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Oticon case study

*Seminar 2*

**Industrial Marketing and Organization:**

**Competence and leadership**

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*The Case/ Background Information*

In 1904, Hans Demant created Oticon company, a Danish family business specialized in hearing aid devices. Seventy years later, thanks to the development and production of their flagship products the BTE (Between The Ear) devices, they became the world leader of their market. While their competitors explored new technologies such as ITE (In The Ears) hearing aids, Oticon stayed focused and confident in standard BTE devices; they weren’t aware of the importance of innovation. So that, after the 1987’s financial crisis, they lost about fifty percent of their cash flow within a year and “fell asleep”. This situation urged them to react.

With the arrival of the new CEO, Lars Kolind, everything will change. Lars Kolind is both a business expert and a tough manager; he is determined to turn Oticon into a profitable organization. As a matter of fact, he introduced a totally new organization policy “Thinking the Unthinkable” where the traditional hierarchy is removed for a less formal one. From now, regardless of their skills, people are working together in an open space, divided in multi-functional groups with the aim to innovate quickly.

This uncommon organization leads to the launch of the E36, the first automatic hearing aids; it was proved with good financial results and began to be a model for other companies.

*Theory*

## Organization as information processing brains

Organization functioning depends on information made available; we all refer to appropriate rules to make up our mind in order to make decisions. Organizations are, at the same time, information system, communication, and decision.

Thinking at organization as information processing brains was first known as “the decision making approach” and developed by Hubert Simon in the forties. He argues that a decision can’t be completely rational. Rational Decision Making would be separated in four distinct steps: first, identify the problem and explicate goal, then identify all possible alternatives of actions, identify all consequences for all alternatives of actions and, at last choose alternatives that give highest fulfillment. However, Simon emphasizes that due to a lack of information we are not able to explore all the alternatives and we also can’t judge the precise values to outcomes. Finally, humans simplify their view of reality to make a satisfying decision and no an optimal one.

Organizations are the reflection of this decision making process, a kind of institutionalized brain which helps to solve problems.

## Organizations as learning brains

As Taylor’s analysis, a brain is flexible, resilient, inventive, self-organized and is always evolving. So designing an organization as a brain could be very efficient to handle change and complexity. But what are the methods to succeed in building this type of design?

Companies have to choose the right way to evolve. There are two different ways for an organization to "learn" from issues and to correct itself to get back to the course:

A) The easiest way is to use a single-loop learning: if a company detects an error or a variation, it corrects it in relation to an operating norm, using the Cybernetic Theory. The key principles of this theory:

1. A system has to sense its environment. So companies must be able to scan and anticipate their environment in order to detect significant variations.
2. After, each system is able to match the environment with norms that guide its behavior. It is the same for a company, which has to relate the information to the operating norms.
3. Then, a system, as a company, must detect a significant deviation from these norms.
4. Finally, a system uses a negative feedback to correct itself. So a company must be able to initiate corrective action if some deviations are detected.

The thermostat well exemplifies this principle. It corrects the temperature of a room if it detects a difference between it and its order.

However, the real environment may change suddenly, and adopt a new paradigm in a short amount of time. So a company can get trapped in such a loop, and miss an important change. That is why any learning organization has to be able to use another kind of loop:

B) The most comprehensive is to use a double-loop learning: along with the classical match between the information and an operating norm. Organizations has to question themselves "Why do we do it this way?", in other terms to question the relevance of the operating norms.

To sum up these methods, here are the guidelines for a learning organization:

* Scan the environment and anticipate change to be aware of an important fluctuation.
* Create skills to assess and challenge operating norms.
* Promote an appropriate strategic direction and pattern of organization.
* Try to use double-loop learning, and care to not be deceived by single-loop processes, particularly those developed by traditional management control systems.

**Organization as holographic brain**

The third image of the brain metaphor is the holographic brain. Every single part of a holographic system gathers all its features so that the system is able to self-manage and to renew or re-form itself on continuous basis. This description may seem idyllic when we speak about organization, but the five following principles are designed to help a company to settle a context which gives a boost to self-organization.

*Analyze*

## Organization as information processing brains

The way managers react in front of Kolind announcement is a good illustration of the Decision Making Approach. Here is the Rational Decision Making they may have followed after the announcement of Kolind:

1. Problem and goal: Kolind is suggesting a new intern organization, do we agree?
2. Different possibilities: we agree // we deny
3. Consequences: many changes are implemented, Oticon has some good chance to restart with developing new ideas and products // everything stay unchanged, we need to find another proposition quickly
4. The company need changes and we have no others solutions to suggest, we agree

However, the managers are currently in the exact position Simon developed: Kolind didn’t explain them his exact program but has just “given out a paper”. Facing this lack of information, they began to panic and only explored the negative alternatives of these changes and the only outcome they can think about is the loss of their privileges. Now here is the real decision making they have followed:

1. Problem and goal: Kolind is suggesting a new intern organization, do we agree?
2. Different possibilities: we agree // we deny
3. Consequences: many changes are implemented, Oticon spirit and traditions are lost, professional standards are spoiled, we will lose control on the situation, we will lose our privileges // everything stay unchanged, we need to find another proposition.
4. We don’t want to lose our privileges; we need to disagree event if we have no other suggestion to save the company.

This example shows us how non rational could be some decisions when the people aren’t aware of all the information. They decided for the organization to deny Kolind’s suggestion because they were afraid for themselves.

## Organizations as learning brains

Kolind noticed that since Oticon was market leader, it tended to "fall asleep" : it continued to rely on standard BTE devices, while industry evolved towards custom ITE hearing aids. That is a typical example of a company getting stuck in a single-loop learning. It thought that, dominated by BTE, ITE will be no hit… They were wrong because he did not questioned the operating norms, and that led to the 1987 financial catastrophe.

So Kolind began to manage Oticon using a double loop learning process : he questioned the norms and discovered that they were no longer relevant to the current market. That's why he finally tackled the issue by searching another solution. How to change the norms? He thank they had to rebuild the company from the ground up. Obviously, it was very hard, because of the rigid organization, strong hierarchy and the resistance of lots of employees and managers. But finally he succeeded.

Actually, the company began to follow the guidelines to become a learning organization: after stressing the fact that the environment was changing, Kolind asked himself "Why do we monitor this industry that way?" and find that the only reasons are some bad habits, and a strong resistance to the change. So he began to allow new strategic direction to emerge, with his four major changes: one to make employees have multi-jobs, one to transform the company in a kind of spaghetti organization, one to promote oral communication, and the last one to come closer to a virtually paperless organization. At the same time, these ideas would allow the company to master the art of double-loop learning, to finally avoid the single-loop learning process trap. Indeed, the multi-job principle, the spaghetti organization and oral communication increase exchanges between people and as everyone has his own norms, on top of the company’s ones, so norms questioning becomes easier.

**Organization as holographic brain**

The huge upheaval initiated by Lars Kolind tends to make Oticon’s organization closer to a holographic brain.

Firstly, after noticing that his company departments need to work in a more integrated way, the CEO realized that, the only way to achieve this is to enhance multi-job. For that he wants to involve all employees in more than one task, and overall in tasks they weren’t trained for. That’s why now the company uses a project approach: when one idea is chosen, then it becomes a project and a multi-functional team is dedicated to build the project. The team is made of: one project manager (who isn’t a manager from the former organization), one owner who is only a support and employees from different fields of expertise. Besides, although there are no longer manager (in the former meaning of the word), Kolind wants to gather all Oticon’s employees together around corporate values: employees are responsible adults, trust is the core of the new culture, transparency at all company levels and workers create their own job security. These two first points well match with the first principle of the holographic metaphor, corporate “DNA” and holistic teams to build the “whole” into the “parts”.

Secondly, on the first sight we can believe that Kolind organization may fail at creativity and innovation. Indeed, he wants to create a paperless and oral communication organization so it could be a disadvantage for knowledge and understanding sharing. But, for real, the CEO took into account the importance of information sharing in his new organization, and he called it the “spaghetti organization”: from on people to another in the company there is one link that allows ideas circulation! Oticon has its neuron network to ensure the redundancy.

Kolind also wants to prevent former department heads to control everything, that’s why they are not really involved in working groups they are just here to supervise and facilitate innovation but they no longer have human resource responsibilities. In one team there is no hierarchy, people are just working together and they no longer have to justify their working hours, their holidays or a pay rise as long as they did they work or handed over to someone else in the team. Based on trust and employees responsibility, he reduced internal rules to give people a freedom feeling, to increase the well-being and settle a climate suitable for innovation and creativity. This last point well exemplifies the minimum specs principle.

*Conclusion*

The new organization Kolind has set up prone equality and freedom. It’s a good way to widen skills and develop innovation which illustrates well the holographic brain organization. Despite all these advantages, it’s a risky organization which can be set up only in companies with small constrains of time and reliability of their products, it can easily move to anarchy if employees no longer respect the rules!

*References*

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