HARVARD | BUSINESS | SCHOOL

9-400-084

REV: JULY 10, 2015

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SMA: Micro-Electronic Products Division (A)

Guido Spichty, vice president and general manager of the Micro-Electronic Products Division (MEPD) of SMA requested a meeting with SMA's director of organization effectiveness. The impetus for the meeting was the division's dramatic decline in sales and profits in 2011 and its continuing poor performance in 2012. (See **Exhibit 1** for financial data.) He began the discussion by reflecting on the state of his organization.

> I asked you to get together with me so that I could discuss a serious problem. We have had some difficult times in my division over the past two years. Sales have been down due to the general economy and its effects on electronics related industries. But our problems are greater than that. Our business is becoming fiercely competitive. To deal with the downturn in business we have reduced the number of people and expenses sharply. This has been painful, but I think these actions have stemmed the tide. We are in control again. But the business continues to be very competitive, morale is low, there is a lot of conflict between groups that we can't seem to resolve. There is a lack of mutual confidence and trust. The organization is just not pulling together and the lack of coordination is affecting our ability to develop new products. Most of my key people believe that we are having conflicts because economic and business conditions are bad. They say that if business would only get better we will stop arguing with each other. Frankly, I am not sure if they are right. The conflicts might be due to the pressures we are under but more likely they indicate a more fundamental problem. Can you and your group determine if the conflict between groups is serious and if so what I might do about it?

The Larger Corporation

SMA's Business

The Micro-Electronic Products Division was one of eight line divisions in SMA, a leading Swiss manufacturer of microelectronics, production systems, precision mechanical components and watch products. (See **Exhibit 2** for SMA's organization chart.) SMA's growth and reputation were based on a strong technological capability in the invention and manufacture of micro-mechanical and micro-

Professors Michael Beer and Michael Tushman prepared this case. It was reviewed and approved before publication by a company designate. Funding for the development of this case was provided by Harvard Business School and not by the company. Certain details have been disguised. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

electronics products. This technological capability was supported by a Technical Staffs Division (R&D) which conducted basic research and product and process research in micro-electronics and related technologies. The company had established an industrial laboratory in the 1950s, and by 2012 its investment in R&D as a percent of sales was quite significant compared to other companies in the industry. SMA's growth, which had been running at an average of 10% a year over the previous 10 years, was based on its capacity to invent new micro-electronic and micro-mechanical products which were competitively unique in technology or capability. Many of these products were invented in response to requests from original equipment manufacturers (OEMs) who wanted SMA to apply its research and development strength to meet their needs. Strength in manufacturing also contributed to SMA's technological edge. Thus the company had historically been in the enviable position of growing profitably without substantial competitive pressures. Patents, technological know-how in manufacturing, and the requirement of substantial capital investment had prevented competitors from offering serious threats.

SMA's unique technological strengths resulted in very profitable growth for the firm for 20 years, though this growth had been uneven because of its dependence on invention in the laboratory. In 2012, SMA was in a strong financial and profit position. (See **Exhibit 3** for financial history.)

How the Corporation Operated

The organization of the corporation reflected the close link between SMA's growth and its technology. The Technical Staffs Division (R&D) was regarded as very important by top management. Its vice president reported directly to the chairman of the board. Next to R&D, SMA's strongest functional area was manufacturing. Many of the company's top executives had been promoted from the ranks of manufacturing, which was widely regarded as the function through which one could advance to the top. To complement a strong manufacturing orientation, the company had developed a control system in which plants were viewed as profit centers. Thus bottom line results were measured at the plant level by gross margin (plant sales less cost of manufacture) and at the divisional level by operating margin (total gross margin for the division less selling and administrative expenses). Financial results were reported every 28 days and were reviewed 13 times a year. These period reviews were conducted at all levels of the corporation.

Because SMA's sales were to OEMs, most divisions maintained relatively small sales departments, with a few salespeople servicing the small number of important accounts. These salespeople maintained close relations with their customers and could supply virtually all the information needed by a division about its markets. Thus many of the divisions had limited marketing efforts. Major sales transactions between SMA and its customers were conducted at high levels of the corporation since major SMA investments were often involved. Similarly, decisions about new products were also made at a high level in the divisions or the corporation.

SMA was established in Bienne, Switzerland, in the mid-1800s. For many years all its operations were based in Bienne, but as the company grew, plants and sales offices were established throughout Europe, North America and Asia Pacific. Headquarters for all but one of its divisions were in Bienne. Thus, for most of the divisions, business problems could be discussed on a face-to-face basis. People from the several divisions saw each other frequently on SMA's premises, on the streets of the town, and on social occasions. In a sense, the corporation operated like a relatively close-knit family. People at all levels and from diverse parts of the corporation interacted informally. It would not be uncommon for top-level corporate officers to meet divisional personnel in the main office building and to engage them in informal discussions about the state of their business—asking about orders, shipments, sales, and profits for the period.

History of MEPD

The Business

MEPD manufactured low power, low voltage integrated circuits and microprocessors and passive components for several markets. More than half of MEPD's sales in 2012 were to OEMs who bought IC's and microprocessors in large volume for use in a variety of their products. The remainder of the division's sales was to distributors who resold the components in smaller quantities.

Much like other SMA businesses, the micro-electronic business had grown based on SMA's unique capabilities in microelectronics and micro-mechanical technologies. In the 1990s, the growth of the electronics industry created demand for highly reliable components, since failure threatened the integrity of very sophisticated and expensive systems. Telecommunication corporations and postal agencies were willing to pay premium prices for components that met their very strict specifications, and SMA's knowledge base enabled it to serve this global market well. In response to market demand, MEPD expanded its plant operations in Grenzach and built a new plant in Neuchatel. Grenzach manufactured integrated circuits and Neuchatel produced microprocessors.

At the turn of the century, the nature of MEPD's business began to shift. With an increasingly competitive telecommunication market, MEPD concentrated more of its efforts on the new commercial electronics markets. The growth of the microcomputer, medical, control and consumer electronics industries provided new markets for MEPD components. Using its unique technological capabilities in product development and manufacturing, MEPD was able to enter these new markets and quickly establish a major position in them. In 2009, MEPD built a plant in Lyons, France, to supply high-volume demands in the consumer electronics, medical, electronics and computer markets. By 2012, 60% of MEPD's sales were to the data processing, consumer electronics and telecommunication markets.

Between 2010 and 2012 commercial customers' need for low-cost microelectronic components prompted fierce competition among a number of firms. As companies competed for large-volume contracts from major OEMs, prices fell sharply, putting pressure on costs and quality. To managers in MEPD it appeared as if MEPD was suddenly in a commodity business.

In addition, there was continual pressure on component manufacturers to extend existing product lines as OEMs developed new end-use products for their growing markets. Further, MEPD had to develop applications or specific products to meet unique customer requirements. Thus, added to the price competition for large contracts was a need for greater responsiveness to individual customer specifications. A component manufacturer could not bid on a contract until its product had passed tests conducted in its own and the customer's laboratories.

Responding to customer needs with new product line extensions was a competitive necessity because new products commanded higher prices and margins. For a high end supplier like MEPD, new products also offered an opportunity for growth. MEPD's poor performance in 2011 and 2012 was a reflection of a major shakeout in the electronic components industry compounded by a weakening of demand. A large number of component manufacturers were competing for what they perceived to be a declining total market in the future. Competition hinged on providing customers with innovative products at a low price and responsive service. Customers were giving special consideration to manufacturers that could assure short delivery lead times (usually no more than four weeks) while efficiency in manufacturing operations demanded longer lead times. Stricter quality standards were also being demanded because poor quality could shut down an OEM production operation.

The new Lyons plant had opened just at the outset of this era of intense competitive pressures within a declining worldwide economy. By late 2012, future prospects looked bleak. Some managers in MEPD wondered whether the division could meet SMA's high expectations for profitability and growth, or even survive.

Management History

Guido Spichty became vice president and general manager of the division in 2010 on the untimely death of his predecessor, Jacob Amman. Amman's influence on MEPD was described as deep and powerful. He was an entrepreneur who was always seeking to get MEPD into new businesses. In the late-1990s, Amman prevailed on SMA to purchase Zwingli Corporation, a small company which was then on the forefront of new integrated circuits technology. Similarly, MEPD had started a major effort to develop a new product using microcircuit technology—a technology that offered opportunities for further growth.

Sebastian Bärli, the division's controller until 2010, felt that Amman exemplified the division's strengths. He noted, "We always tried new things. We always experimented. We set a fast pace. There was a feeling of urgency and commitment and dissatisfaction with the status quo. As an example, we were 14 steps ahead in computer applications. This stemmed from Amman and the dynamic industry we were in."

The entrepreneurial spirit, the desire to grow, and the spirit of experimentation fostered by Amman created an air of excitement and anticipation about the future. People talked about growth and opportunity being "around the corner." These expectations were not always met. After its acquisition, Zwingli was operated as a separate organizational entity, so that its acquisition resulted in relatively few promotional opportunities for MEPD personnel. The microcircuit project proved an even greater disappointment, and was dropped as a failure after large sums of money had been spent in development.

Jacob Amman

A big man with a quick and creative mind, Jacob Amman had run the division almost single-handedly. Many of the key decisions were made by him and none were made without his knowledge and approval. People respected and also feared him. Rodolphe Lindt, product development manager for integrated circuits, described Amman and his style at that time:

> Jacob was very authoritarian with me and others. As a result, those working for Amman who were most successful were political and manipulative. People around here did not extend themselves very much to disagree with Amman. The way to disagree with him was in a manipulative way. If he wanted something done, you told him you would do it and you carried it out immediately. Then after a period of time you went back to him and tell him that following through on his suggestion was going to cost us X number of dollars and we could make more the other way; but if he still wanted to do it his way, that it would be done.
>
> Amman had a significant impact on our organization with all of us reflecting him in our managerial styles. We are all more authoritarian than before. I am less willing to let my people make mistakes even though I think it is important that people learn from their mistakes. The pressure and unrealistic standards were transmitted down to people throughout the organization. This results in our commitments often being unrealistic.

> There is little group activity and decision making by the top team except where there is a specific problem. It is not a natural group. We are never together. I don't think we have been together, except at formal managers' meetings, once in the last three months or so. There was no cohesiveness in the group reporting to Amman and there is none now.

Jacob Amman was a man of paradoxes. Although most people felt he was extremely authoritarian in his management style, he had an intense interest in the field of organizational behavior and its applications to management. Adelheid Ragatz, one of SMA's organizational psychologists; claimed that Amman was better read in the field than she was. Amman had also attended several leadership development programs in which participants worked in groups and were given feedback about their management style from group members and from a "back-home" 360 degree feedback process.

Amman's interest in the field of organizational behavior stimulated a number of attempts to apply organizational behavior theory to management within the division. In 2009 MEPD undertook a division-wide management and organization development program. The program was to include several phases including an examination of: (1) individual management styles, (2) group effectiveness, (3) interfunctional coordination, and (4) organization-wide problems. Action plans for improvement were to be developed for each phase.

Originally intended to span a three-year period, the program was discontinued when Spichty, a director in SMA's Technical Staffs Division, took over as vice president and general manager. He requested a report on the current state of the organizational development program in MEPD and was told that it had had a positive impact on the division, but that the uncompleted Phase III, dealing with the improvement of interfunctional coordination, was particularly needed. In light of business difficulties and his relative newness to the division, Spichty decided to discontinue the program.

MEPD in 2012

The Division Manager

Guido Spichty's promotion to vice president and general manager was considered unusual because he lacked line experience, having spent his entire career in R&D. However, his knowledge and background were relevant to MEPD's business and he had a number of qualities that indicated his potential for a top management position. As director of physical research, Spichty had had responsibility for all research and development work going on in Technical Staffs in support of MEPD's business. He was therefore quite knowledgeable about MEPD's technology; had often sat in on MEPD's meetings and had a general knowledge of the electronics business. He also served on the board of Zwingli. As division general manager, Spichty reported to Egon Wiechman, president, who reported to Henri LeClerc, the fourth generation of SMA's founder's family to head the company, and a major shareholder.

Spichty brought considerable personal assets to the job. He was tall and had a commanding presence. He was described by others as very bright, quick thinking, and highly articulate in both small and large groups. MEPD managers were impressed by his capacity to grasp a wide variety of complex problems ranging from technical to managerial. He was also described as pleasant and friendly and could get people to be open with him, as he himself readily shared information and his thinking with others. In fact, people were often surprised by the things he was willing to reveal and discuss. He also involved people in problems and consulted them on decisions.

Despite these very positive attributes and managers' genuine liking and respect for Spichty, some aspects of his management style attracted criticism. His strong personality and superior intellect almost always assured that he was a dominant force in meetings. Some MEPD managers also had questions about how much confronting he did, how much he tolerated, and how much leadership he took in difficult situations. Several MEPD managers made the following comments:

> He does not listen too well. His interruptions of others prevent him from hearing others' opinions and make it seem as if he really does not want criticism. What's more, he has been too soft on me. He should be holding me to my goals. I have not met some of these goals and he should be climbing all over me.
>
> He is not involved enough in the problems that arise from differences in the goals of functional departments. This may be because he spends too much time away at Zwingli. But it doesn't change the fact that he is not involved enough.
>
> You get the same record back from him regardless of what you say. It is safe to be open with him and tell him what's on your mind but he does not listen.
>
> Spichty is too gentlemanly, is not tough enough, has not demonstrated risk taking, and is encumbered by SMA's corporate philosophy and standards. I am not sure how well he fences with others in the company.
>
> Wave-makers are not wanted in the division and are being pushed out. People at the top do not create or confront conflict.

MEPD's Organization

In 2012 MEPD employed 1,200 people, 250 of whom were salaried managerial and professional employees. It had three plants and four sales territories and, with the exception of some R&D support from SMA's Technical Staffs Division, was a self-contained multifunctional organization. Reporting to Guido Spichty was a controller, a manufacturing manager, a product development manager, a marketing manager and a sales manager. (See **Exhibit 4** for MEPD's organization chart.)

MEPD's organization resembled that of most other SMA divisions with two exceptions. First, the marketing and sales functions were separated by Spichty shortly after he became division manager. As he said later:

> It seemed to me that marketing and sales had sufficiently different responsibilities to justify their separation. Sales, I felt, should be concerned with knocking on doors and getting the order while Marketing should be concerned with strategies for pricing, new products, and identification of new opportunities for the future. Marketing is a strategic function, as opposed to a day-to-day function.

A second difference was the existence of a product development group. Most other divisions relied totally on the Technical Staffs Division for technical product development support and only had engineering support groups that reported to manufacturing. In contrast, MEPD's Product Development Department was responsible for developing new products, although they also relied on Technical Staffs for research and development support. The Product Development Department often became involved in manufacturing process development as well.

Guido Spichty made a number of additional organizational changes shortly after he took charge.

1. MEPD had been one of only two SMA divisions with headquarters outside Bienne—a source of some pride to Jacob Amman. At the urging of SMA's chairman and president, and believing that MEPD had to learn to relate more closely to the corporation, Guido Spichty moved the headquarters from Grenzach back to Bienne.

2. Before 2010, the division had been geographically decentralized by product lines. The Neuchatel plant, which manufactured microprocessors, also housed a market development group and a product development group for their microprocessor products. Similarly, the Grenzach plant had an onsite market development group and a product development group for integrated circuits. The product development managers had reported to Amman, the market development managers to the general sales and marketing manager. In 2012 product development was consolidated under Guillaume Tell, who was located in Bienne, though the groups themselves remained at the plants. The market development groups, however, were relocated to division headquarters in Bienne.

3. Spichty also replaced all of his key managers with the exception of Tell, the product development manager. Henry Clerval, the new manufacturing manager, had held a similar job in SMA's Renata Division (producing miniature batteries). Victor Falkniss, the new marketing manager, had held manufacturing positions in SMA's other divisions and had recently been in charge of corporate market planning. Tobias Bern, the new controller, had worked in plants in SMA's Micro-Crystal Division. Of the new division staff only Peter Sesemann, the new global sales manager, came from within MEPD. He had been a district sales manager. (See **Exhibit 5** for a listing of key managers and their backgrounds.)

4. Before 2010, a market planning function that worked with customers on emerging product needs had reported to Jacob Amman. As part of the cost-cutting efforts in 2011 and 2012 Spichty eliminated this function and its responsibilities were given to the new marketing function.

5. One of MEPD's major problems in 2010 and 2011 had been poor service to customers. The number of missed commitments was very high and MEPD's reputation for delivery and service was slipping. Under Spichty's direction, MEPD improved its service. The manufacturing manager held plant managers responsible for meeting specific goals for delivery commitments and shortening delivery lead times. In addition, an information system was developed by the sales service function in an effort to improve service.

MEPD and the Corporation

Spichty was responsible for managing all aspects of the division's operations, and for achieving profitability and growth goals. These goals were established at the end of each year (September-October) for the following year through a process of negotiation. The division would generate its sales budget through a bottoms-up process in the Sales Department, using price guidelines from Marketing. The plants would then generate their gross margin budget based on their estimate of plant sales and costs. These would be consolidated at the top of the division and submitted to corporate staff. After forecasting corporate sales and profits, the corporate staff would invariably ask the division to modify its sales and profit plans. If corporate sales were forecast to be lower than desired, the division might be asked to increase its sales goals. The same procedure was followed for profits. This process often caused great consternation at the division level as budget proposals, which took a lot of time and energy to generate, had to be modified to meet corporate needs.

MEPD, along with the other divisions, was expected to grow at an average rate of 10% a year, the corporation's historical average growth rate. Profits were expected to approach the levels the corporation had come to expect of its more traditional OEM businesses with gross margins of 25% to 30%. These expectations typically were higher than the prevailing profitability levels among electronic component manufacturers. The ability of MEPD to attain these objectives was a subject of much discussion and controversy in the division. A number of key people wondered whether corporate's growth and profit objectives could be met. Volume could always be increased by taking low-priced business, but this reduced profitability. Most people within MEPD looked to new products as a major source of both new volume and profits.

The Functional Departments in 2012

Manufacturing

Integrated circuits and microprocessors were manufactured in high volume at three plants—located in Grenzach (integrated circuits), Neuchatel (microprocessors) and Lyons, France (both product lines). Each plant had a plant manager and a full complement of line and staff functions including production, engineering, quality control, purchasing, accounting and human resources. Because all line production operations were under him, the production superintendent had greater power than other members of the plant manager's staff. The head of manufacturing engineering was second in line of influence. These plants (like other plants in SMA) were held responsible for gross margin and thus were seen as profit centers.

The plant managers, with one exception, had grown up in MEPD. Their performance was evaluated on the basis of gross margins and assorted other manufacturing variances, including delivery lead times and missed commitments to customers.

The plant managers felt that their reputations and promotability were dependent on plant growth and good gross margin performance. All saw their future advancement within the manufacturing hierarchy of the company leading to the possibility of promotion to general manager of a division. Since manufacturing was the dominant function in SMA, such an expectation was not unrealistic.

Because plants were profit centers, their performance was well known around the corporation. Plant gross margins were discussed at plant managers' meetings across the company and the corporation had established an informal system for comparing plant performance. All of this heightened the pressure that plant managers felt over gross margin and growth. As a result, MEPD's plant managers were extremely upset by the lack of growth in the division's business. In the last two years their volume had shrunk and, because of price cuts, their Swiss franc volume had dropped substantially. Managers were thus under enormous pressure to reduce costs in order to maintain their gross margins. While some costs were reduced, gross margins still declined because of price pressure. With few exceptions, MEPD's plants had the lowest gross margins in the company. Plant managers expressed the following statements:

> We're experiencing price erosion in our product lines and I don't see a large number of new products. We need something new and unique. I don't see growth potential in our existing products.
>
> We need direction on integrated circuits. We cannot afford two plants. We need a process to allow us to make low-cost IC's.

> There are no operational objectives. I get the feeling that everyone is concerned but *no* clear objectives are set.

The frustration experienced by manufacturing was expressed in their attitudes toward the marketing and sales functions. They felt Sales focused exclusively on volume with no concern for gross margin. They blamed Sales for getting low-gross-margin business and not fighting hard enough to get better prices. Manufacturing believed that Sales was giving margins away at the plant's expense and that Sales wasn't penalized for it.

A production superintendent said, "There is a breakdown in common agreement when it comes to pricing. Sales will sell for anything and the plant won't buy it unless 40% margin is involved."

The manufacturing manager, Henry Clerval, commented, "There is a feeling of mutual distrust between Sales and Manufacturing because Manufacturing believes Sales is not putting enough of a price on the products. This is a typical problem that results when two groups have different goals."

Manufacturing was even more critical of the marketing function. They felt that Marketing had failed in its responsibility to provide direction to the division for profitable growth. They particularly blamed Victor Falkniss, the marketing manager, for lack of "strong leadership." They were upset by what they called the "disappearing carrot syndrome." As Manufacturing saw it, Marketing would come to the plant and project a market of millions of Swiss francs for a new IC or chip (the carrot). On the basis of this projection, Manufacturing would run samples and make other investments in preparation for the new product only to find out six months or a year later that Marketing was now projecting much smaller sales and profits. Manufacturing management concluded that Marketing lacked the ability to forecast market trends accurately and was generally incompetent. They saw a need to replace the marketing manager and many others in Marketing.

A production superintendent explained, "What is slowing down MEPD is weak marketing, lack of marketing direction, and a very narrow product base. You can't sell what you do not have, and if you do not have it and you do not know where you are going to be in two years, you probably will never sell what you have."

Another production superintendent commented, "The last five years have left people quite cold as far as strategies are concerned. For example, Marketing does not have the same strategy as we do and they give us no direction."

Henry Clerval, the manufacturing manager, said, "No one has confidence in Marketing people. Plant managers don't believe them now since they have been wrong so many times."

Manufacturing was also unhappy with Product Development, which they felt had not always given them products that would run well on their production lines. They looked to Product Development to develop low-cost components and saw nothing coming. When Product Development requested special runs on their manufacturing lines to develop new products, Manufacturing wondered what benefits would compensate for this sacrifice in their efficiency.

Marketing

Marketing comprised several activities, including customer engineering and advertising. Its most important function was market development. Under Uri Gessler, Market Development was responsible for developing sales projections for the next year, market plans for the next three years, analyses of market share, and plans for improving market position. One of the primary means for increasing market share was the development of new types of integrated circuits and

microprocessors in the form of product line extensions for which customers were willing to pay a premium. It was Market Development's responsibility to identify these new opportunities and to assure the development of new products in coordination with other functions. Marketing specialists reporting to Gessler had responsibility for scanning and analyzing different market segments and for developing new products in them. They used measures of profitability and growth by market segment to assess their progress. Because the identification of new market opportunities was primarily Marketing's responsibility (with help from Sales), as was the development of the new product plan, Marketing felt that all the pressure for new product development fell on them.

Established as a separate department just a year earlier, the marketing function had many new people. Most of the people had transferred from the Sales Department, where they had been in either sales or in sales service. Gessler, for example, had been a district sales manager. Most marketing specialists were recent technical or business graduates with one or two years of sales experience.

Overwhelmed by the tough job of forecasting, planning, and formulating strategy in a turbulent marketplace, the Marketing people felt that no one appreciated their difficulties. The marketing manager, Victor Falkniss, complained, "We have not defined the IC business. When the telecommunication and postal businesses dropped, we did not face up to a need to produce at lower cost along with higher quality."

A marketing specialist remarked, "You can't be stodgy in this business. You must be fast moving and quick acting. You must be decisive, adaptable, a long-range thinker, and able to deal with a very ambiguous situation."

Some felt that SMA corporate had such high standards for profitability on new products that it was impossible to meet them in the components business. The market development manager, Uri Gessler, said:

> While corporate financial people will admit that we need a different set of criteria, they informally convey to us that we are doing a lousy job, and it makes us run conservatively. The corporate environment is not a risk-taking one. We tend to want to bring a proprietary advantage to our business which we cannot do. This is slowing us down. An innovative sensor signal control product took seven years in product development. There were some original conceptions, but their advantages were lost as the development process took seven years instead of the original three years projected for it.

Marketing people were also critical of Product Development and its lack of responsiveness to the divisions' needs. As Marketing people saw it, Product Development's priorities were wrong and their projects were always late. Gessler commented: "Guillaume Tell bootlegs projects. There are no ways to establish priorities in development; no criteria have even been set up. Seventy percent of his time is in process development instead of product development."

Marketing felt most resentful about Manufacturing's continual sniping and lack of cooperation. They saw the plant managers as conservative and unwilling to take risks. Many Marketing people felt they were distracted from their primary responsibility by having to spend inordinate amounts of time dealing with the plants. Gessler indicated that he would not have taken the marketing job had he known that it would involve the many frustrations of getting Manufacturing to cooperate.

Sales

MEPD products were sold through a direct selling force of approximately 45 salespeople, organized into three sales territories (the Americas, Europe, Asia Pacific). Each territory was managed by a territory sales manager who reported to the world-wide sales manager. The direct sales force visited manufacturers whose products incorporated integrated circuits and microprocessors, with the objective of learning about the customer's needs. This involved talking to purchasing agents and design engineers, and then obtaining sales contracts.

In addition to direct sales, products were sold in small lots through distributors. Distributor strategy and relations were the responsibility of the distributor sales manager, who also reported to Sesemann, the global sales manager. It was the distributor sales manager's job to coordinate the efforts of field salespeople in support of his objectives.

A sales service manager reported to the distribution manager. The sales service group was divided geographically, with a sales service group located in each plant. They worked with the plant to expedite order processing and to keep the plant informed of customer delivery and service needs.

The sales force consisted of university graduates interested in sales or marketing careers, and older and experienced salespeople who had worked in this industry for a long time. Salespeople identified strongly with their industry. Sesemann had come up through Sales, as had all of the territory sales managers.

In comparison with other SMA divisions that sold to OEM customers, MEPD served a much larger set of customers in several markets. The MEPD sales force had to develop many relationships with purchasing agents and engineers, and relied on good relationships to obtain market intelligence and an opportunity to bid on contracts. But salespeople also had to negotiate with these same people to obtain the best possible price. Since their performance was evaluated on the basis of sales volume, they worked hard to beat their budgeted sales targets. Despite some discussion, the sales force was not paid on a commission basis.

Sesemann described mistrust, gamesmanship, maneuvering, and politicking between Sales and Marketing. "Most people [in Marketing] do not believe that Sales' competence is high," he said. "On the other hand, we in Sales do not believe that the information Marketing gives us is the best."

Major conflict arose between Sales and Marketing in budget-setting sessions, partly because Sales based its forecasts on customer canvassing while Marketing used analytical tools to develop its projection. Sesemann said, "Conflicts are not resolved based on facts. Instead there are accusations. I don't trust them [Marketing] and I don't trust that they have the capability to do their jobs." His view of Manufacturing was somewhat more positive:

> Relations with Manufacturing are personally good, but I have a number of concerns. I do not know and no one knows about actual cost reductions in the plant. I don't think Manufacturing gets hit as hard for lack of cost reduction as Sales does for price reductions. Another problem is the Grenache plant's service. It's putrid! There is constant gamesmanship in the Grenzach plant.

At lower levels of the organization relationships between Sales and Manufacturing seemed even worse. There were shouting matches over the telephone between the American territory sales manager and the Lyons plant manager. In one instance Sales had requested quick delivery to meet a major customer's needs, feeling that a slow response would damage MEPD's position with the

customer. The plant said it could not provide delivery on such short notice without upsetting plant operations. The sales service manager commented, "The relationship with the Grenzach plant is bad. Measurement for plant managers has to change. They are not really measured enough on service. Things have improved somewhat, however, and they are a bit more concerned about service."

Product Development

Product Development was responsible for extensions of the current product line. Usually, between 10 and 12 new product development projects were under way at any given time, often requiring significant technological development. The development group was divided into two parts: one for integrated circuits, located in the Grenzach plant, and one for microprocessors, located in Neuchatel. The manager of product development was based in Bienne, along with the rest of Spichty's direct reports.

The product development group was composed of technical people who had spent their careers in research and development work. While some of these people had come from the corporate R&D group, many had worked in the division for most of their careers or had held technical positions in other companies in the electronics industry. Tell described his relationship with other groups:

> In general, my department's relations with the plants are pretty good although some problems exist at Grenzach. My biggest concern is with Marketing. I do not feel that Marketing provides detailed product specification for new products. In addition, Marketing people do not understand what is involved in specification changes. I think that writing specifications jointly with Marketing would help this problem. Another problem is that Marketing people have to look ahead more and predict the future better. They always need it yesterday. We need time!

Tell was critical of SMA's Technical Staffs Division, which also did some product development work for MEPD. He continued:

> It is difficult to get a time schedule from them. Their direction is independent of ours since they report elsewhere. They will not wring their hands if they are behind schedule. They will more quickly try to relax requirements for the development if it is behind schedule. I need more influence on specifications when it comes to things they are working on. I often have to go upstairs to solve the problems that occur with this group.

He also cited problems with the Sales group:

> We need comments from the Sales group on our new products. I wanted to get the call reports they write and asked Sesemann for copies. His argument for not giving them to me is that the Marketing Department has the responsibility for interpretation. I finally had to go to Spichty to resolve the problem.

The Controller

It was the division controller's responsibility to maintain all accounting records for the division, provide a financial summary every 28 days, and report on performance to the division staff and the corporate controller. Tobias Bern, the controller, also developed quarterly forecasts of business performance. He commented, "In most cases three-period forecasts are extremely inaccurate. It is very difficult to forecast the business this way. Our forecasts are always off. Yet it is a corporate

requirement." MEPD had difficulty not only in forecasting its business but in explaining the reasons for upturns and downturns.

The New Product Development Process

Most new product development efforts concentrated on extensions of the current IC and microprocessor product lines, to meet new needs of customers.

The course of MEPD product development was described as far from smooth. A new product for the television market, for example, had been killed and resurrected four times with different parts of the organization having differing knowledge of its status at given points in time. Marketing clearly saw this new product, the focus divider, as an opportunity, and Product Development thought it was technically feasible. But Sales questioned MEPD's ability to compete in the marketplace, in view of Manufacturing's cost quotes. As discussions progressed on needed product modifications to reduce costs, Marketing's estimate of the potential market changed, as did Product Development's assessment of technical feasibility. Because each function's management independently judged the viability of the product, the status of the project was never clear-cut. At one time, salespeople were obtaining orders for samples of the focus divider while Manufacturing and Marketing had decided that the product was not feasible and had killed the idea. Similar problems occurred on other projects, since Product Development sometimes made samples of products for Sales to show customers that did not yet have the commitment of Manufacturing or even Marketing.

In another case, severe conflict between marketing and plant personnel erupted over a new product which used MEPD's low power IC and an antenna to produce a personal identification card. Marketing had determined that the new card needed a very thin, uniform coating for competitive and efficiency reasons. They presented their views to the division's management and received what they thought was a commitment to change the card. But the plants were reluctant to convert their operations. They questioned whether Product Development had proved that the new coating would work and could be manufactured to meet product specifications at no additional cost. Moreover, the plants completely distrusted Marketing's judgment of the need for this change. In 2012, after two years of dragging their feet, the conversion was nowhere near completion. The Marketing specialist in charge of the project would return from plant meetings angry and completely discouraged about his inability to influence manufacturing to advance the project.

Two day-long Product Development meetings were held in Bienne, once each accounting period (28 days) to discuss, coordinate, and make decisions about new products. Separate meetings were held for IC's and microprocessors. In all, approximately 20 people attended each meeting, including Spichty, his direct reports, plant managers, and several other key people from other functions.

The meetings were chaired by Gessler, who typically sat at the head of the table. At the other end of the table sat Spichty. Gessler would publish an agenda ahead of time and would direct the discussion as it moved from one project to another. For each project, progress was checked against goals agreed to by each function at the previous review. Each function would then describe in some detail what had been done in its area to support the project (for example, what equipment changes had been made in a plant). If a function had not met its goals, as was often the case, new deadlines would be set. While problems encountered were always described, the issue of slippage in goals and the underlying reasons for it were rarely discussed. Differences in opinion usually proved very hard to resolve. People would end them by agreeing to disagree and moving on to the next item on the agenda. While tempers flared occasionally, open hostility or aggression was rarely expressed in the

meetings. Afterward, however, people often met in pairs or small groups in the hallways, over coffee, or in individual offices to continue the debate.

A continual stream of people flowed in and out of these meetings to obtain information from subordinates in their functional area. It was not uncommon for a plant manager to leave the meeting to call an engineer in his plant for details about a project's status. At one meeting Klara Lavenza, a marketing specialist, was repeatedly cited as the person who knew the most about the project under discussion, yet she was not present. On other occasions marketing specialists (who were located in Bienne) were called in to share their information about a project. If necessary, plant people and product development people were also sometimes brought to Bienne for the meeting.

In the past, the division manager had not attended product development meetings. In 2012 Marketing asked Spichty to attend these meetings to help in moving decisions along. Spichty took a very active part in the meetings. He often became involved in the discussion of a new product, particularly its technical aspects. Frequently he explained technical points to others who did not understand them. His viewpoints were clearly heard and felt by others, and people thought that meetings had improved since he decided to attend. Nevertheless, Gessler still dreaded the product development meetings. He said:

> I never sleep well on the night before the meetings. I start thinking about the various projects and the problems I have in getting everyone to agree and be committed to a direction. We spend long hours in these meetings but people just don't seem to stick to their commitments to accomplish their objectives by a given date. Projects are slipping badly and we just can't seem to get them moving. In my opinion, we also have some projects that should be killed, but we can't seem to be able to do that, either. Frankly, if I had it to do over again, I would not take this job. After all, how much marketing am I really doing? I seem to spend most of my time in meetings getting others to do things.

The Outlook for 2013

As 2012 drew to a close, Guido Spichty and the top management group were preparing for their second GLF (Great Leap Forward) meeting. This meeting had been instituted the year before as a forum for discussing major problem areas and developing commitment to division objectives for the coming year. Now it was time to look ahead to 2013.

In a memo to the key managers Spichty summarized the problems that needed to be addressed in the coming year: "It is obvious that division growth is our major problem and that we need to develop new products to get growth. Achievement of budgeted operating margin is a close second. Morale has become a more acute problem and the need for communication, coordination, and the proper balance of long- and short-range efforts continues to require our attention."

As the top managers in MEPD prepared for the two-day meeting in Bienne, it was clear that they had survived the shakeout in the industry. But they also knew that many major problems remained. They all wanted growth and saw it as their major problem, but they were not developing new products fast enough to meet this objective, nor did they agree about strategies, priorities, or criteria for profitability. In the external environment, price/cost squeezes continued and competition was as fierce as ever.

As key managers prepared for their GLF meeting, the SMA Organization Effectiveness Staff was preparing to present the findings of their study of MEPD to Guido Spichty.

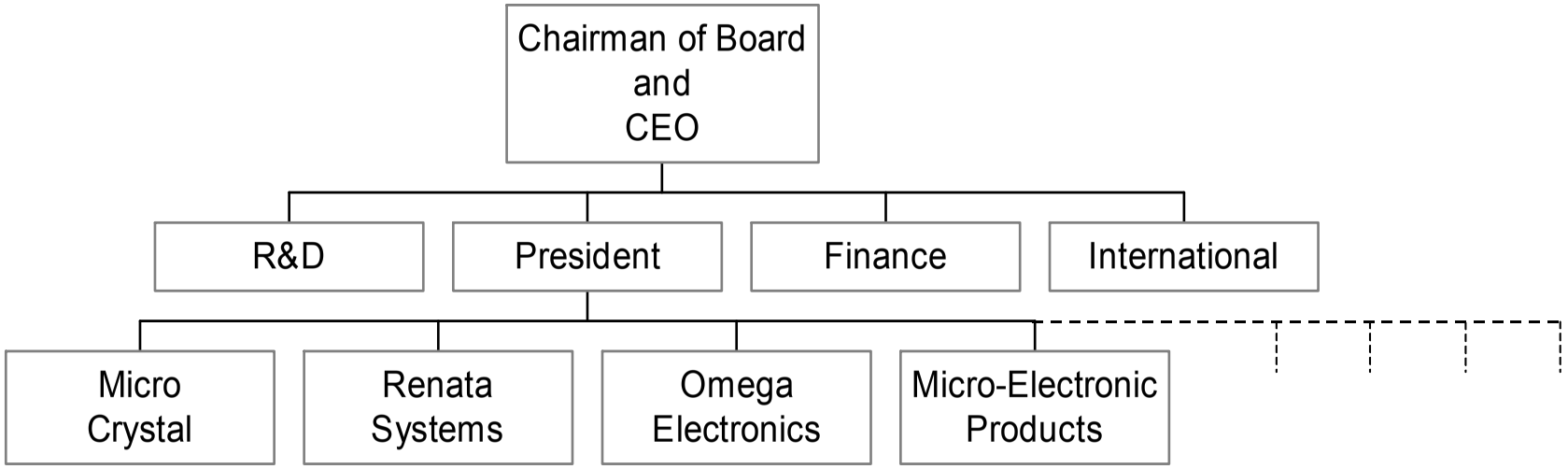
Exhibit 1 MEPD Sales and Operating Margin, 2005-2012 (SFr thousands)

	2012	2011	2010	2009	2008	2007	2006	2005
Sales	297,444	295,192	328,618	313,360	247,966	282,619	269,116	157,460
Operating margin[a]	19,479	19,294	51,607	62,808	37,103	72,103	67,436	37,265

Source: Company documents.

[a] Operating margin equals sales less manufacturing, administrative, and sales expenses.

Exhibit 2 SMA Corporate Organization Chart



Source: Company documents.

Exhibit 3 Consolidated Statement of SMA Income, 2003-2012 (SFr thousands)

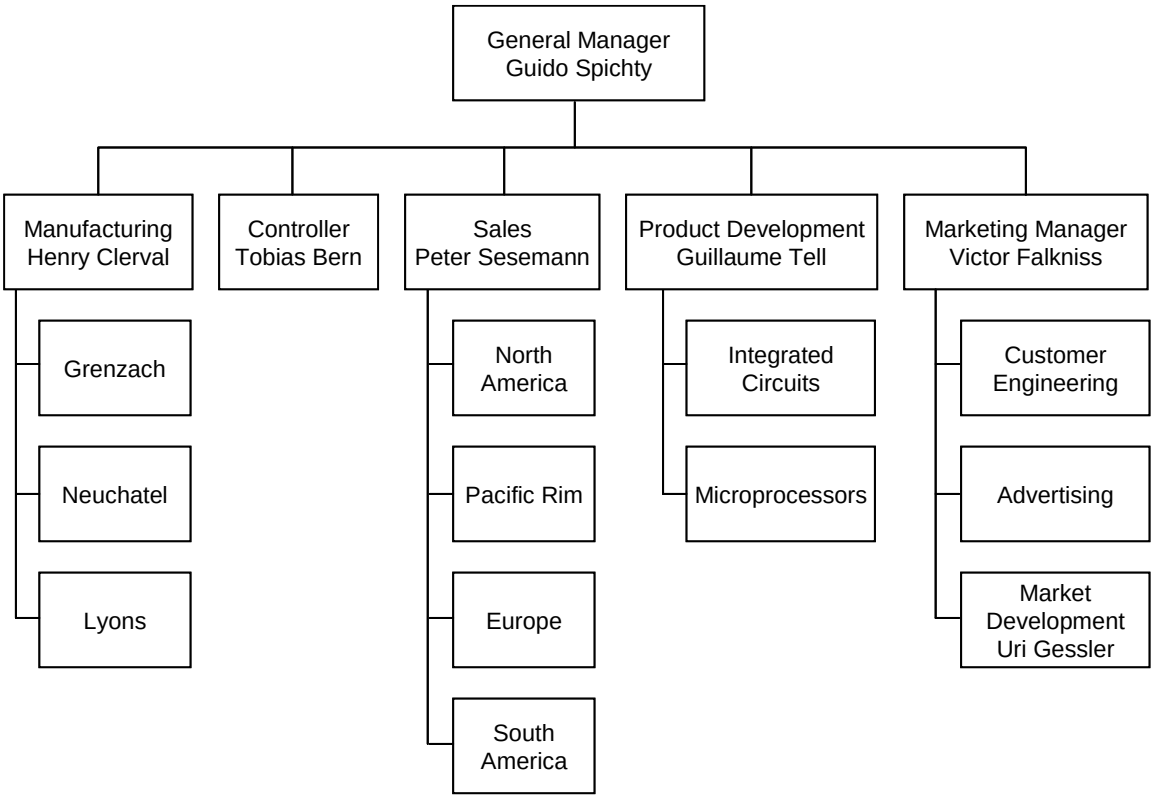
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Net sales	5,929,234	5,633,802	5,496,664	4,213,671	4,054,526	3,579,350	3,244,987	2,841,145	2,659,245	2,492,155
Dividend, interest, and other income	219,464	193,548	190,639	154,564	124,912	130,615	118,724	109,342	125,740	99,888
	6,148,669	5,827,350	5,687,303	4,368,233	4,179,438	3,709,965	3,363,711	2,950,487	2,784,985	2,592,043
Cost and expenses										
Cost of sales	4,157,803	3,846,436	3,609,696	2,933,706	2,839,450	2,465,436	2,278,422	1,989,727	1,959,035	1,709,473
SG&A expense	832,299	782,820	757,064	564,494	551,041	495,188	434,249	358,557	316,059	314,103
Interest and local taxes on income	110,902	113,983	78,378	32,449	18,626	21,139	17,427	15,384	13,848	16,051
Domestic and foreign taxes on income	468,878	467,537	584,085	358,768	336,889	337,419	285,886	265,961	223,090	251,233
	5,569,883	5,210,776	5,029,223	3,889,417	3,746,006	3,319,181	3,015,983	2,629,628	2,512,032	2,290,860
Net income	578,788	616,574	658,080	478,816[a]	433,432	390,784	347,728	320,860	272,953[b]	301,183

Source: Company documents.

[a] Exclusive of nonrecurring net gain of SFr 9.4 million on contribution of investments in associated companies.

[b] Exclusive of nonrecurring net loss of SFr 16.9 million on sales of investments in associated companies.

Exhibit 4 Micro-Electronic Products Division



Source: Company documents.

Exhibit 5 Background of MEPD Executives

Guido Spichty—vice president and general manager, Micro-Electronic Products Division, 40 years old. He received his Diploma and Doctorate in physical chemistry from the University of Zurich. He joined SMA in 1998 as a chemist in its Technical Staffs Division (R&D). In 2002 he became manager of electronic research and in 2005 director of physical research in the same division. He was appointed general manager of the MEPD division in June 2010.

Victor Falkniss—marketing manager, 39 years old. He received a Diploma in chemical engineering from the University of Bern. He joined SMA in 2001 as a staff engineer, and subsequently held several engineering and supervisory positions. Following an assignment in corporate market planning, he became manager of marketing in MEPD in 2011.

Henry Clerval—manufacturing manager, 43 years old. He received an engineering diploma from the University of Geneva. He became MEPD's manufacturing manager in 2011 following numerous manufacturing positions in SMA's Technical Products Division. He had worked as a plant engineer, department foreman, production superintendent, and plant manager in several plants in three different SMA divisions. Before moving to MEPD he had been manufacturing manager in SMA's Renata Division.

Guillaume Tell—product development manager, 45 years old. After receiving a diploma in mechanical engineering from the University of Basel, he joined SMA as a staff engineer. After five years in other divisions he joined MEPD in its early infancy. He served as a project engineer first and then held several managerial positions in product and process development. He became manager of product development for the MEPD in 2012.

Tobias Bern—division controller, 31 years old. He joined SMA in 2003 after receiving a diploma in industrial administration from the University of Lausanne, and then receiving an MBA from INSEAD. Before joining MEPD as its division controller in 2011, he served in a variety of plant accounting positions in other SMA divisions.

Peter Sesemann—sales manager, 34 years old. He went to the University of Zurich where he received a degree in sociology. He joined SMA in 2001 as a salesman in the Micro-Electronic Products Division. All of his experience with SMA was with MEPD, where he became a district sales manager before taking over as sales manager in 2011.

Source: Company documents.