



University of St.Gallen

MODULE 10

# ABB

## Structure follows Strategy — From energy and infrastructure to digital industries: The new ABB with focus on electrification, automation and robotics in a new organization

This case was researched and written by Prof. Dr. Thomas Bieger and Dario Mitterer. It serves as a basis for discussion of business administration issues in class and is not intended to illustrate right or wrong actions in management situations.

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## Abstract

*ABB has worked intensively to refocus since 2015, divesting its Power Grids division, the last "legacy business unit" of the former power and infrastructure company. The goal of the new strategy is to focus on electrification, automation and robotics. With similar economies, focus on innovation and talent, but also risk structures, they can be managed in a new organization. This is characterized by decentralization, and the corporate area has been reduced. Essential to the successful transformation was also a change in culture. A new structure of the board of directors strengthened the market orientation but also the credibility of the change.*

## A career in the industry

In the spring of 2022, Peter Voser looks back on the last few years, when ABB was able to report a record profit of \$5.7 billion after a long period of results that were below expectations.<sup>1</sup> He became involved with ABB for the third time in 2015 after being asked to become chairman of the board. He started with the company in 1979 as an intern and served as CFO from 2002 to 2004. In the same function, he moved to Royal Dutch Shell in 2004, where he then served as CEO from 2009 to 2013.

Voser spent the majority of his international career in technology-intensive industrial companies. These companies are characterized by immense investment activity combined with high cyclicity of demand and technological change. They are therefore subject to special risk structures. New technologies require large initial investments, and it is not clear whether they will be profitable and in what timeframe. Product life cycles take their toll. The ability to innovate is therefore central and the most important strategic success factor. Permanent learning, constant renewal and thus the collaboration of people on and around projects that ultimately lead to a tangible result, from a plug to an oil platform, fascinate him. The challenge of leadership is to attract talent and make it effective, because ultimately the "human factor" is decisive.

## ABB — a company steeped in tradition in energy infrastructure

Before he took office, the company had already gone through various phases of change. It had emerged in 1988 from a merger of Brown, Boveri & Cie, founded in 1891, a formative electrical engineering group in Switzerland for the electrification of transport and industry, with the Swedish electrical engineering company ASEA, founded in 1890, which had a similar role in Scandinavia and later also became a global electrical engineering company.<sup>2</sup> ABB today employs about 105,000 people in more than 100 countries and is listed in Switzerland, Sweden and New York.<sup>1</sup>

From 2005 to 2010/11, the strategic focus was strongly on expanding the vertical industrial areas, the classic project business with, for example, integrated solutions for different industries. This business promised great growth opportunities and profit margins. This phase was followed by various acquisitions up to 2015, with a focus on the U.S., where the group had been underrepresented, and IoT industries. As is often the case after intensive acquisition phases, the company sometimes bought the wrong thing and had recently disappointed in terms of growth and profitability.

Until 2015, the company's organization was strongly geared to country organizations according to the needs of the project business. The divisions and country organizations formed a matrix organization coordinated by a large-scale corporate center with 18,000 employees. In 2014, the "Next Level" strategy was announced, with the goal of being either No. 1 or 2 in all global businesses in which it operates.<sup>3</sup> To this end, the organizational structure was streamlined by reducing the number of divisions from five to four and the number of regions from eight to three. The new organizational structure was implemented as of January 2016.

## Challenges in 2015

When Peter Voser became chairman in 2015, he noted three aspects in particular:

- 1) The broad portfolio of activities, from the project business, which for example plans and delivers offshore wind parks, big power grids, etc. as a general contractor in countries such as India, to the small-scale business of electrical equipment, for example high-performance electronics for railroad drives, and the fast-moving business of digital industries such as robotics. These businesses are subject to completely different risk structures. The project business is subject to major risks, such as responsibility for performance in advance and completion risks, but brings with it growth with lower profitability. The digital industries business requires major innovation efforts with investments in research and development and is subject to industry-typical product life cycles.
- 2) The board of directors, eight members with more than 50 years of combined board service.<sup>4</sup>
- 3) A need to catch up in terms of management systems, from IT to reporting.

There was an acute accumulation of problems with major projects to be completed, particularly in the Power Grids and Process Industries divisions, which led to large financial losses and write-downs.<sup>5</sup> Overall, growth and profitability were insufficient in relation to the risks taken.

At the same time, the environment was also changing. Advances in digitalization and automation were striking. With demographic change, robotics gained importance as a replacement for human labor. Climate protection also became more important and, with it, electrification solutions for the efficient use of renewable energies.

## New strategy and moves from energy and infrastructure to digital industries

A new strategy was to focus the company on the business areas of electrification, automation and robotics, and drives. In electrification, there is always the question of how far the range of services should extend (from power plants and transmission systems to the drive and control of electric vehicles or end devices in the home). It was clear here that large-scale projects should be scaled back in the interest of minimizing risk. This meant exiting the infrastructure business. Conversely, products and services geared toward renewable energies were to be expanded (in the sense of "safe, smart and sustainable electrification"<sup>3</sup>, Annual Report 2018, p. 14).

The reduction to four divisions would allow for a simplified corporate structure. This would make it possible to focus more on customers and markets and to pare down work processes in order to become more agile and responsive. This could allow the competency structure to be focused on digital industries amid rapid technological change. The focus would be on high-growth segments that offer solutions to the challenges of the 21st century. It would also be possible to harmonize the risk structure and thus simplify controlling and management tools.

This change would require a reconfiguration of the company, primarily the sale of the Power Grids division, which offered equipment for high-voltage networks. To do this, the division first needed a turnaround to recover its value. Ultimately, the transformation from an energy and infrastructure company to an industrial company was completed (see Figure 1, Annual Report 2018, p. 13).

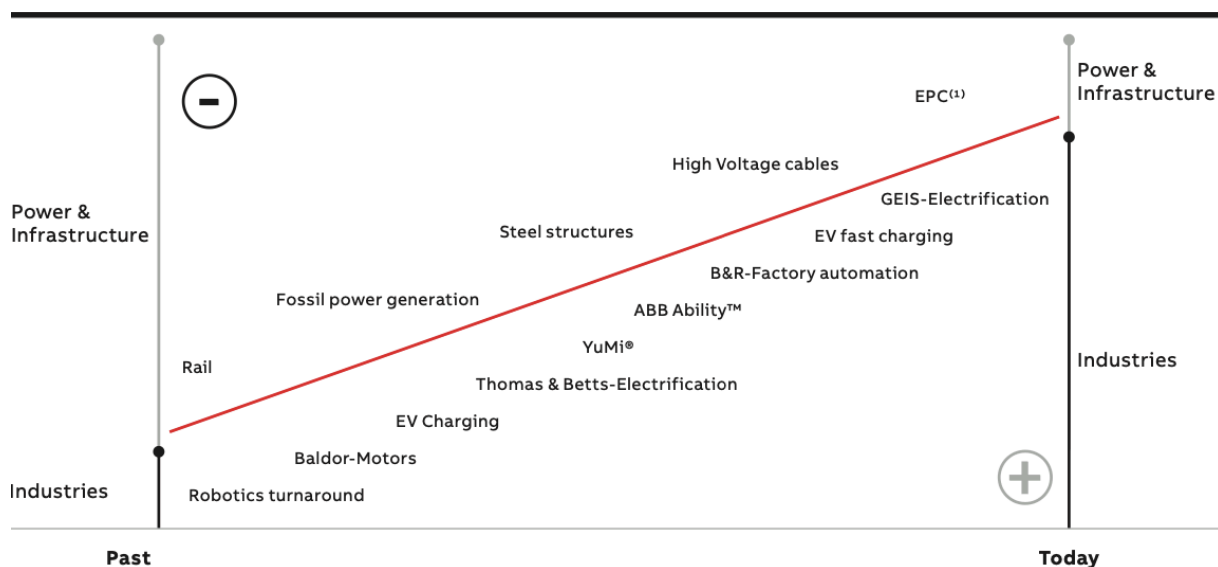


Figure 1: Shift in focus (source: ABB, 2019)<sup>3</sup>

## Structure follows strategy

With the matrix organization and its inherent conflicts of goals or priorities, a management culture had emerged in which decisions tended to be delegated upward. This was an experience that Peter Voser was familiar with from other organizations: When people are uncertain, they like to pass decisions upward if they can. This type of top-down, control-oriented leadership can make sense in the project business, but it can quickly prove a hindrance in technology-intensive businesses with digital industrial products, due to the need for innovation and a willingness to learn. This meant that it was not possible to simply spin off a division in order to implement the new strategy. It also required a new, leaner organization and management culture focused on decentralized responsibility. The necessary renewal, especially in terms of competencies, should also be expressed in a renewal of the board.

Whereas until 2014 the company was divided into eight regions and five divisions, each with its own profit and loss statement, the organization introduced as part of the "Next Level" strategy was four divisions and three regions. After the sale of the Electricity Networks division to Hitachi in 2018, the organization was further simplified. In order to create the more agile units necessary for the focus on digital industries, the matrix organization was subsequently dissolved. The competencies and responsibilities, in particular for customer-facing activities, were assigned to the business units, and the corporate center was shrunk to around 1,000 employees. The country organizations were dissolved and the employees and competencies shifted to the business units. The organization now consisted of four business units: Electrification, Industrial Automation, Motion and Robotics & Discrete Automation (see Figure 2).

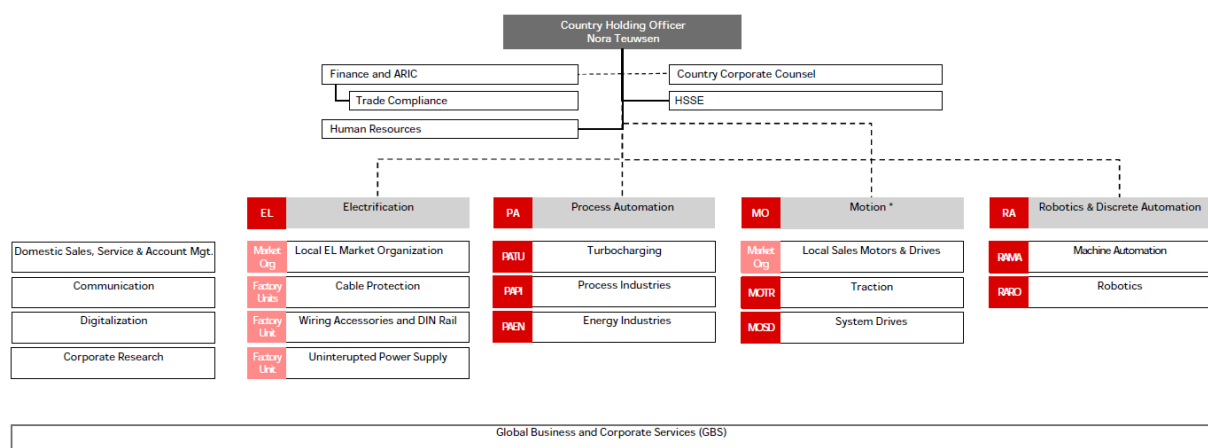


Figure 2: Organizational chart ABB Switzerland 2022 (source: ABB, 2022)<sup>6</sup>

The change in leadership culture also required a change at the top. In April 2019, it was announced that CEO Ulrich Spiesshofer, who had been with the company since 2013, was leaving. On an interim basis, operational management was taken over directly by the chairman of the board. For Peter Voser, this was an opportunity to shape the leadership culture by example. For example, he organized global open employee discussion groups via teleconferencing. In direct management, he was keen to delegate the need for decision-making back to employees when possible. As a former professional soccer player, he saw himself in the role of a player-coach. Ultimately, the players on the field themselves must have the courage to take the ball and run with it.

The board was renewed except for one representative of the main Swedish owner family. For Peter Voser, it was important to bring people onto the board whom he did not yet know and from whom he could expect critical impulses. They were all to be active CEOs or CFOs. A three-dimensional competence matrix was used to find people with a good mix of technology, market and customer competence. A representative of Cevian Capital, an activist investor from Sweden that had a stake in the company, was also brought onto the board. It was important to Voser to hold discussions within the board and not in public.

## Transformation process as a challenge

Peter Voser faced various challenges in this transformation process:

First, there were the classic internal challenges of organizational change. Turning those affected into those involved, information and communication. Communicating the new mission and vision, adapting the competence profiles of employees, building up a new management culture, etc. Important throughout the process was a transparent and open exchange of information internally.

Not to be underestimated was the pressure from the public, which was intensified by the activist investor. When the sale of the Power Grids division was announced on 17 December 2018, the headline in the *Neue Zürcher Zeitung* read "ABB bows to investor pressure and sells network division".<sup>7</sup> What was challenging was ensuring the necessary calm to make Power Grids profitable and to complete the sale at a time when there was great speculation and discussion in the public.

With the sale of Power Grids, it was not just any division that was spun off. It was perceived by many that what had long been the very heart of the company's operations had been sacrificed. The public reacted accordingly, including many former employees, and internal communication was correspondingly challenging. A further issue was the timing of the change of CEO. The decision was made not to make the change until after the sale in order to ensure stability, leading to a power vacuum that had to be dealt with by the chairman of the board taking on a dual role. And it meant attracting an experienced executive who could handle, develop, and complete the strategy that was about to be implemented. The challenge was tackled with an international executive search, and ultimately Björn Rosengren was recruited. Here, too, the goal was to find someone whom most of the board of directors did not yet know and who could approach the task in a neutral manner. The list of candidates included more than 30 names.

## Future

The business of digital industry requires constantly adapting to new technologies and customer needs. There is a tendency to constantly do new things and lose focus. Also, in terms of ensuring sustainability and responsibility, it is about being a role model in ESG compliance (Environmental Social Governance, a standard for evaluating corporate social responsibility) and aligning business activities accordingly. To that end, the company will continue to be reconfigured in the future. 2021 saw the sale of Mechanical Power Transmission from the Drives business for \$2.9 billion. In 2022, the sale of Power Conversion and a partial IPO (initial public offering) of the E-Mobility business was planned, as was a possible spin-off from the Turbocharging business. Ensuring the necessary orientation and agility for this are key challenges.

## Links and sources

Interview with Peter Voser from 4 May 2022

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<sup>1</sup> ABB, 2022: <https://global.abb/group/en/investors/results-and-reports/2021>

<sup>2</sup> ABB, 2022: <https://new.abb.com/ch/ueber-uns/geschichte/meilensteine>

<sup>3</sup> ABB, 2019: <https://global.abb/group/en/investors/results-and-reports/2018>

<sup>4</sup> ABB, 2016: <https://global.abb/group/en/investors/results-and-reports/2015>

<sup>5</sup> Swissinfo.ch, 2014: <https://www.swissinfo.ch/ger/abb-fasst-konzernregionen-zusammen-und-kauft-aktien-zurueck/40597420>

<sup>6</sup> ABB, 2022: E-mail ABB from 7 October 2022

<sup>7</sup> NZZ, 2018: <https://www.nzz.ch/wirtschaft/abb-verkauft-stromnetzsparte-an-japanische-hitachi-ld.1445380>