



How Oticon successfully implemented strategic changes for global market leadership in hearing aid technology

Subject: International Change Management and Outplacement

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Background

- Oticon: A Danish manufacturer for hearing aids.
 - As a global player facing heavy competition from big players like Siemens, Sony, Phillips etc.
 - Analogue in an era where trends were shifting towards digital
- Strong in state-subsidized markets (Scandinavia, Northern Europe) but weak in America and Far East
- Growth rate was not sustainable and could lead to bankruptcy

Problem Analysis

- Very traditional, departmentalized and slow-moving
- Other companies dominating the market
- No sustainable competitive advantage over big players
- The “Top down approach” through price reduction, layoffs and increased efficiency resulted in 2% increase in sales per annum
 - Market growth at 6% per annum

Constraints Analysis

- Late realization for penetration into other markets, only after new President Lars Kolind was appointed
- Lack of technological excellence, capital and a general lack of resources

Overall change mechanism

- Lay the plan out to execute the desired state by formulating strategies on multiple levels
- Anticipate resistance beforehand and prepare for it
- Overcome resistance and set the plan in motion to desired state

Method of
processing the
change (long
term strategy)

Narrowing down the generic strategies (based on Porter's generic strategies model) through elimination

Cost
Leadership

Product
Differentiation

Specialization
by Focus



Oticon chose product differentiation and is reflected in
their mission statement

Solution Analysis (Long Term Strategy)

- Redesign the business to be more creative, faster and more cost-effective than the big-players to compensate for the constraints
- Adopt a vision to a knowledge based organization (more like a brain and not like a machine)
- Adopt new mission statement:
 - *To help people with hearing difficulties to live as they wish, with the hearing they have*
- No more technology isolation but a holistic approach to create a system with a hearing clinic to better understand customer lifestyles
- Implementation through a mix of expertise: micro-mechanics, microchip design, audiology, psychology, marketing, manufacturing, logistics, and all round service capability.

The “transformational”
approach to change (short term
strategy)

- A hybrid approach of ‘Planned’ and ‘Emergent’ Organizational change, to change the structure, culture, learning and managerial behavior.
- Approach is also highly influenced by the combined Theory E and Theory O model
- Overall, a contingency approach to seek the best available method

Solution Analysis (Short Term Strategy)

- Departments and job titles would disappear and all activities would become projects initiated and pursued by groupings of interested people.
- Jobs would be redesigned into fluid and unique combinations of functions to suit each employee's needs and capabilities.
- All vestiges of formal office would be eradicated and replaced by open space filled with workstations that any one could use.
- Informal, face-to-face dialogue would replace memos as the acceptable mode of communication.

Preparation for resistance

- Stakeholder Analysis
 - Calibrate approach to certain stakeholders in specific positions for their buy-ins
- Pin-point causes of resistance appropriately apply
 - Education and communication
 - Participation and involvement
 - Facilitation and support
 - Negotiation and agreement
 - Manipulation and co-optation
- Setting up an ultimatum in case of potential risk of conflict

Initial Resistance and Preparation

RESISTANCE

- Hard to cope with the loss of routine, clear authority relationships and uncertainty
- Managers lost their power base, information monopoly and status symbols

PREPARATION

- Small groups assigned only for transformational changes like designing new electronic infrastructure, selecting an architect and locating a site for the new Head Office
- All staff were given IT skills training.
- Ultimatum was set: accept the new arrangements or leave

Net Result

- A potentially world-beating product was developed- MultiFocus hearing aid.
- 15 new products had been launched (twice as many as the company had previously)
- New product lead time had been halved
- Sale's growing at 20% per year, in a time when market had been shrinking by 5% per year
- Oticon's market share increased from 8 % to 12% in 1993
- They launched the world's first digital hearing aid in 1995

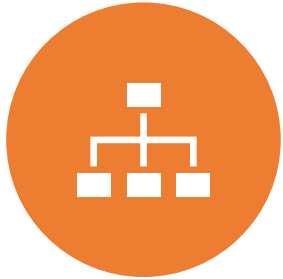
Overall Critical Analysis

- Why did the strategy work?
 - Solid strategic setup and vision
 - Effective resistance handling
 - Strong transformational leadership approach
 - Ultimatum
 - Architectural changes to the work environment to accommodate the change initiatives
 - Danish culture characterizes equality, lack of formality as fertile grounds for such a solution
 - Human values were highly enforced: freedom, responsibility, fair salary/reward for their contribution, partnership, improvement, independence
- How was the value created?
 - Changes in work environment allows flexibility in the mindset of people
 - This is reflected with tasks being taken and completed quicker

How sustainability was planned.

- The people were moved between different floors to remove any air of permanency and traditional ways
 - 'To keep the company alive, one of the jobs of top management is to keep it dis-organized'.
- New president, Niels Jacobson takes the company philosophy to play a wider role in terms of society, ethics and environment.

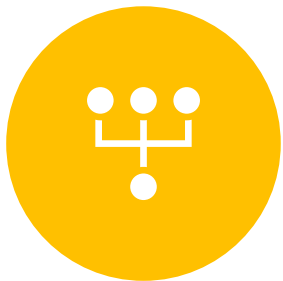
Evaluation of the present



Overall management ideology and practices have largely remained the same



Certain roles like project manager have been “professionalized” where fewer people are now assigned as project team leaders



Roles of functional experts have been preserved with the more traditional business units or staff functions.



Striving for a “paperless” organization

The 'Innovate or Extinct' Plan

- Considering the approach worked so well, I would not deviate from sustainability.
 - Invest in creating effective communication systems and strong internal relationships.
 - Use the Cynefin model to recognize and make high-level decisions for change
 - Design programs to improve collective intelligence, group dynamics and team development
 - Actively clear out resistance to change through Kotter's 8 step model.
- After establishing a solid communication based system of internal structures
 - Consideration for external relationships with suppliers
 - Consideration for partnership with public organizations



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