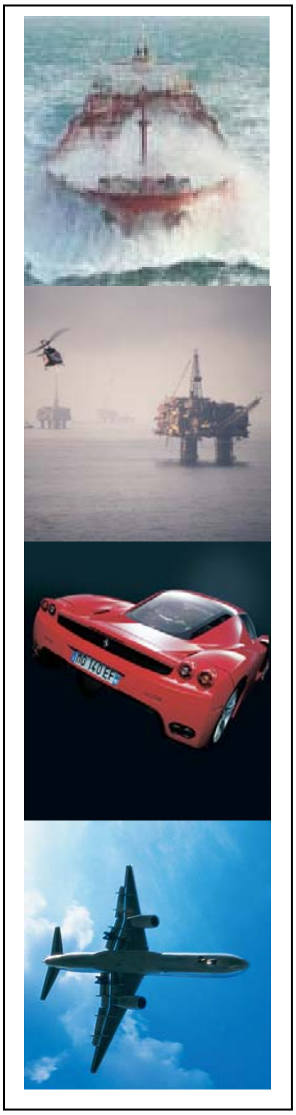
INSEAD

The Business School for the World



Transforming DNV: From Silos to Disciplined Collaboration across Business Units – The Food Business in 2005

08/2007-5458

This case was written by Morten T. Hansen, Professor of Entrepreneurship and The André and Rosalie Hoffmann Chaired Professor of Family Enterprise at INSEAD. It is based on in-company interviews and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

It was a Fall day in 2005 at DNV's headquarters**,** located on the banks of the beautiful Oslo-fjord near Oslo, the capital of Norway. As the day was drawing to a close, with the sun low on the horizon and the afternoon fog descending on the fjord outside, the company's Executive Board[1] members settled into their chairs to make an important decision about its emerging food safety business. Historically a leading global provider of classifications of ships and certification of standards, the 6,000-employee strong DNV had expanded its services beyond the maritime sector to a range of risk management certifications and consulting services for other industries, including the food sector. As with several of these emerging markets, food spanned more than one of the company's four business areas (BAs) and thus presented opportunities for increased sales through cross-business collaboration.

Two years earlier, the Executive Board had allocated corporate funds to support a cross-BA initiative to develop the food safety risk business, but working across the two business areas that were involved – Certification and Consulting – had proven difficult. Now the issue had boiled to the top and reached the Executive Board members in a way they had not hoped for. Henrik Madsen, a veteran of DNV and the head of the Certification business area as of 2005, succinctly summarized the options before the Executive Board:

> *"Our cross-business collaboration in food is not working well; either we stop giving corporate funds to it and thus end the collaboration, or we bring the relevant consulting team into my organization and manage it under one BA."*

A third alternative was to continue with the cross-business effort by beefing it up with new people and perhaps more resources. Moving food into one business area would give it more traction, but it would also mean an end to cross-business collaboration in food. And it could send a bad signal to the rest of the organization: if they couldn't collaborate across business areas in food, maybe that also meant that they couldn't collaborate across business areas on anything.

From Maritime To Multiple Business Areas By 2005

New ships need to be classified. They need to be verified by an independent body that they meet certain safety, construction and operational standards, given the type of vessel. Part of the work involves sending inspectors to shipyards to verify and classify new ships; another part includes conducting research and developing standards for ships' safety. And this maritime service has been the business of Norwegian-based Det Norske Veritas (now called DNV) since 1864, when it was established as a Norwegian alternative to other classifications societies, such as Lloyds Register in England and Bureau Veritas in France**.** With time, safety standards on ships increased and were further propelled by big accidents, such as the *Titanic* disaster in 1912. As the field of classification developed, so did the complexity and scientific sophistication behind it. Over the years, DNV thus evolved into a highly technical professional services organization.

In 1970, DNV broadened its scope by entering the oil business, providing certification and classification services for offshore oil rigs, pipelines and equipment. Spurred on by the worldwide adoption of ISO standards for quality and safety in business processes, DNV

1 The company's executive committee comprising the top managers is called the Executive Board.

expanded its certification services from maritime into oil, energy and other industries, and also developed a range of risk management consulting services. By 2005, the company had grown into 6,000 employees with an annual turnover of NOK 6.7 billions (US $ 1.1 billion[2]). Historically very international, the company now had 300 offices in 100 countries with 66% of revenues coming from outside Norway.[3]

Four Business Areas by 2005

The organization of the company in 2005 reflected its evolution. The company was organized into four business areas (see Exhibits 1 and 2 for an overview of financials and the 2005 organization chart, respectively). Common to all was an emphasis on providing services to companies for identifying, assessing, and managing their risks.

Classification of ships (Maritime) was still the largest and most profitable business area of the company, amounting to about 40% of revenues in 2005. Next followed the Certification business area, comprising approximately 30% of sales for 2005. Headed by Henrik Madsen, the group issued certificates by certifying companies' quality management and environmental management systems for the manufacturing, telecommunications, automobile and foods industries, among others. By 2005, the area had issued a cumulative 60,000 accredited management system certificates.[4]

The third largest business area in 2005 was Technology Services, which primarily focused on the energy sector, including oil and gas. Special competences included the qualification and testing of new technologies and solutions for LNG (liquefied natural gas), deepwater technology and pipelines.

The fourth business area was Consulting, headed by Iain Light. Being the newest of the four areas, it generated less than 10% of total DNV revenues in 2005. Its main consulting services included enterprise risk management, safety, health and environmental risk management, and software risk management. For example, work included mapping business processes and evaluating supply chains to determine whether suppliers met a client's standards. Industry markets included energy, oil and gas, process industries (including mining), transportation, information technology, utilities and food.

As with many other multi-business companies, DNV had tried to organize primarily according to geography, product lines, or markets, but since 2001 had moved from a primarily geography-based organization into a decentralized organization based on business areas. DNV's Chief Executive Officer in 2005, Miklos Konkoly-Thege, had deliberately focused on four business areas, and the organization design was based on three typical principles for a decentralized organization.

First, decision rights were decentralized. Each business area was headed by a seasoned executive who had full responsibility for the area. He or she had the freedom to focus on his or her BA and the products and markets within it. Business area strategy was focused on creating the best value possible for each BA.

2 Approximate, per exchange rate, December 8, 2006.
3 DNV Annual Report 2005.
4 DNV Annual Report 2005, page 19.

Second, it focused on transparency and accountability for results. No complicated matrix structure or a co-head structure was in place. Financial targets and results were tracked by each business area, and each head was accountable for those numbers.

Third, incentives were aligned with this approach. Each executive was measured and rewarded solely on BA factors. For example, Iain Light, the head of the consulting BA, was measured on his BA's annual revenues, profitability and change targets, but not on any firm-wide targets or collaboration activities. This was true for all four BA heads.

These three BA-focused design principles – decentralized decisions, transparency/ accountability, and incentives – had created considerable focus and energy within each business area. The BAs had gained the freedom and flexibility to maximize on their opportunities. Several emerging businesses had also been developed. For example, the Consulting BA had been able to identify and nurture several new businesses, one of which was risk management services for information technology (IT) operations in companies. Another was certification and risk management consulting services to the foods industry.

The Cross-Business Initiative in Food

Prior to 2003, two business areas had developed their services for the food business independently of each other. In the Certification business area, Henrik Madsen and his team had, since about 2000, developed and sold services for certifying quality management systems such as food processors to large food companies. Although still a small business, by 2003 it was quite successful, especially in Italy where Stefano Crea and his team had landed several lucrative contracts. Eyeing food as a growth opportunity, managers in Certification gave it a high priority.

Separately, Iain Light's Consulting business area had also targeted the foods business, primarily in the Norwegian market. In 2001, Light set up an incubator unit, headed by Jan Thomsen, within the General Industry market sector of Consulting that targeted four new business opportunities: IT risk management, the food sector, health, and the governmental sector. According to Light:

> *"Each opportunity had to grow to NOK 50 million to be taken seriously; the plan was slightly more opportunistic, rather than strategic intent, from Consulting."*

In particular, Light and Thomson had high hopes for the IT risk management business, which had big upsides and which they viewed as their first priority. As for food, managers in the business area saw an opportunity to sell consulting services that focused on identifying and evaluating risk in food companies' reputation management, supplier and processing chains.

The Business Plan

In the Fall of 2002, a team of managers attending a DNV manager development program developed a proposal for a cross-business initiative in food, involving the Certification and Consulting business areas. The idea was that these two separate trajectories could gather more steam and create bigger revenues if they worked jointly and not apart. Ingunn Midttun Systad, a project leader from Consulting who played a key role developing the first proposal, explained:

> *"Food safety was becoming a big concern [among the public], and it represented a big opportunity for DNV to develop a business that took a holistic view of solutions that the major food companies needed."*

In particular, the team developing the business plan for the cross-unit initiative thought that the two business areas should go to market together by identifying a set of attractive potential customers and presenting them with the range of certification and consulting services that DNV could offer for food safety risk solutions. Midttun Systad emphasized that "this was a long-term view, as we first had to develop relationships with new customers."

The first plan was presented to the Executive Board in March 2003, which liked it and seeded the project with corporate money. A more concrete business plan was developed and presented to the board in December the same year (see Exhibit 3 for a summary of the business plan). The project received more corporate money and became a fully-fledged project team with Midttun Systad as a full-time project leader as of January 2004.

Execution

The cross-unit team was in full swing during 2004, with four members from Consulting and two from Certification. A multinational team, members worked in Norway, the UK, Italy, Denmark and Benelux. The plan was that, as the team identified new opportunities, it would draw on a wider range of specialists within the two business areas to deliver services. Thus the team itself would not deliver services that it sold but would rely on specialists from within Consulting, Certification, and corporate R&D.

Whereas Midttun Systad was the only full-time team member, the others had to focus on their "day-jobs" in their respective units, working on selling and delivering services to existing clients, some of which were existing food companies (e.g., in Italy). Each member had to achieve their individual sales and profit targets within their business area. However, the plan for the cross-unit project was to use some of the corporate budget it had received to buy employees' time to work on cross-unit market opportunities; this way employees in the business areas could book their time to the cross-unit budget (which counted as revenues to the business area) and not be penalized for working on a cross-unit project.

The cross-unit team started by identifying key potential customers and began to build relationships with them. Looking at where DNV was strong, the initial emphasis was in Norway, the UK, Benelux and Italy. During 2004, the team worked on developing customer relations and spent about half of its budget on leads and sales development. Several contracts were won, but overall the project team started to lag behind the estimated revenue targets for food overall. Sales of certification services in Italy were going strong, as were the sales of consulting services in Norway (both of which came in over budget in 2004).

Meanwhile, the foods business in the UK was struggling, and no contracts had been landed. This was disappointing, as DNV had developed a strong relationship and a good reputation with the food regulators in the wake of the outbreak of mad cow disease. Iain Light thought that a major problem was a lack of brand recognition in the food industry in the UK.

The situation in Benelux was also disappointing: no contract had been won with any major food company. Also, an acquisition of a smaller company there fell through, dealing a blow to business development in that part of Europe.

Several other issues surfaced as well. Although cross-selling was a key feature of the team's strategy, people in Consulting complained that the Certification business area did not open up their customer relationships to consulting opportunities. While Certification people argued that they could not, because of risk for conflicts of interest (DNV cannot be an independent and objective third-party certifier of its own consulting work), employees in Consulting often saw this as an excuse, as there often was no actual overlap in work done and thus no real conflict of interest. Commented one manager in the Consulting business area:

> *"It was like the bridge over the moat of the castle was taken up. Third-party conflict became an excuse so that they did not have to collaborate."*

An employee in the Certification business area echoed this sentiment:

> *"Team members tried to protect their own customers; Certification people were afraid to bring Consulting people to their own customers. Meanwhile, the Consulting side saw Certification as less interesting because of a low-volume potential."*

Stefano Crea, who had spearheaded the development of the certification business in food in Italy, offered his take on the cross-business initiative:

> *"It didn't work well. Many people were silo-oriented. For example, it was difficult for us to build a common database with customer and other information. We all had personal agendas, and it was difficult to prioritize the cross-food initiative. It was difficult to pull people out of their daily work to do the cross-area work. We also approached some customers in a competitive way. Each team member tried to protect their own customer."*

Stephen McAdam, who was observing most of this unfold from his position as a manager in corporate research, had this take on the cause of some of the problems:

> *"Was it impossible to do? People were rewarded on their own performance. Assessment systems were set up to reward what they did in each BA and in each geography. If, say, Consulting people handed something over to Certification, they would have gotten a very hard time from their line manager."*

Meanwhile, the Consulting business area was under considerable pressure to deliver results for the whole area, and its managers prioritized opportunities that could deliver. They had been tasked by the CEO and Board of Directors to develop and professionalize the consulting activities of DNV and were asked to deliver three challenging goals: deliver a major change to consulting behaviour and practices, grow, and at the same time deliver profits. According to Iain Light:

> *"Because of the failures in the UK and Benelux, food did not generate the promised revenues. IT consulting meanwhile had critical mass, momentum and*

> *got direct support from the Executive Board. I and others were measured on business area revenue and profitability targets, and this directed our attention."*

By August 2004, total food revenues were 93% of the initial projected revenues.[5] That was not a large gap but the underlying numbers reflected something else (see Exhibit 4 for details on deviations from initial projections): by that time the Certification business in Italy was strong (revenues were 114% vs. initial projections), and so was food consulting in Scandinavia (118%). But Certification sales in the UK (29%) and Consulting sales in Benelux (3%), Germany (16%) and the UK (69%) were way behind plans.

As a result of lack of revenue progress in these markets, the Consulting business area was prioritizing other areas that had more traction, including IT risk management consulting. Meanwhile, food was a high growth priority in Certification.

Each business area thus evolved its own priorities, an approach that was consistent with the focus on decentralized business areas, but which made it difficult for the cross-business team to operate. This problem was exacerbated by the lack of a clear top-level support for food at the CEO and Executive Board level. According to Henrik Madsen:

> *"There was no consensus at the top level that food was interesting or a priority. We had not evaluated the food opportunity against other industry segments, so it was difficult to assess how interesting food was."*

During 2004 and 2005, the pressure was on the cross-BA team to develop more revenues and profits, and a tension between the need for short-term results and the plan to build long-term client relationships became apparent. In part because of this tension, Midttun Systad decided to leave the project and DNV early in 2005. Turnover at the project manager level became a problem. In fact, another person had been a project leader before Midttun Systad but he left when Midttun was appointed project leader instead. The person taking over after Midttun Systad continued for nine months but then he also left, leaving the cross-business project without a clear leader.

The Decision to be Made in September 2005

It was against this background that Madsen, head of Certification in 2005, had proposed two alternatives, with a third alternative also possible:

1) Drop the cross-business food initiative (no more money from corporate). Each BA will pursue the opportunity independently.

2) Continue the effort, but bring the 10 key employees left pursuing the foods business in Consulting over to Certification, thus pursuing the opportunity within one business area.

3) Continue with the cross-business collaboration as is, but allocate more resources to it – new project leader, more money, more key people from both sides.

5 Presentation to Executive Board, September 23, 2004. Actual MNOK disguised.

Iain Light, head of Consulting in 2005, opposed option 2:

> *"Consulting has a critical mass issue, and taking 10 key people from the consulting side would be a big problem. I and my business area are also measured on revenues, and handing over food-related revenues that we have invested in is a problem, making a dent in our performance. The other concern is bringing in a small consulting team into the large Certification organization; the very different Consulting culture may not flourish there."*

Madsen could understand the concern from the Consulting business area:

> *"From the Consulting point of view, the people involved in food are generalists and are also needed in other areas. Letting go of them is hard."*

From his point of view, however, getting joint traction in food required new thinking, and option 2 was desirable because it would combine the company's resources in one area in order to pursue the opportunity. On the other hand, it also implied that they were giving up on the effort to work effectively across business areas.

Exhibit 1

*Key Financials for DNV, 2001 to 2005 (NOK million *)*

KEY FIGURES

(Amounts in NOK million)

	2005	2004	2003	2002	2001
Income statement:					
Operating revenue	**6 697**	5 957	5 762	5 743	5 813
Depreciation	**136**	116	116	147	128
Operating profit	**695**	389	459	336	590
Net financial income (expenses)	**49**	(52)	0	(80)	(125)
Profit before tax	**744**	338	459	257	465
Profit for the year	**479**	148	308	140	314
Balance sheet:					
Fixed assets	**2 187**	1 950	2 188	2 372	2 244
Current assets	**3 435**	2 685	2 381	2 009	2 297
Total assets	**5 622**	4 635	4 569	4 381	4 541
Equity	**3 598**	3 119	2 964	2 656	2 517
Provisions and long-term liabilities	**437**	411	485	795	783
Current liabilities	**1 588**	1 105	1 120	930	1 241
Cash flow items, working capital and investments:					
Purchase of tangible fixed assets	**139**	126	130	146	189
Working capital	**1 847**	1 580	1 261	1 079	1 056
Cash flow	**609**	291	353	280	400
Number of employees	**6 095**	6 236	5 989	5 799	5 599
FINANCIAL RATIOS:					
Profitability:					
Operating margin	**10.4%**	6.5%	8.0%	5.9%	10.1%
Pre tax profit margin	**11.1%**	5.7%	8.0%	4.5%	8.0%
Net profit margin	**7.2%**	2.5%	5.3%	2.4%	5.4%
Return on total assets	**15.3%**	9.0%	11.2%	8.7%	14.2%
Return on equity	**22.1%**	11.1%	16.3%	9.9%	19.7%
Liquidity:					
Current ratio	**2.2**	2.4	2.1	2.2	1.9
Liquidity reserves	**1 510**	999	852	543	534
Liquidity cover	**25.7%**	18.3%	16.4%	10.3%	10.5%
Leverage:					
Equity ratio	**64.0%**	67.3%	64.9%	60.6%	55.4%

DEFINITION OF RATIOS

Profitability

Operating margin:
Operating profit x 100/
Operating revenue

Pre tax profit margin:
Profit before tax x 100/
Operating revenue

Net profit margin:
Profit for the year x 100/
Operating revenue

Return on total assets:
(Operating profit
+ Financial income) x 100/
Average total assets

Return on equity:
Profit before tax x 100/
Average equity

Liquidity

Cash flow:
Profit before tax
+ Depreciation
– Taxes payable

Current ratio:
Current assets/
Current liabilities

Liquidity reserves:
Cash and bank deposits
+ Short-term financial
investments

Liquidity cover:
Liquidity reserves x 100/
(Total operating expenses
– Depreciation)

Leverage

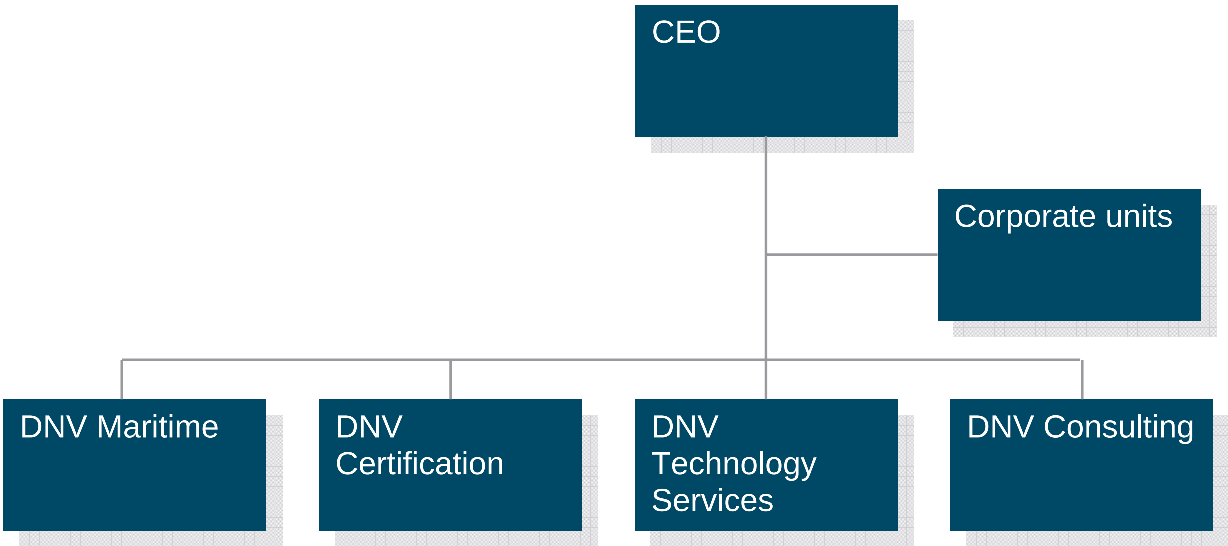
Equity ratio:
Equity x 100/ Total assets

Source: DNV Annual Report 2005, page 52.

*Note: NOK 100 million = US $ 16 million (per exchange rate, December 8, 2006).

Exhibit 2

Organization Chart as of 2005 (Partial)

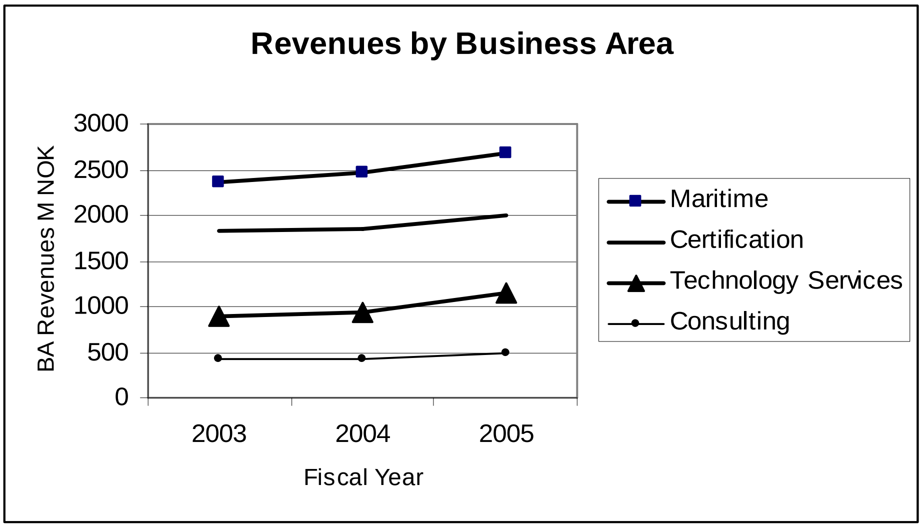


Maritime. A world-leading certification society. Classified 19% of new building tonnage in 2005.

Certification. Provider of certification, verification and assessment services. Provider of quality, safety and environmental management system certification. More than 80 national accreditations and 50,000 customers.

Technology Services. Provides consulting for risk related technology services to the oil, gas and process industries. Risk-based verification and compliance services. Offshore classification services for drilling, production and storage units.

Consulting. Risk management consulting operation. Advice and solutions for Enterprise risk management. Asset risk management. Safety, health, and environmental risk management. Software risk management.



Source: Internal documents, Annual Report 2005.

Exhibit 3

Summary of the Business Plan for the Cross-business Food Initiative (December 2003)

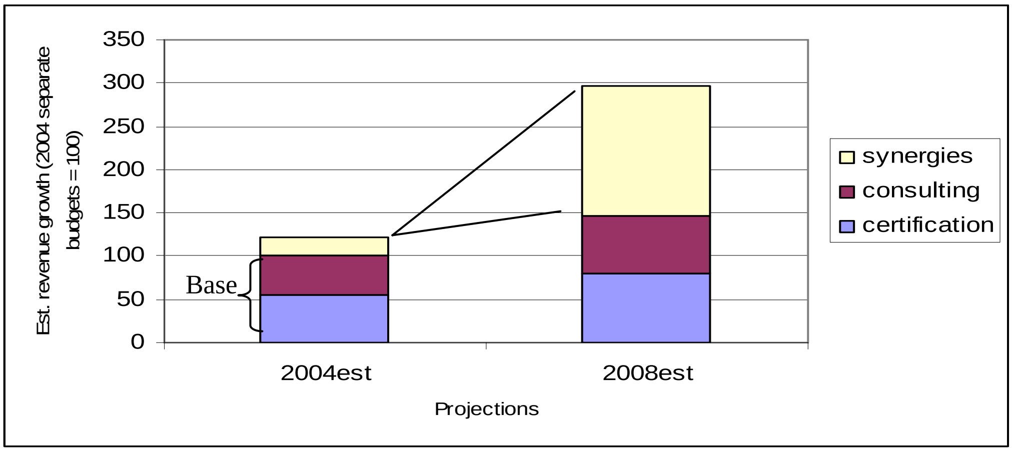
1. Examples of joint service offerings to major foods producers and distributors:

Area	Service offering	Deliverables to customers
Certification	Audit of food safety performance for a food processor's suppliers	Report with non-conformities and recommendations
	Assessment of client's management system against standards (e.g., ISO standards)	Report on non-conformities and recommendations; an accredited management certificate
	Certification of product attributes and production process	Assessment of production process; collection and testing of product samples; product certificate
Consulting	Risk-based supplier evaluation for food processor's supplier base	Identification and evaluation of supplier risk exposure; a software system to support self-assessment
	Evaluation of total company risk for food safety	Identification of risks; implementation of risk reducing measures; a software system to support risk management
	Crisis management planning and recovery	Identification of risk issues; implementation of consequences reduction plan

2. Proposed activities carried out by the cross-team:

- Increase marketing and sales efforts of food safety risk services.
- Capitalize on respective existing customer bases in Certification and Consulting. Increase cross-business sales and marketing efforts.
- Coordinated generation and follow-up of market leads and opportunities.
- Represent one DNV access point for existing and potential customers in the food safety risk area.

3. Projected revenues in food safety risk services (as of December 2003)

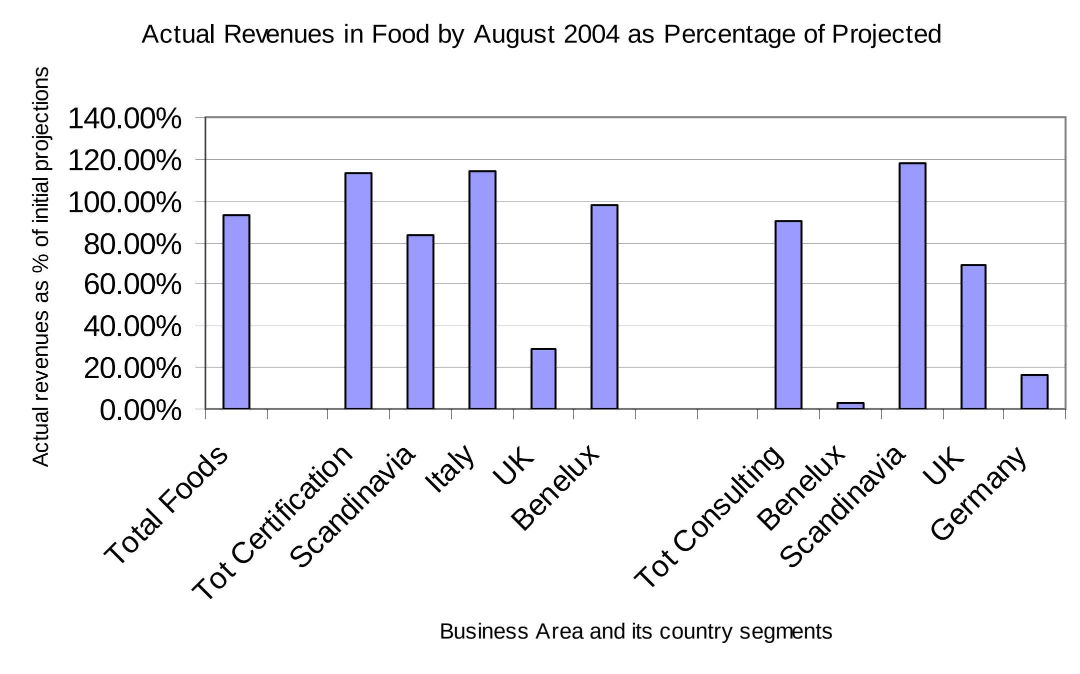


Note: Certification and consulting buckets represent revenues if no cross-area activities. The sum of budgeted revenues in 2004 (est) for food safety services from separate activities in the consulting and certification business areas represents the index of 100 (i.e., revenues without the cross-business initiative). These revenues would have grown by themselves by 2008. "Synergies" represent *additional* revenues as result of cross-business activities (i.e., about 50% of all revenues in food safety sales by 2008).

Source: Internal Food Safety Business Plan, December 2003.

Exhibit 4

Food Business Revenue Results: Actual by August 2004 vs. Initial Projections in 2003



Note: Above 100% means better than projected; below 100% means less than projected.
Note: Actual budget numbers in MNOK are disguised.

Source: Internal presentation by the cross-business Food Safety team to the Executive Board, September 23, 2004.

To order INSEAD case studies please contact one of the three distributors below:

ecch, UK and USA

ecch the case for learning

ecch UK Registered Office:
www.ecch.com
Tel: +44 (0)1234 750903
Fax: +44 (0)1234 751125
E-mail: ecch@ecch.com

ecch USA Registered Office:
www.ecch.com
Tel: +1 781 239 5884
Fax: +1 781 239 5885
E-mail: ecchusa@ecch.com

Centrale des Cas et de Médias Pédagogiques

CCMP
CENTRALE DE CAS ET DE MEDIAS PEDAGOGIQUES

www.ccip.fr/ccmp/
Tel: 33 (0) 1.49.23.57.25
Fax: 33 (0) 1.49.23.57.41
E-mail: ccmp@ccip.fr

INSEAD

Boulevard de Constance, 77305 Fontainebleau Cedex, France.
Tel: 33 (0)1 60 72 40 00 Fax: 33 (0)1 60 74 55 00/01 www.insead.edu

1 Ayer Rajah Avenue, Singapore 138676
Tel: 65 6799 5388 Fax: 65 6799 5399

Printed by INSEAD