. At its most basic level, a business model is the organization's approach to generating revenue and making a profit. Organizational strategies, processes, and competencies must be aligned with the plan to generate revenue and make a profit for a business model to be effective.

Start-up companies often gain a competitive advantage over long-standing market leaders by offering a new business model. Starbuck's offered high-priced coffee specialty drinks in a relaxed environment; Amazon sold books online; Southwest Airlines competed with bus service and driving; Dell built computers to customer specifications; Zara placed low-cost high-fashion items on shelves with incredible speed, and so on.

Altering an existing business model, especially one that has been successful in the past, has proved much more problematic. Under Louis Gerstner, IBM transformed its business model for generating profits from the sales of hardware to generating profits from services and software. On the other hand, Michael Armstrong's effort to move AT&T from a long-distance phone company to a full-service provider of a wide array of offerings—cable, long-distance, local, wireless, etc.—proved disastrous.[43] Most notoriously of all, Jeffrey Skilling's alteration of Enron's business model—from energy provider to energy futures trader—disintegrated over its inability to build sustainable profitability (and its leaders' willingness to hide that fact from the public, investors, and employees).[44]

For most of its history, Ikon had generated profits as a value-added reseller of office equipment. Equipment manufacturers such as Canon and Ricoh relied heavily on Ikon as their distribution channel in the United States. Twenty percent of Ricoh's U.S. revenue and 40 percent of Canon's revenue came from Ikon. It was Ikon's relationships with more than 300,000 customers handled through 450 local and regional offices that made the company attractive to manufacturers.

Ikon generated its own revenue in two ways:

1. The difference between what they paid to the manufacturers and what they charged their customers, either through a direct sale or a lease
2. After-sales service contracts with the customers

Ikon generated additional, although smaller, revenues through offering customers financing services to purchase or lease the equipment.

The New Business Model. Espe believed that Ikon's previous business model would not offer the company sufficient opportunities for growth and profitability in the future. "I mean one of the biggest opportunities we have in our industry," he told a television interviewer, "and one of the opportunities we're going to be investing on a go-forward basis is *services*. Document out-sourcing both on-site and off-site offer tremendous opportunities for growth, as well as document work-flow solutions that we provide as well." Especially attractive to Espe were the higher profit margins attached to services. "Clearly, the services margins are higher and so that's why we will continue to focus on and invest in expanding our footprint in services."[45] Selling and leasing machines would no longer provide the revenue stream that Ikon counted on for profitability.

As a first step in implementing the new, service-driven business model, Espe reorganized his top team. One level of management—a senior vice president for North America—was removed, allowing for five regional North American vice presidents to report directly to Espe. The reorganization, Espe believed, would help him shape a team focused on providing service to the customer:

> In today's rapidly changing and highly competitive environment, closing the gap between the customer and our leadership team is imperative. A cross-functional business model provides enhanced customer focus and the necessary platform for efficiency, innovation, and growth.[46]

Moving from an equipment provider to a service company would have the added benefit of improving operating margins. Espe estimated that gross profit margins for services were 20 points higher than for equipment.

Espe next announced that Ikon would no longer serve as a holding company for its over 400 subsidiaries, almost all of which had been added through acquisition. Ikon would now operate as "a single company with a united focus that could, for example, offer centralized training and chase national accounts." The single operational model would allow Ikon to "reduce costs and have the centralized clout to pursue new opportunities."[47] New business acquisitions would be pursued, Espe added, but in a much more conservative manner than before: targeted acquisitions such as an enterprise service firm in Europe.

The next phase of the business model reinvention, said Espe, involved moving "from being a distributor to being a service provider." Ikon would team with vendors such as EMC, Kofax, and Equitrac to offer an integrated solutions portfolio. The company's ability to bring together a unique mix of high-quality vendors would differentiate Ikon from Xerox, promised Espe. "We are uniquely positioned because of our independence," he observed, while "any Xerox solution is going to be a bundled Xerox package."[48]

In the summer of 2004, Ikon took two additional steps toward implementing its new business model. First, it sold the old leasing business to GE for $3 billion. Then, two months later, Espe announced the creation of the Ikon Enterprise Services group, a combination of three of the company's past, and separate, services division. The new group, headed by Michael Kohlsdorf, accounted for half of Ikon's sales and employed nearly half—16,000 in all—of Ikon's employees.

The *Philadelphia Business Journal* offered a description of the operations of Ikon's new service model:

> Ikon begins the process with what used to be called its professional services group. That part of Ikon Enterprise Services goes to organizations, looks at how they create, move, distribute, print, store, and retrieve documents, and develops ways to optimize the process.

If the customer wants to implement Ikon's recommendations itself, the old professional services group will help it do that. If, however, it wants to outsource its document-management processes to Ikon, then what was the managed services group gets the work.

In either case, the former customer services group still provides post sale support.[49]

"What customers are looking for in this new environment," Kohlsdorf explained, "is one entity to deal with."

SUCCESS?

The year 2004 ended with mixed results. Service revenue had increased from $2.33 billion to $2.38 billion over the previous year, while net income declined from $116 billion to $91.5 billion. Analysts suggested it was simply too soon to tell if Espe's new business model would succeed. "I think Ikon is doing OK," said one. "I would speculate that based on the company's relationships and its knowledge of the business that they are pretty well positioned."[50] Espe promised that Ikon would stick with its new course for the next several years. ■

Endnotes

1. All names are disguised. This case is based on research conducted for Bert Spector, *Taking Charge and Letting Go: A Breakthrough Strategy for Creating and Managing the Horizontal Company* (New York: Free Press, 1995).
2. Michael Beer, Russell A. Eisenstat, and Bert Spector, *The Critical Path to Corporate Renewal* (Boston: Harvard Business School Press, 1990).
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7. Based on Lawrence and Lorsch, *Organization and Environment*, pp. 9–11.
8. These quotes come from a consulting engagement by the author.
9. Lawrence and Lorsch, *Organization and Environment*, p. 157.
10. Framework based on Lawrence and Lorsch, *Organization and Environment.*
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