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Control Configured Organizations (CCO): Delivering Both Speed and Scale Merits in Business Operations

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To maintain their competitive edge in today's world, corporations must simultaneously achieve two conflicting objectives: accelerating change and expanding their scale of operations. This requires a means of responding to the rapid pace of change in the business environment, as well as a concept that surpasses the strategic business unit (SBU) and taskforce organizations that form part of current business practice.

In this paper, Nomura Research Institute, Ltd. (NRI) proposes the concept of a "Control Configured Organization (CCO),"* which is an organizational structure that proactively manifests instability. Within a CCO, the conventional line system controls business units in which various new projects are organized within the line system to deal with market needs and change. In short, it essentially manages both new projects and the line system effectively.

A CCO offers the following advantages: (1) a non-linear, free-form communication network is created within existing communication channels; (2) business ideas are generated by frontline staff and the transactions and relationships they have with existing customers trigger these business ideas; and (3) the proposer of each business idea becomes the project leader and has complete authority to select the team to develop the idea.

Moreover, introducing a CCO creates the following ripple effects: (1) there is a shift towards a corporate culture with a powerful entrepreneurial spirit; (2) it builds a talent market and allows for spontaneous, 360-degree appraisals; and (3) it intensifies competitiveness when recruiting staff members.

As a CCO is designed to create instability within the organizational structure, management commitment is critical. Specifically, the following mechanisms need to be established: (1) support for the new business idea discovery process by offering avenues of communication among all staff members; (2) quick decision-making when initiating each project; (3) information-sharing among employees and coordinating the selection of project team members; and (4) appropriate, flexible personnel evaluations and performance management.

* The authors have coined the term Control Configured Organization (CCO) on the basis of the term "Control Configured Vehicle," which refers to the fuselage design of the stealth bomber used in the Gulf War.

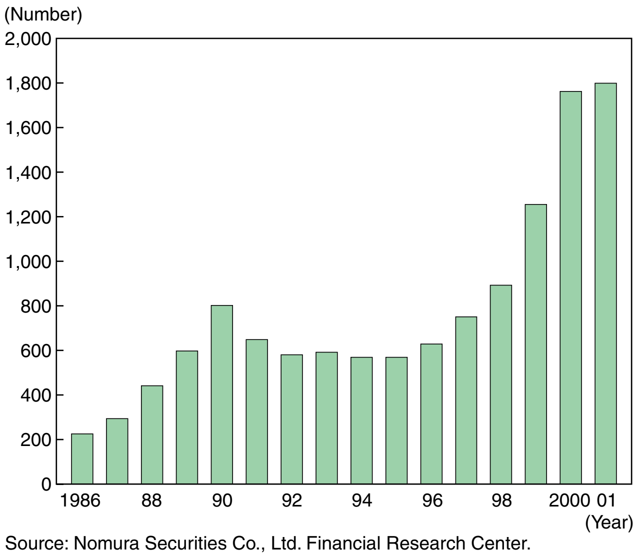
I The Inherent Dilemmas in Current Corporate Organizational Structures

1 The Scale and Speed Dilemmas

An increasing number of companies have expanded their scale in recent years. What are the reasons for this? First, in order to achieve and maintain competitive advantages, companies strive to reduce their per-unit costs by expanding their market share and so choose to increase their scale. During the post-war era of strong economic growth in Japan, however, the increasing scale of companies went unnoticed because it was simultaneously accompanied by market expansion.

In recent years, as all sectors of the economy have matured and companies can no longer expect any sharp increase in the overall size of the market, competition in costs and market share in particular have intensified. This kind of competition has resulted in weak companies being forced to withdraw from the market and strong companies gradually increasing their scale. One reason for the recent surge in M&A (mergers and acquisition) activity is the intensity of cost competition as existing businesses attempt to increase market share (Figure 1).

Figure 1. Trends in the Number of M&A Cases in Japan



Source: Nomura Securities Co., Ltd. Financial Research Center.

Another reason for the increase in M&A activity is the shift in the use of internal resources. Up until now, companies would train their staff internally and conduct research and development internally when deficiencies appeared. Now, however, the outsourcing of some operations has become a common practice. Compared to conducting the required staff training internally and carrying out new research and development independently, external procurement allows a business to be expanded far more quickly.

But even when a business starts up quickly, the speed of change within the entire company tends to slow down as the company's scale grows. This is mainly because of the complexity of coordinating internal and external activities. On the other hand, the speed of change in the business environment surrounding a company tends to increase dramatically. For example, 10 years ago the product planning cycle for IBM and GM was between five to 10 years, but in the software industry this has fallen to between six months and one year. This means that companies must significantly reduce the time frame of their strategic planning. Up until five years ago, companies took a 3- to 5-year strategic view and it was acceptable to review fundamental strategies once every three years. Nowadays, however, a 1- to 3-year view must be taken and an annual review is required.

In summary, the business planning cycle is becoming shorter and the conventional corporate structures of large companies cannot respond to the ever-changing environment. Consequently, an organizational structure that can respond quickly and flexibly to changes in the business environment is urgently needed to maintain a competitive edge.

As mentioned above, today's corporations must simultaneously achieve the two conflicting objectives of accelerating change and expanding their scale to maintain their competitive edge.

2 Conventional Measures to Maintain the Speed of Change

Up until now, of course, corporations have used various measures to maintain the speed of change while continually increasing their scale. Examples of such approaches include strategic business units (SBUs) and taskforces that are used to create various work groups within an organization. These are small organizational units based on small teams, and are used to execute specific business strategies with a focus on speed.

While potentially being able to act as quickly as any small-scale unit can, the SBU often fails to deliver with the speed that is expected. This is because the SBU operates at the same level as ordinary business divisions or departments, and such things as the decision-making rules, reporting lines and evaluation methods are very similar to those of the large organization to which they belong. As a result, the management of an SBU becomes very much like the bureaucratic management system of a large organization, which invariably slows down change. Furthermore, because the employees are completely removed from their original organizational units in order to work in the SBU, they lose client contact opportunities and are not able to respond effectively to the changing needs of their customers.

In summary, a small SBU will lose its speed advantage because it is managed under the same rules that operate in any large, bureaucratic organization. Once an SBU is established, it is unable to quickly respond to the changing business environment because it is slower in responding to changing customer needs.

A taskforce on the other hand is usually started by senior management and is run separately from the existing business divisions or departments. For this reason it is unlike the SBU in that it may escape the bureaucratic management style of a large organization. Furthermore, the members that make up a taskforce stay within their original workplaces, carrying out both taskforce assignments and their usual duties. This enables them to maintain client contact opportunities that make it possible to respond to the changing needs of their customers.

In this sense, a taskforce does not have the shortcomings of an SBU. The taskforce definitely delivers continual scale increases to the entire company while quickly responding to the changing business environment.

However, even if a taskforce can achieve its mission quickly, there is no resultant shift in the corporate culture to pursue accelerated change. As the theme of a taskforce and its members are selected by top management, any sense of entrepreneurial spirit or ownership by the team members themselves tends to be diluted.

While the taskforce system enables it to respond to management requests when the goal is to pursue speed in a mission, it is not an appropriate vehicle if top management seeks to change the corporate culture to pursue a faster response to change in general. If there is no shared awareness of the urgency or necessity of action among employees, the organization cannot deal with the recent speed of change in the business environment. Of course, entrepreneurial spirit and ownership by all employees are required at the same time. For this purpose, a concept that surpasses the taskforce is necessary.

II CCOs Proactively Create Instability

1 An Administrative System to Manage Both a Project and a Line Organization

The authors propose a Control Configured Organization (CCO) as an organizational structure that proactively creates instability for companies being forced to swiftly develop new services and to quickly innovate in response to change in the competitive environment, while day-to-day business is the core of corporate operations.

A CCO is "an organizational structure in which the conventional line system controls business units, but in which various projects for market needs and change are flexibly organized and dissolved as required. It essentially manages both the project and the line organization." While the organizational chart shows the line structure, there is a part of the organization not shown in the chart that manages project teams.

The term CCO is derived from Control Configured Vehicle (CCV). The authors believe that the CCO concept is somewhat similar to the stealth bomber, a CCV made famous in the Gulf War. Usually, a plane is designed with a fuselage configuration that enables it to fly in the most stable fashion. During turbulence or when there is a need for a quick, dramatic change in direction, however, it is difficult to effectively control the plane because of this stable configuration. Under the CCV concept, the instability of the fuselage configuration is proactively increased. A computer controls the aircraft with such an unstable fuselage configuration and delivers a more advanced maneuverability that would otherwise be unobtainable.

In terms of the organizational structure, stability represents fixed job allocations and a work structure in which people operate their tasks under a predetermined procedure. While demonstrating its strengths in peacetime, this kind of stable organizational structure is vulnerable in the wake of a sudden downturn in company performance caused by intense environmental changes.

However, a CCO creates instability within a stable organization. And by proactively controlling that instability, a company can achieve dual goals: accelerating its responses to environmental change and expanding its scale.

2 Features of a CCO

A CCO has similar elements to the SBU and taskforce structure mentioned above, but also includes the following three significant differences.

(1) Intertwined organizational communication

Building a free form and non-linear communication network within the communication channels of a company's typical pyramid-shaped organization becomes a key factor of the CCO configuration, which creates instability within itself. This represents a significant departure from the SBU and taskforce framework.

When launching any business regardless of the industry, all members of the organization generally communicate in an all-channel communication network (shown at the left side of Figure 2).

If n represents the number of employees, then the number of communication channels can be expressed as $n(n-1)/2$. As this calculation shows, communication increases by 100 times which each 10-fold increase in the number of employees. A 100-fold increase in the number of employees creates a 10,000-fold increase in communication channels. Consequently it is impossible for a company to use an all-channel network where all

Figure 2. Differences in Communication Structures (All-Channel vs. Wheel Network)

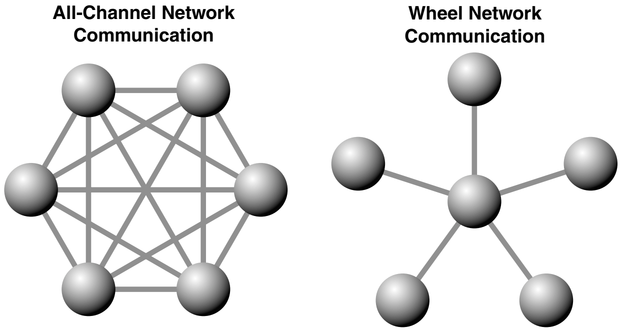
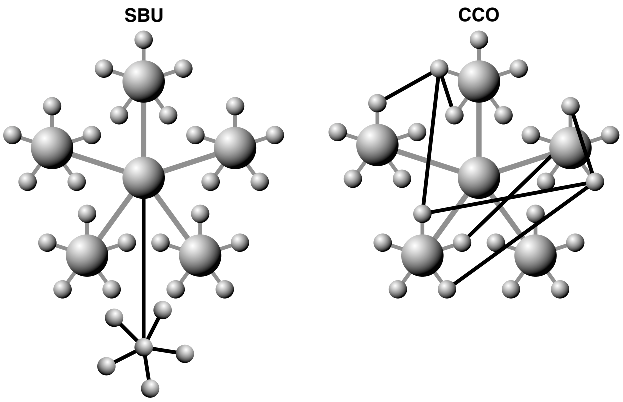


Figure 3. Differences in Communication Structures (SBU vs. CCO)



of its employees are communicating directly with each other as the scale of the company expands.

This is where the wheel communication network emerges (shown at the right side of Figure 2). One member is at the center of the communication network and maintains communication with the other members of the organization. When viewed from a different angle, the wheel communication network is in fact a corporate organizational structure. The pyramid structure (where employees report only to their superiors) consists of multiple wheel networks layered hierarchically. In this case, as employees have one-to-one communication only, the communication channel will be increased only by a factor that is identical to the number of newcomers in an organization. In a company that starts with 10 employees and grows to 10,000 employees, for example, the number of communication channels would increase to 49,994,955 in the all-channel model. In the case of the wheel network, however, an increase of just 9,990 communication channels would be enough to cover all of them. In most companies, this pattern of expansion along with a switch from the all-channel network to the wheel network does not change but simply becomes multi-layered as the company grows.

SBUs and taskforces are merely added as mini-pyramid structures to the existing line pyramid organization either internally or externally. There is no change in the communication channel from superiors to subordinates and the wheel communication network is left as it is (shown at the left side of Figure 3).

With the CCO structure, however, teams are made up of employees at the bottom of the line pyramid organization and of those from different line organizations. Because these teams do not leave their line organizations to officially form a separate group, a newly created communication network is intertwined with the existing wheel network (shown at the right side of Figure 3). Managing this complex arrangement is extremely challenging, but this internal complexity will prompt the company to transform itself into an "agile elephant."

(2) D&R projects

Another difference is that frontline staffers (i.e., those who have contact with customers and users) are the individuals who discover themes for project teams and who propose new projects. While projects for SBUs, taskforces and central R&D units start from market research or technical research that is far removed from daily business practices, projects for a CCO are always derived from transactions and/or relationships with existing customers.

In contrast to R&D units and taskforces that usually solicit new projects with specific deadlines, CCO projects are drawn up at any time and so are referred to as Development & Research (D&R), a reversal of R&D.

(3) Project leaders with complete authority

The third difference is that the proposer of the project has complete authority over the project. Once the decision is made for a project to be undertaken, the responsibility for the entire project lies with the proposer.

In particular, the selection of team members is one of the biggest tasks. In contrast to SBUs and taskforces, it is not the company that selects team members but the proposer who, like an entrepreneur, goes about recruiting members of the project. The project leader thus gains an enormous sense of ownership over the project.

However, even though the proposer has authority over team member recruitment, it is difficult to get the right and good staff together immediately. From the employees' point of view, as they have their own work responsibilities, they need to carefully evaluate (1) the value of leaving their regular posts or pursuing both the project and their regular duties simultaneously, and (2) the value of working together with the leader and indeed what kind of person the leader is. If they are not sure of these values, they do not want to apply for a project.

The leaders must therefore convey to other team members their character as well as the theme and the management policy of the project. The leaders will also need to keep updated as to talented staff in other divisions within the company and if necessary, to speak to them for recruitment purposes.

3 The Advantages of the CCO Ripple Effect Throughout the Company

In adopting a CCO, ideas and planning emerge in close proximity to customers. From within the same line organization, the proposer exercises supervision over the project and becomes its leader, and the company can accelerate the project while still maintaining the company scale. This approach should not only accelerate a single project, but also create ongoing ripple effects throughout the company (Table 1).

(1) The shift in corporate culture

A CCO does more than just accelerate a single project, but continuously launches numerous projects in the line organization that operates routine work, stimulating an entrepreneurial spirit among all employees. The foundation for this lies in an increase in direct communication channels between employees, which means that—despite the large scale of the company—the corporate culture shifts toward active entrepreneurship.

(2) Spontaneous 360-degree appraisals

As job performance is conventionally the key element in personnel evaluations, employees focus on such evaluations and human relations within the context of the formal vertical line organization in which their work is carried out. By adopting a CCO, however, projects are launched beyond the scope of the line organization, and it is not the project leader's superior but the leader's colleagues and subordinates who develop an understanding of each other's competence and personalities and naturally evaluate each other's strengths.

This spontaneous, 360-degree appraisals process more adequately assesses individual strengths than the existing personnel evaluation system that is based on qualifications and skill levels, a common practice in most Japanese companies. If this atmosphere is promoted, it will create a talent market based on a mutual and natural awareness of each other's value within the company and will promote the natural selection of more competent employees.

(3) Recruitment advantages

Taking a longer-term perspective, a CCO exhibits advantages in recruiting personnel. Whether they are new graduates or mid-career recruits, there is a growing tendency among applicants to choose companies where they believe they can do the job they want to do rather than simply enter a large company. Accordingly, it follows that companies that can provide an environment where a self-motivated employee can find a business opportunity and is offered the chance to launch and lead a project will certainly have a competitive edge in recruitment compared to other large companies.

III Managerial Requirements for a CCO

Notwithstanding the superior characteristics of a CCO as an organizational structure, its instability and complexity are far more difficult to control from a management perspective than an SBU or taskforce in actual operations. The following issues require particular attention.

Table 1. Comparison of SBU, Taskforce and CCO Structures

Characteristics	CCO	Taskforce	SBU
Setting themes	Bottom up (Daily frequency)	Top down (Extraordinary basis)	Top down
Member selection	Project leader	Top down	Top down
Member status	Joint or full-time appointment	Joint or full-time appointment	Full-time appointment
Role of top management	Sponsor	Owner	Owner
Communication structure	Non-linear (Complex)	Wheel	Wheel

Advantages	CCO	Taskforce	SBU
Ownership by project leader	Strong	Weak	Weak
Ripple effects on corporate culture	Yes	No	No
Employee communication network	Broadens (naturally occurring 360-degree appraisals)	No real change	No real change
Recruitment advantage	Yes	No	No

1 Supporting Efforts to Discover New Business Ideas

In the usual line management structure, there is a tendency to focus on the business that can be done within the structure. In a CCO framework, business ideas emerge freely as they are not restricted by the regular line management structure, and it is important to encourage the generation of ideas across departments.

These cross-departmental ideas come about in two ways. Some ideas emerge due to the needs of customers. But this hardly ever grows out of direct interaction with a customer; rather it occurs from the second approach, which utilizes communication among employees. It is management's role to improve the formal organizational structures and to create venues for such communication to occur.

Very primitive, direct dialogue and stimulation between employees is the most effective method of generating ideas. In the case of one NRI client in the image-related business, the company supplied a venue for communication exchanges known as an "Employee Forum." Business ideas that emerged from the forum then became the basis for cross-departmental projects. In companies where it is difficult for employees to engage in direct communication because departments are physically separated, a bulletin board set up on the company's intranet can be used to facilitate the contribution and sharing of ideas among employees.

At the same time, it is better not to dwell on the service offered by existing line organizations in formal structures. In that sense, there is an advantage in business units based on customer groups and matrix organizational structures rather than business units geared to products and services.

The front-back organizational structure used by IBM and NEC is especially compatible with the CCO framework. This structure involves the front unit that handles customer relations and the back unit that is responsible for product and service development (Figure 4). The front unit is not concerned with the profitability of each product and service, and focuses only on customer satisfaction. Accordingly, it can freely devise various combinations of products and services to increase customer satisfaction, and offers a fertile ground for ideas that can spontaneously overcome the limitations of the existing system.

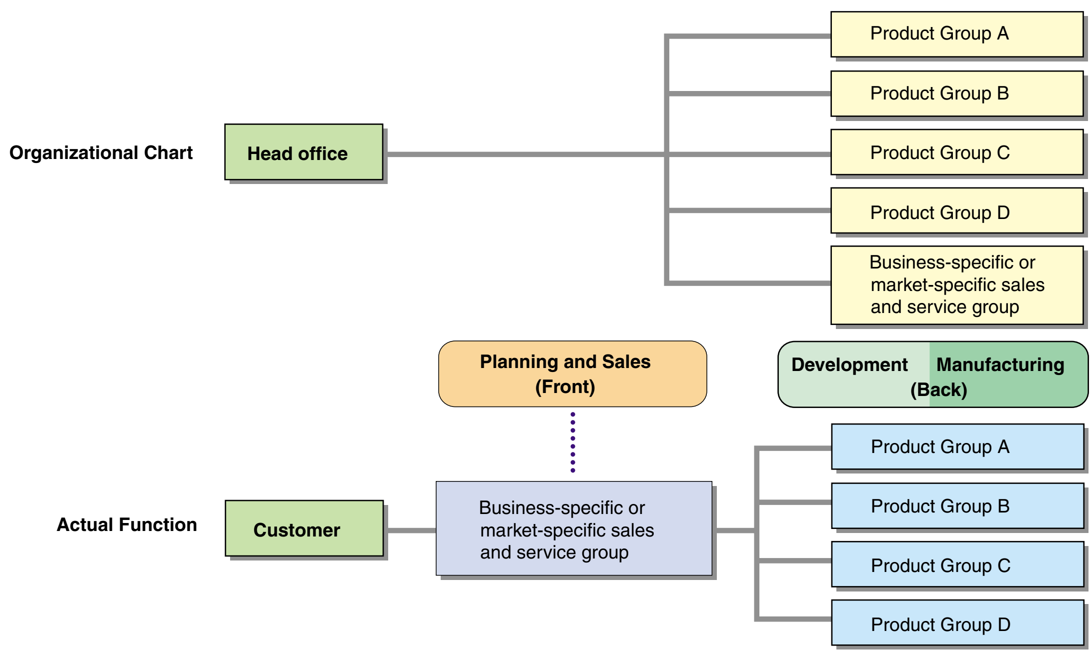
2 Making Project Launch Decisions

Naturally, not all ideas generated by employees can be transformed into projects. In the decision-making process, the following two points should be taken into consideration.

First, there is the matter of speed to be considered. Slow decisions on business ideas that have come from the actual workplace not only sap employee motivation, but may also result in the loss of business opportunities. Similarly, decisions should not be made away from the actual workplace. Further, it is difficult for the entrepreneurial spirit to emerge in the existing line organization where top and middle management conducts what is regarded as "the typical Japanese business decision-making process," in which they take an idea and continue to massage it in order to achieve a consensus.

Once a project is started, an immediate decision is required with respect what the actual workplace feels about the issue, just like a QC (quality control) circle at the actual workplace would delegate authority.

Figure 4. The Front-Back Organization



Specifically, the decision-maker (whether a middle manager or a senior executive) does not carry out the decision-making process based on the majority opinion. Rather, the project can be launched if one person with decision-making authority approves of the idea. This way, the feelings and intuition of employees can be widely incorporated in the decision-making process.

Second, there should be a basic coherence between projects and existing businesses or corporate management planning, while still taking the propensity for innovation into account. If project themes are based on existing businesses or company policies and are predetermined, there is no need to wait until new ideas emerge from the actual workplace. In contrast, it is impossible to predict what themes will arise from the bottom of the structure. Further, the ideas that emerge should not conflict with existing businesses and must include elements of innovation. When ideas are proposed as possible projects, the degree of innovation and possible conflict with the existing business must be assessed.

If the degree of innovation is low and it can be run within the existing line of business, a proposal is not given project status; rather it is conducted within the line organization. If the degree of innovation is high and there is some conflict with the existing business, it is necessary to consider whether the proposal should be carried out in a separate business division or a subsidiary company. If the degree of innovation is high and there is little conflict with the existing business, then it is given project status for possible execution. Potential risks should be listed in advance. If they are actually present or there are cases where conflict does emerge, the parameters should make it possible for a project to be suspended at any time.

3 Supporting Project Teams

With a CCO, it is important that the project leader be able to organize his own project team in the same way an entrepreneur gathers his own staff. Even when the decision has been made to proceed with a project, in many companies senior executives or middle management often choose the project team members in a one-sided fashion. It is difficult in these cases to effectively motivate employees who are the owners of business ideas or those appointed to projects.

In companies where top or middle management have chosen project team members in the past, it can be problematic for a team leader to be in charge of selecting team members and to get the project going immediately. Therefore, instead of management selecting team members, it is necessary to implement the following process.

First, a system should be established to promote the sharing of information regarding the skills and expertise of all employees. This system uses a self-introduction Web site where all employees can present their own profiles to promote themselves within the company by outlining the projects they have carried out in the past and the kinds of projects they want to be involved with in the future. Using such a system, a project leader can ascertain who has certain kinds of knowledge and experience and the home department of each applicant.

However, the larger the number of employees, the more difficult it is to find those with a real desire to participate in a specific project. In reality a "Project Recruitment System" needs to be used in combination with such a database. For example, employees with no specific ideas of their own but still wanting to work with people in other departments need to know about upcoming projects within the company. Conventionally, employees work solely for their superiors in their own departments, which increases the barrier between different departments. But in the future, it will be important for employees to promote their skills beyond their own department and become aware of other projects starting up within the company through the sharing of information across departments. In addition to the system to publicize who has what skills and who is launching what project, a system which senior executives and middle management act as coordinators in the final stage of the process is needed.

In one instance, employees at a client company that introduced a CCO only volunteered for projects that they wanted to participate in, thus making it difficult to recruit members for projects that were not particularly interesting but which were profitable and solid. This may sound as if it contradicts the concept of a CCO, but it is also important to ensure that human resources are allocated fairly to unpopular projects and regular duties and that effective coordination is carried out while still respecting each employee's autonomy.

NRI maintains a Web page on the Intranet with a "Contact Report" promotion tool and a self-introduction page known as the "Kaona Book" (which loosely translates as the "Faces and Names Book"). When launching a new project, the project leader uses the Kaona Book to look for motivated people with the relevant experience, while employees refer to the contact report to approach project leaders with their applications to participate. This system provides for the effective coordination and selection of suitable members not only by each department head, but also by project leaders and prospective members themselves.

4 Appropriate Personnel Evaluation and Performance Management

Unlike R&D units and SBUs, a CCO does not provide for evaluating performance of the project and its members solely within the unit itself, but rather utilizes a process that works closely with the existing line organization. A recent management trend has seen a number of companies embracing a personal evaluation system that uses detailed job descriptions and assigns points to specific tasks. This system may work for those companies that conduct pre-defined, routine business activities or that can easily assign or remove certain people on each project when necessary. However, it is necessary to keep several types of employees as project resources in order to flexibly reconfigure project teams as the need arises. As a consequence, personnel evaluation systems must be very flexible as well.

At one client company that consulted with NRI regarding a CCO, it was necessary not only to cut the number of qualification ranks from 10 to three, but also to establish a flexible personnel evaluation system that could respond to change when necessary. As a result, it became possible to launch projects even on a mid-year basis, regardless of annual fluctuations.

In terms of evaluating performance, both an accounting system that can flexibly respond to changes in the corporate organization and the determination of transfer costs to facilitate the assignment of staff to projects are necessary. Generally speaking, the bulk of work in large companies is made up of regular duties, for which specific performance parameters can usually be assessed properly. But the accounting system is not suited for evaluating performance within the context of projects, which are "unofficial organizational structures." In the first place, accounting systems need to be modified to flexibly respond to projects emerging within the line management structure and to organizational change. Furthermore, transfer costs need to be defined for employees who are moved from line duties to a project in order to enable line managers to dispatch their subordinates to projects more easily.

IV Two Case Studies

This section examines two case studies from among companies for whom NRI has provided consulting services. Both firms have incorporated the concepts and philosophy of a CCO structure. Let us first look at a high-tech manufacturing company where CCO techniques have helped improve results, and examine how the company has been carrying out projects. We will then outline the situation with a software-related client, and explain how a CCO was introduced and what adjustments were made to the managerial environment.

1 Case Study 1: High-Tech Manufacturing Company

This manufacturer is in a high-tech industry where technological innovation is rapid. The firm has its own large-scale manufacturing facility, in which a highly controlled line organization based on the optimal division of labor is essential in operating a large manufacturing facility in a stable fashion. Like other companies, the firm has adopted a multi-tiered structure based on the functional division of labor.

As there is generally a separation between planners and executers in a system that involves a multi-tiered division of labor, organizational response to changes in the environment is slow. When new trends emerge in the market, frontline employees who do the actual work inform those in charge of planning of the market needs. The planners then draw up a plan, and present it back to the frontline personnel. As a result, planners often do not hear the views of those on the frontline and the process takes time and effort, generally slowing the response to changes in the environment.

However, a CCO was incorporated into the multi-tiered structure to create a fast-moving organization with quick decision-making capabilities (Figure 5). Ideas are generated and plans drawn up (including team proposals) in the actual workplace. The proposer sends an email directly to the manager in charge of the project, requesting a decision, and there are daily exchanges such as "I would like to do this," typically followed by "OK, give it a try" between frontline personnel and corporate executives.

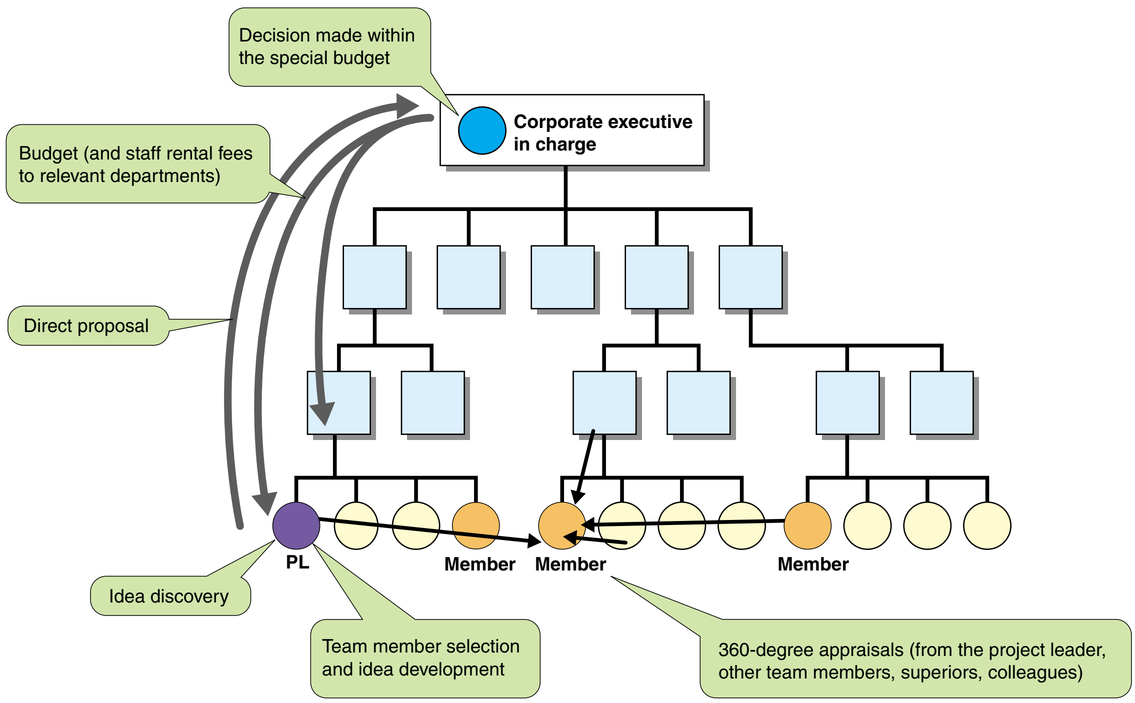
The company chose to have the details of ideas presented to corporate executives appear simultaneously on the project bulletin board. While this is similar to proposal notification in order to gather the opinions of people interested in the project, the process encourages cooperation among employees who want to improve these ideas, which is a secondary effect.

Corporate executives in charge of the projects have a special budget to cover expenses incurred by the project, and this budget is entirely separate from that for the line organization. Unlike the line organization budget, moreover, it is not necessary that this special allowance be fully consumed, as it is used only when the executive agrees with the proposal and decides to become the sponsor. The budget is used not only for purchasing goods but also for encouraging participation in the project by paying various departments a kind of "rental fee" for the employees coming to the project on loan. In this sense, this budget constitutes an internally managed corporate account. When a project is actually launched, the proposer becomes the project leader and the leader selects the team members. It is usually not difficult for the proposer to organize a project team because various people in the company have already been involved since the early stage of the project in some way or other.

Further, each team member establishes targets as the project is launched. For members who are working both on the project and in their regular capacity within the company, the objectives of the project are added to mid-term objectives pertaining to their regular roles.

The project leader conducts evaluations for full-time team members. For those who are working on

Figure 5. Concept of CCO Management at High-Tech Manufacturer



Note: PL = project leader.

the project part-time while maintaining their regular roles, their superiors in their own departments conduct the evaluations.

This company has long used the 360-degree appraisal method to evaluate individual employees. For that reason, employees who become team leaders have little trouble evaluating the members of their project teams even if they have little experience as an evaluator. Part-time team members who are also engaged in their regular work can be evaluated by their regular supervisors, who can include the employee's project contributions in this evaluation by reviewing a report from the project team leader as part of the 360-degree appraisal process.

Although the company is a multi-tiered organization in itself, it is among the few companies that have been able to create an organization which can move nimbly, and effectively use its mechanisms and systems.

2 Case Study 2: Software Development Company

As a pioneer in a particular software genre, this firm initially enjoyed a significant share of that emerging market. However, as more than half of the company's annual turnover was represented by new software developed in that year, the company was in a unique market in which mainstream hardware and operating systems changed every two to three years. Under these circumstances, the company had to be highly innovative while still managing its day-to-day business.

As the company grew, the organizational structure became more complex and multi-tiered, resulting in decisions being made more slowly and far from the actual workplace. Engineers were divided into departments and sections and almost became "fenced in." Due to the barriers between these departments and sections, they were unable to collaborate to develop new software. In addition, the sales team and development team were completely separated both structurally and psychologically. As a result, the company's market share plummeted by 15 percentage points over a 10-year period, knocking the firm off its perch as a major player.

To stop this vicious cycle, the company worked closely with NRI to introduce a producer system based on a CCO approach that allowed any employee to make a proposal. If a decision is made to launch the proposed project, the proposer becomes the producer, with responsibility for everything from selecting the team to the bottom-line profits.

In introducing the system, a number of mechanisms were built into the organizational structure to ensure the producer system could function appropriately. First of all, a production department was established to improve coordination, to accelerate the decision-making and approval of business ideas, and to support the producer in recruiting employees for the project.

As the company is strong at systems development, it also created a mechanism to enable the sharing of past projects and business ideas. Another unique new characteristic calls for assigning all engineers to a single "section" while they are not actually engaged in software development, and then moving them to the project along with the producer once a project has been launched. This removes the barriers that separate engineers and encourages greater cooperation and dialogue among them.

Moreover, in conjunction with the change in the organizational structure, the existing competency qualification grade system was abolished to allow both performance and competency to be compared within each business unit and job category. Using the sales workforce as an example, the 10 functional qualification ranks that had previously existed were simplified to just two ("senior sales position" for sales managers and "sales position" for everyone else), and evaluations are now based on these two grades alone. In launching a new project, comments such as "You can't participate yet because your grade is too low," are now rarely heard, and young but capable employees can be chosen for projects more freely.

Instead of setting up criteria and items for evaluation, communication between the evaluator and the employee is considered critical and there is a shift toward a flexible system of evaluating job quality and performance.

Various systems were created for managing performance, including one that can not only assess the performance of a formal line organization but can also measure the profitability of each project. Another system is used to check each employee's work role and involvement.

As it has been only six months since this new structure was introduced and no products developed under the new organization have yet been released, we are unable to verify its effects in such areas as higher sales. But the company has already reported some welcome changes, including the emergence of many young producers and producers with a sales background, that are starting to breathe new life into product development.

V CCO: Activating Japan's Major Corporations

Japanese companies in today's volatile, recession-bound environment often complain that they cannot reduce the size of their workforce. Although many companies tend to hold on to more employees than necessary, they should not regret doing so.

The most significant problem, however, is that communication among employees, a traditional strength of Japanese companies, is prevented by a pyramid-shaped organization, and by an excessive emphasis on top-down, one-way communication. While the strong top-down approach is important, at the same time the CCO proposed in this paper enables employees to generate many new ideas and projects and enables companies to take advantage of having abundant human resources. This is a privilege that large organizations can enjoy. The concept of a CCO is based on abundant human resources retained within a company on a long-term basis, which should be a fundamental strength of Japanese companies. In sum, no matter how big a company grows, if an autonomous and spontaneous communication network can be created, continuous growth can be achieved.

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