Division Management: In Charge or at Sea?

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We have seen much evidence that the extensive delayering of organizations in recent years has left both CEOs and division managers in many companies confused about their roles. The CEO of an engineering conglomerate told us proudly that he had taken 15 to 20 staff out of each division office. Later the same *day,* one of his division managers asked us: „If the CEO deals with strategy and the chief financial officer with budgets, what should I do?"

Failure to clarify these roles is at best wasteful, leaving division managers without specific responsibilities. At worst, it can be seriously damaging, as the center and the divisions confuse or countermand messages to the businesses. This article suggests some guidelines for clarifying the roles of division managers and corporate managers in delayered organizations. It is based on conversations with CEOs and division managers in a large number of client companies.

Delayering and the New Deal

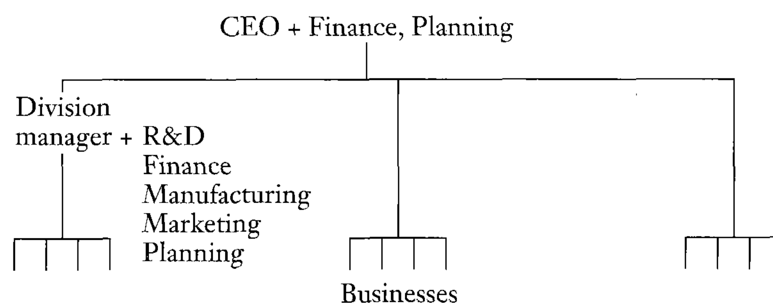
No one doubts the benefits of delayering in terms of economy (reduced head count) and efficiency (shorter lines of command). But there is a downside. In a company with a traditional structure – a CEO and several division managers, each totally responsible for a group of business units – each division manager had his or her own staff. The division staff handled division finances, audited performance, and, when problems arose, helped the business units solve them. Often they also handled planning, manufacturing, commercial matters, and even research or engineering. But delayering has eliminated most of these staff members (Exhibit 1).

To complicate the picture, while information technology has made delayering practicable, it has given the CEO unprecedented power. Division managers used to consolidate the financial reports before submitting them to the center. In the delayered organization, data generated in the business unit are consolidated at the center, with no processing in between. The CEO now gets budget or strategy performance statements at the same time as the division managers – and has transparency to business unit levels. This has advantages and dangers. CEOs tell us that they have a better sense of the pulse of the business, earlier warning of missed profit forecasts, and a chance to make needed resource allocation decisions. On the other hand, they also have admitted to bypassing division managers on both budget and planning matters. And business unit managers can begin to feel that their lines of communication with the center are more important than those with the division leader.

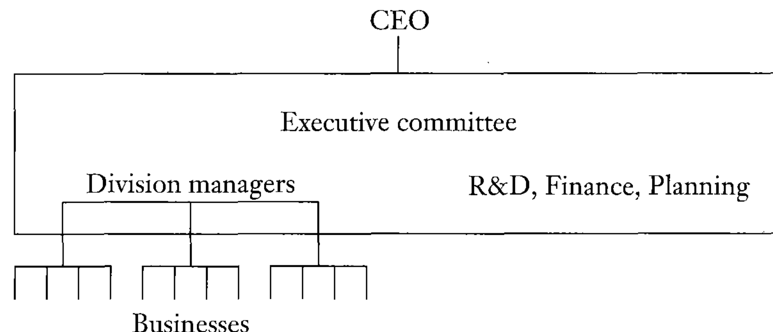
Exhibit 1

Traditional and Delayered Structures

Traditional structure



Delayered structure



A Blurring of Roles

With the loss of division-level skills and the increase power of the center, we find that CEOs and division managers in many companies are no longer sure of their roles. There is considerable room for confusion (Exhibit 2).

In recent work, we have heard division managers express the following queries and laments:

• I'm alone, and I can't work without staff!

• Am I the center's man or the businesses' man?

• Am I here to monitor business units or to manage them?

• I have no counseling resources; I can only fire managers.

• My role is to do the CEO's dirty work.

Exhibit 2

Potential Division Management Roles

From chief executives we hear:

• The lines of control and command are much shorter.

• I can really understand what's going on in the business units within each division. Consolidation always confused the picture.

• I feel I have a much clearer idea of the strategic issues facing the business units, the component parts of the company.

• I get much earlier warning when business units are deviating from budget.

• I have got rid of the baronies.

• I like a delayered organization – I get no interference.

Some of our clients recognize that these conflicting views pose problems and are trying to do something about it. Others don't even see it. We feel some. sympathy for the division manager and some skepticism about whether the CEO is as much better off as he or she believes.

In fact, the problems we are talking about can be found in any company with division structures, whether these divisions are consolidations of similar activities within a diversified corporation or structures that break spans of control within a single-activity corporation.

The confusion caused by delayering is most noticeable when companies try to balance short-term and long-term goals. One of our clients, an engineering materials company with four divisions and thirty businesses, has recently gone through rough times, selling off businesses, delayering, and focusing on short-term profits. While these steps were necessary and have been very effective in reestablishing short-term profitability, the company recognizes the need to invest for the future. At the moment, however, it is frustrated. While its businesses have „got the message" about the short-term profit focus, they are not thinking about the new investments they need to make to ensure future success.

This frustration can be reduced or eliminated through a careful distribution of short- and long-term planning and control among the center, the division, and the business unit. Key levers to be distributed are strategy, budgets, and capital expenditures.

The strategy lever has two components:

• The overall business direction – for example, selling existing products to new geographic areas.

• The strategic plan – for example, doing it by making an acquisition in France.

The budget reflects the cost of fulfilling the strategy – for example, the expense of the search and the acquisition – and the company's ongoing performance.

Our guidelines focus on division management's relationships both downward to the business unit and upward to the center. While we choose the subjects of strategy and budgets, we recognize that there are many roles that need clarification. However, we feel that these key functions are both particularly important and generally illustrative of our basic thesis: that division management is integral to making central management decisions and control effective at the business level. It should not be regarded as a shuttlecock to be batted between the center and the businesses, nor as another layer of management eventually to be swept away by the information technology revolution.

In this discussion of the division manager's role, we first suggest guidelines in the context of the budget (central to the division manager's role with the business units), and then focus on strategy development (a key focus in the division manager's role with central management). In both instances, the guidelines we offer are broadly applicable to budget, strategy, and capital expenditure disciplines.

The Division Manager and Business Units

Getting the Right Information. The division manager must ensure that the proper information flows up from the business unit so that he or she can exercise the monitoring role. We deliberately use the word *monitor,* not *audit*, since the business unit managers must feel that they own their own plans, whether budgets or strategies, and have clear responsibility for their achievements. Furthermore, in delayered organizations, neither divisions nor the center has the resources for auditing. Data integrity must be the responsibility of the business unit.

For budgets, many publicized and well-proven systems are available. Those of companies such as ITT, Hanson, and BTR have been widely discussed. Budget monitoring should take into account not just the conventional textbook ratios, but, for example, productivity measures, stock turn, plant utilization, and scrap rates. These other measures should be division-specific.

In strategy monitoring, information systems are much less helpful. Far too few of them provide the right data. What division managers need are data on such things as changes in market share, the achievement of key success targets, the introduction of new products or process steps, and the success of R&D projects. Surprisingly, although such data can easily be quantified and captured on an information system, few people take the trouble to do it. Such strategic information requirements must reflect the divisions', or, more likely, individual business units' strategic condition (Exhibit 3). Too many managers still set standard financial targets regardless of their companies' strategic condition. A computer electronics business needs to be judged by such things as the rate of new products introduction and R&D spending; a long-established consumer products company, by shifts in market share and improved distribution. Similarly, judgments of return on equity differ sharply, with much higher levels expected from the computer electronics business than from the consumer products company.

Identifying Justified Variance. Only division managers have the detailed knowledge to determine whether variances are justified (for example, caused by unforeseen economic developments or unexpected competitor moves) or due to business manager failures (for example, uncontrolled costs or delays in launching new products). It is up to the division to learn from these experiences and to adjust course accordingly, because only the division has the time and the necessary perspective. Otherwise, slack management will be excused under the guise of „unforeseen events."

Exhibit 3

Performance Measures

Strategic condition	Measures: Strategy	Measures: Budget
Growth	• High rate of new product introduction • New sales territories • Fast sales force build-up	• High R&D spending • High sales spending
Mature	• Market share change • Distribution channel improvement	• Strong cash flow • Cost reduction

Focusing on Fixing, Not Firing. When there is a problem in meeting budgetary or strategic commitments, it is up to the division manager and the business unit manager to decide what to do. Lack of division resources need not stop this historic role. The division can call on supplementary resources – from other business units or the center – that are not accessible to the business unit. Using this resource, the division manager can still counsel business unit management instead of resorting to the blunt instrument of firing. When there is an unavoidable deviation in budget or strategy performance, an important division responsibility is to ensure that the impact of the one on the other is clearly assessed. Often there is a strong temptation to correct budgetary shortfalls by sacrificing strategic plans. However, remedies such as reducing the sales force can save money in the short term but cost the firm market position. Resisting this common temptation requires the detailed knowledge and perspective of the division manager.

In addition, the division has a much better opportunity than the center to get to the right level of detail in its dialogue with business units. We are always concerned when we see the center trying to monitor business units (even with division managers' support). We have seen central management undertake regular review sessions with business unit managers and revel in the new transparency that gives it unprecedented insight into business unit performance. Such sessions can be effective when a company is facing short-term cash crises. At other times, however, they tend to be superficial or ill-informed, because the span of control involved is too broad. In our view, the center does not know enough to avoid the nasty shocks that it is so keen to avoid or to help a business when it gets into trouble. These tasks are better performed by the division manager.

The Division Manager and the Center

We now turn to the upward relationship. In this discussion, we focus on the fairly common arrangement whereby the center acts with an executive committee on which division managers sit.

Wearing Two Hats. Division managers must recognize that they play a dual role in budget and strategy development in the executive committee. They must both participate in the development of corporate strategy and represent the realities of the businesses within their divisions. This dual role can work smoothly, but can also create confusion. For example:

• The executive committee of Company A agreed that the company should be represented within the European Community. Division managers familiar with the broad capabilities of their businesses identified those with the strategic justification and the capabilities to penetrate Europe. The firm then determined which business would take the initiative and that the move would probably be by acquisition rather than by greenfield market penetration. This conversation was possible because the division managers knew enough about their businesses to make possible an informed review of the various options. The executive committee was properly briefed in its selection, and it did not create unwarranted expectations – or frustration – by asking for plans from several businesses and then choosing only one. In this case, the system worked well. The executive committee chose the thrust, the division managers identified the options, and the committee selected one of the options.

• Company B, anxious to enter a new market area, reviewed the options and decided it could not afford acquisition, but would accept the slower solution of new product design and sales development. Unfortunately,

division management took on this corporate challenge without sufficiently investigating the implications for the performance of the business unit involved. Subsequently, the business was successful in building the new market but at considerable cost to its profitability. This was unacceptable to the corporate executive committee, and great confusion reigned while they debated the need to implement the strategy of new market entry and the importance of making the year's budget.

In short, a corporation must develop a strategic concept of how to enhance shareholder value and how to develop its businesses. The executive committee must create some strategic parameters to reflect this vision. At the same time, it must keep in mind the competitive position and market maturity of the businesses it represents. It is up to division management to say what broad options are available, and then for these same people – working as an executive committee – to select among them. It is hardly surprising that this process often confuses strategy and short-term performance.

Once the strategic thrusts are agreed to, the division managers pass them on to the businesses for the development of detailed strategies. This is a fairly straightforward step. Complications arise when it is necessary to make adjustments at the executive committee level, after the completed business plans are submitted. It is to be expected that division managers' broad-brush estimates of what is possible are not fully accurate, and that some trade-offs among plans will be needed. This will require a process of asking one unit to give up some resources so that another can achieve a more important strategic target that has turned out to be more expensive than originally anticipated, or asking another unit to further improve its performance, to generate free cash for investment in another business. Obviously in these conversations, the dual role of division managers is central.

Communicating Clear Guidelines. Developing guidelines for strategy and budget is an iterative process in which division managers play a key role in a dialogue with the center. Once this iterative process is complete, division managers must communicate to the business units first the strategic thrusts and guidelines and then the final modifications. Whatever debate, argument, or horse-trading there may have been at the center, the communication downward must now be clear, or there can be costly confusion.

For example, we recently found that a division manager failed to get corporate sanction for an acquisition strategy. Unfortunately, he had told the business that if it found something really attractive, it might get approval. When he lost the trade-off debate, the division manager should have communicated this clearly to the business unit, so that it would not waste resources and get frustrated continuing to look for the perfect acquisition. He should also have explained the trade-off debate so that the business would understand the central perspective and not be left feeling that its representative was not fighting on its side.

As in the case of monitoring performance, the division has a responsibility to establish the links between strategy and budget development, ensuring that business unit budgets reflect strategic intentions and providing the short-term resources to achieve long-term goals.

Deviation Response. The division reports to the center when it identifies a major strategy or budget deviation and tells the center what remedial action it plans or what options are available. In response, the center should not perform a postmortem on the deviation or the planned responses. As we pointed out earlier, these are the divisions' responsibility. Since the center is uniquely positioned to compare business unit deviations, it makes sense to evaluate major options here. Indeed, this is a key value of delayering. The center may well be able to offset a negative deviation in one business unit with a positive deviation in another, or cover it by a corporate contingency. If neither remedy is possible, the executive committee should consider sacrificing a strategic investment within this or another division to keep the budget on track. Previously, when division managers were responsible for the consolidated performance of their businesses, these debates took place at the division level. Now they should not, and this is difficult for division managers to recognize.

Diversifying. Diversification is another source of confusion. In the traditional management structure, the division manager had clear responsibility for seeking diversification opportunities in his or her area. Today, this responsibility is clearly defined only at the business unit level. Divisions and corporate management need to agree to split the broad remaining potential areas for diversification to avoid total confusion and missed opportunities.

For example, before the delayering of a company with an automotive components division and an aerospace electronics division, the respective division managers were responsible for diversification. Today, is each business responsible for extension outside its existing activity and if so, how far? Or is this still a division responsibility, even though there is no staff? Or has it perhaps migrated to the center, along with many other strategic decisions?

Conclusion

These guidelines suggest some ways to avoid a serious danger of delayering: confusion about the role of division managers, and the resulting inability to balance attention between long-term and short-term goals.

If this problem is not resolved, firms will probably restaff as the economy improves – a cycle that we have seen all too often. However, if this problem is resolved, a delayered organization should be able to maintain a better balance between short- and long-term goals and make proper use of productive middle management talent.

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