Executives Forum

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Empowerment as a Growth Strategy

Abstract

■ This paper reports how one firm handled its decision to expand internationally and illustrates both how empowerment works as a strategic competitive weapon and how a unique expansion strategy works to stimulate and enhance the organization's vision.

■ The paper details how empowerment can be used as a powerful competitive weapon, how the executive's role needs to change in order to successfully execute an empowering expansion strategy, the organizational systemic changes necessary to support empowerment and expansion and a unique joint venture strategy for entering new markets.

Key Words

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The President of BSD sat back in his chair and reflected on his "problem." Lots of his colleagues in the software business would love to have his "problem." It was mid 1988. He had been approached by the Managing Director of a large European port. The port had a problem. An average of six toxic spills a day were causing pollution concerns he could no longer ignore. The fire in the port last week, which was worsened by the use of inappropriate fire fighting materials, only graphically underlined the reality. "We have no idea what's stored where. We are completely out of control. You must help us."

BSD was a small (less than $20 M) firm with six offices. They developed and installed software for the inventory control of hazardous and toxic materials. The software ran primarily on mid range computers, though there was a newly developed pc version. "How can we effectively do a job 7,000 miles from home?" the president wondered. "More importantly, did this represent a threat or an opportunity – or both?"

BSD was founded as a spin off from PRC, a specialty chemical company. Originally the inventory control software was developed to meet PRC's pollution control needs. Several enterprising individuals recognized the potential for the software in other settings. Initially, they set up a separate division (called Business Systems Division) and set out to sell the system. The business grew rapidly. The shareholders in PRC, recognizing that capital needs to feed the rapid growth would overwhelm them, spun the division off, retaining a 20% equity interest.

Fire districts were the first customers, so BSD focused its efforts on that market exclusively. During the past two years the company had grown from 0 to almost $20 M in sales, with one of the best pre-tax margins in the industry. Now the opportunity presented itself to more than double in size (the president estimated that the port job was worth at least $25 M) and enter a new growth market. Furthermore, environmental concerns were just beginning to surface. A European national government had recently fallen over spending *too little* on environmental protection. George Bush in his US presidential campaign was sounding very "green." It was hard to pick up a paper and not read about some environmental issue on the front page. The market looked like it was about to take off. But, the down side risks were formidable. How BSD handled its decision to expand illustrates both how empowerment works as a strategic competitive weapon and a unique expansion strategy.

Before the Port Decision

BSD was a uniquely run organization. According to the president it was based upon four assumptions:

1. People want to be responsible for their own performance. They seek out opportunities to be autonomous and in control of their lives.
2. People want to learn and grow. They value opportunities to stretch their current capabilities and learn new ones.
3. People love to win. They will do almost anything to join a winning team – and avoid the losers like the plague.
4. People who are responsible and learning are highly motivated. They will produce results superior in every way – quality, service, quantity, and profitability.

To illustrate his assumptions, the president was fond of telling his favorite "golf" story. "Why," he'd ask, "Would people grouse and complain all week at work (where they get paid well and have the opportunity to do something of value) and then get up early on a Saturday morning, stand in line for several hours, pay a great deal of money to hit a small white ball into a cup? The answer," he'd offer, "Is that they are responsible for their own performance, they keep learning how to hit the ball better, and they have a real chance to win (and get immediate feedback so they can judge whether they are winning or not). The more we can structure work so that it has the same characteristics as a golf game, the more successful both the enterprise and the people will be." The president set up BSD's systems to structure his company to meet his four assumptions.
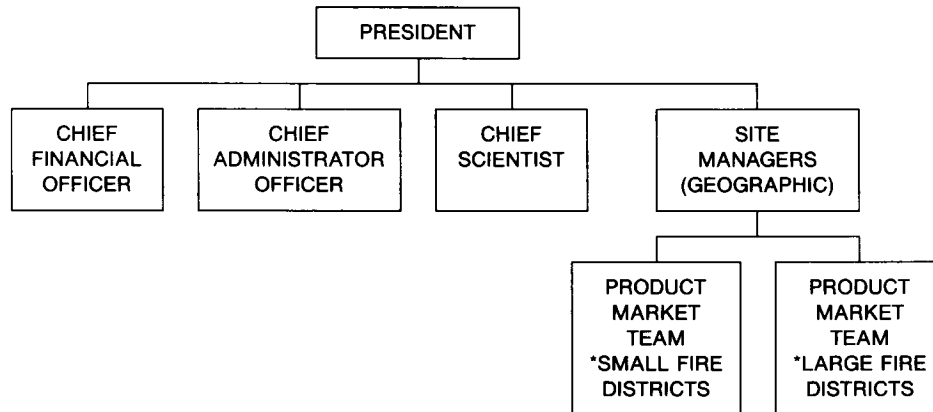
Customer focused multidisciplinary teams

The entire company was organized into customer focused teams as shown in Chart 1. These teams were responsible for selling, designing, installing, and supporting their type of customer in their geographic area.

This unique organization structure emerged originally as a historical accident. The first person in BSD was the programmer who designed the original program for PRC. He felt a distinct need to know more about fire districts and how they operated and how fire chiefs thought. So, he first hired a former fire chief. Out of necessity he taught the ex-chief how to program in the fourth generation language in which the program was written. Much to his pleasant surprise, he found that it took the ex-chief only one month to become operational and three months to reach full capability with the language. After selling the first few systems they needed additional help. The ex-chief recruited several of his former employees and colleagues. They too learned programming skills quickly.

Initially, the team of the programmer and the ex-fire department personnel both sold and installed the system, since they were the only people in the com-

James A. Belasco

Chart 1. BSD

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   │FINANCIAL │  │ADMINISTRATOR │ │SCIENTIST │ │  MANAGERS    │
   │ OFFICER  │  │   OFFICER    │ │          │ │ (GEOGRAPHIC) │
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                                    │  PRODUCT    │       │  PRODUCT    │
                                    │  MARKET     │       │  MARKET     │
                                    │  TEAM       │       │  TEAM       │
                                    │ *SMALL FIRE │       │ *LARGE FIRE │
                                    │ DISTRICTS   │       │ DISTRICTS   │
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* For each geographic area.

pany. The president assumed that that pattern would change as soon as the company grew sufficiently. It is standard in the industry to separate selling from installation on the assumption that salespeople are not good programmers and good programmers are not good salespeople. That assumption wasn't true in the beginning of BSD. Furthermore, it is common to separate down stream support from both selling and installation based on the assumption that it takes different skills to support a system than it does to sell and install it. That also wasn't true during the startup of BSD.

BSD began their selling campaign with large fire districts, figuring they had the money to afford the system. Many bought the system in their local geographic area. But, the inevitable happened – they ran out of large fire districts in their geographic area. To sell more they either had to seek out smaller districts within their geographic area, which meant changing their system somewhat, or they had to move into new geographic areas. When the time came to move on to new customers, the former fire department personnel balked. They liked dealing with their current customers (their former colleagues) and didn't want to turn them over to somebody else. They felt a proprietary and personal interest in their customers, and wanted to personally assure that they got the best support possible.

Sensing an opportunity for people to both assume increased responsibility and learn and grow, the president posed the following question to the group, "What can you do to assure that each customer gets the best service, from the best trained person (with all the skills necessary to provide that best service), at the same time assuring that you continue to learn and grow and don't stagnate?"

Rather than deciding what to do, the president turned the decision over to the people who had to make the decision work. That one action set the tone for the entire management system in BSD.

The people decided to hire a whole new team to sell to smaller fire districts in their geographic area, and hire new people from new geographic areas to sell there. They set up a rotation system within the teams to assure that individuals learned all the skills and set up an internal monitoring system to assure that the skills were current. They assumed responsibility for the training and monitoring themselves – and for assuring superior service to their customers. One of the team members offered to start the new team for the smaller districts, and another offered to relocate temporarily to start up a new operation in a new geographic area. He said, "I know several chiefs there who could be our first customers, and I'd bet there are several retired folks up there who'd just love to come work for us."

The team members carried out their decision. New people were hired to seek new markets and each team equipped itself to perform all three activities – selling, installing and supporting – with the same superior level of competence. They set up training programs with local colleges to help in such areas as teamwork and basic programming skills. They took responsibility for their own learning.

By mid 1988, there were 42 people in the company, organized into 12 semi-autonomous teams. These teams were responsible for hiring, training, and maintaining the level of service to customers. Most were former fire department officers.

Performance management system

As the company grew complaints began to arise about discrepancies in performance. One team servicing large fire districts would make twice the margins of another team servicing large fire districts in another area. Also, difficulties in one area would be relayed to chiefs in other areas and cause embarrassment to BSD employees in those areas.

The president tried several different tactics to deal with the discrepancies – all to no avail. Finally, one day, he realized that this was another opportunity to help people learn and become more responsible. At the next all-employee meeting he asked, "How can we assure consistent high performance across all teams? What can we do to be certain that we are all equally proud of the work of each person in the company?"

The 42 employees wrestled with the problem for a complete day. They felt strongly the need to do "something" without installing a Gestapo mentality and managing by fear. Finally they decided that each team would meet each week

and set individual and team goals. The goals would expect responsible action from each member, be measurable, and be driven from the bottom up. These goals would then be entered on the e-mail system for every one to review and comment. Daily progress would be reported on the e-mail system and missed goals would be highlighted in red. Team members agreed to work cooperatively to help other team members (both in their own team and in other teams) to set realistic and stretching goals and then support them in attaining them. The first messages across the e-mail screen indicated that the help and support – as well as the challenge to stretch and grow – were there in great abundance. It was another example where the president used an issue to help people expand their areas of responsibility and learn new skills.

As a result, by mid 1988, each team member inputed his/her individual and team goals every week, reviewed and commented on others' goals, and reported daily progress. There was constantly a lively e-mail exchange about goals and performance among most people in the company. And, goal attainment averaged 96% + every week.

Real time management information system

The president believed that any effective information system had to meet the following four criteria:

1. Make behavior transparent for all people.
2. Provide real data – not accounting massaged or sanitized data.
3. Occur in real time.
4. Include customer input.

To bolster the education system, the president guaranteed $200 for each person each year to spend as he/she saw fit on their personal growth and learning. The president guaranteed to match dollar for dollar any additional education expenditures incurred by the employee. Employees took scuba diving lessons, singing lessons, as well as teamwork seminars and advanced programming workshops. Many used their allowances to subscribe to magazines or buy books.

Many other port authorities approached BSD for help. BSD formed additional joint venture partnerships, patterned after their initial successful model. Today, BSD has 54 offices across the globe, 4 of the original offices and 50 joint ventures stretching from Moscow to Singapore.

Insights

What can we learn from this experience? Insights fall into three categories: empowerment is a powerful competitive weapon, the executive's role needs to change, and strategies for entering new markets.

Empowerment is a powerful competitive weapon

Motivated, focused people produce extraordinary results. In a business where a 10% margin is considered good, BSD consistently reports margins several times that level.

Empowerment doesn't just happen, however. It evolves as a result of many situational decisions. Leaders need to look for situations to give people the opportunity to assume responsibility. At several turns (the initial team structure issue, the bonus situation, the interteam performance discrepancy problem, the design of the customer input system, and the expansion into new markets) BSD's president challenged people to assume increased responsibilities and learn. Leaders need to seize situations which offer people empowerment opportunities. Managing for empowerment is one way to gain a significant competitive advantage, particularly in any people intensive industry.

New leader role

The times clearly call for a different executive role. Rather than the traditional planning/organizing/commanding/coordinating/controlling model, times demand a more empowerment oriented role. After all, the traditional role was first defined by Henri Fayol, based upon his experience managing the French coal mines during the 1880's. Surely times and circumstances have changed considerably since then.

Rather than making decisions themselves, executives need to be certain that the implementors make the decisions. The executive needs to see that the implementors want to make the decision, want to bear the consequences of that decision, have the necessary information to make a good decision, and have been trained to recognize good and bad decision criteria before they sink the ship with a bad decision.

Executing this new role requires that the executive ask questions more than give answers and decisions. That's particularly hard, since most executives got to be executives by doing just that – giving answers and making decisions.

James A. Belasco

Furthermore, and most difficult, executives need to learn to give up responsibility and authority. The BSD president needed to give up approving all bids, deciding all salary increases, and evaluating performance. He worried a lot about what people would think about him and his performance if he didn't make decisions and give answers. He was concerned that he'd lose their respect, or that they'd think he wasn't earning his money.

It isn't easy being an executive in the 1990's. But, the BSD president says he's never had so much fun. He's deeply respected by the people, and admired greatly. Many of the BSD people model their behavior after his.

Strategy for entering new markets

Entering new markets is risky. You don't know the territory. You have stretched supply and communication links. You don't know the culture or the mores. It's all-too-easy for new market expansion to consume money like a black hole consumes light. The joint venture approach, with one dominant partner is one answer. BSD's unique management system makes a partnership both more difficult to construct, and easier to administer. The BSD experience clearly shows that the dominant joint venture partner must have a strong management system which carries the joint venture through its early startup phase. An equal partnership, where both partners attempt to run the show, is doomed to struggle and probable failure.

The difficulty in entering new markets gives you an opportunity to learn about your own business. You uncover problems buried in your own back home situation. BSD changed their training, orientation, education, and bonus systems based upon their expansion experience.

The Continuing Saga

The story is still on going. Every six months BSD people meet from all over the world to review their performance and plan for the next period. The company continues to double each year and margins continue to be among the highest in the industry. They continue to wrestle with the same issues – teamwork, technology changes, individual and team performance, bonus allocations, expansion, hiring the right people, finding the right joint venture partners. They continue to reinvent their company. The president plays less of a operational role these days. He's even training several people to take on his strategist role. He's having great fun coaching executives in other companies. When asked what he'll be doing in the future he answered, "Who knows? We'll just keep learning and growing and figuring it out as we go." How's that for a long range plan?