Case study
Strategic renewal: how an organization realigned structure with strategy
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The prospect of an organization attempting strategic renewal usually brings to mind a dramatic change in strategy, such as Intel's decision to make specialized chips and abandon its highly successful commodity chip business. However, a less dramatic but equally significant strategic renewal could involve modifying an organization's out-of-date structure in order to implement management's intended strategy. Such a renewal should be approached from two sides: making sure the strategy truly fits the current business environment and changing the structure to fit the intended strategy.

This case focuses on the structural process of renewal. It illustrates top management's need to analyze whether the operating structure is aligned with its intended strategy for a dynamic business environment. This is not an unusual problem because, when competition increases, many firms change their structure to concentrate on a few profitable activities, thereby inadvertently compromising their intended strategy.

This disguised case looks at the process of structural renewal at “Wyler Oil Co.”, one of the biggest companies in its industry segment, that was lulled into complacency by prospects of seemingly steady growth. Initially, management only sought to determine how to operate more efficiently and minimize duplication of costly services.

But prodded by the advice of a consultant, management reframed the core question: was the firm's structure aligned with leadership's intended strategy? A self-directed study process (see sidebar) revealed that the intended strategy had been gradually subverted as the organization grew in complexity and specialization. Management quickly developed a consensus that favored a dramatic change in the organization's structure.

Limited perceptions

After 35 years of growth, Wyler Oil Co. was one of the leading independent oil companies in the US. It employed 1,700 people in seven divisions reporting to a small, headquarters office in Houston. Wyler had average sales of $4 billion, net assets of $6 billion, and average EBIT of $2 billion.

Wyler’s intended strategy was to balance exploration and production, which may seem simple, but in practice was extremely difficult because each function constantly was in competition for resources, and each required its own complex skills and technologies. In the past, Wyler grew by making nimble, speedy exploration decisions that enabled it to find or redevelop oil fields that competitors overlooked or misjudged as unattractive, but it was facing increased competitive challenges that pitted the interests of exploration and production against each other.

Wyler’s Gulf Division, the firm’s largest unit with 820 employees, managed all of the firm’s offshore exploration and production in the Gulf of Mexico from its headquarters in Louisiana...
and generated half of Wyler's revenue and earnings. Five onshore divisions, located in southwestern states, generated the other half of revenues and earnings. These divisions ranged in size from 124 to 208 employees, and employed a total of 800 people.

Wyler's top management started its investigation thinking that it was analyzing the efficiency of the Gulf Division, an issue that was generating internal conflict. Several top managers argued that the Gulf Division's structure was too large, multi-layered, and bureaucratic. Their evidence: internal coordination seemed to be a problem and exploration decisions seemed to be taking too long. The recommended solution: split the Division into smaller, self-contained units like the onshore divisions.

But other top managers objected, citing the Gulf Division's strong profitability as evidence that its structure, which incorporated substantial specialization for operating in offshore waters, was already efficient and should not be changed. According to their line of reasoning, splitting the division would require costly duplication of specialized functions and create endless problems of coordination.

The CEO, a highly effective and trusted leader, favored smaller units, but also recognized that large organizations could operate efficiently with specialization and complexity. He would not arbitrarily reorganize the successful Gulf Division without senior management's acceptance and commitment.

Reframing the issue

Strategic renewal requires moving from a narrow focus on operations and structure to a comprehensive view of alignment. Wyler management, working with the consultant, reframed its concerns. The key question became not whether Gulf Division operations were efficient, but rather how well the Division's structure fit the firm's strategy and future environment.

Management and the consultant jointly developed a data-gathering plan to understand the Gulf Division's current structure and decision processes. Data gathering also covered how well the current organization would perform in various future environments. The consultant participated in the data gathering by interviewing managers at headquarters, Gulf Division and onshore divisions as well as a cross-section of employees.
Onshore division organization

To better evaluate the arguments of managers who favored dividing the Gulf Division into smaller units, data were gathered on the onshore divisions. Onshore divisions had a flat structure with close, collaborative relationships among technical professionals, organized into project teams, and managers. The decision process was fast and communications were straightforward and open because division management could give close, timely attention to the limited number of teams.

Each division was a profit center responsible for an area and organized into three basic functions: exploration, production, and administration. A division usually had no more than three levels of management.

Exploration was organized into project teams, each responsible for its own territory and operating like a mini-profit center. Each team consisted of a set of technical professionals – geologists, geophysicists, geological engineers, and reservoir engineers. Before an investment proposal was presented to division management, each team presented its data and analysis for critical review by its peer teams. After management approved a project, the exploration team worked closely with production engineers and drilling engineers and continued to monitor the project over its productive life.

The team structure, peer reviews, and project follow up fostered close working relationships within and between all functions and managers. Employees knew almost everyone in their division. Because all the onshore divisions had similar structures, decision processes, and collaborative cultures, employees were successfully trained and promoted as they served rotations across teams and divisions.

Competent, young Wyler professionals could get personal career development and decision-making responsibilities after just four to seven years that would take ten to fifteen years at other companies. As a result of this fast track to responsibility and promotion, Wyler was able to readily recruit the brightest graduates from the best colleges despite competition from larger companies.

Gulf Division organization

The Gulf Division had a complex, specialized structure for its unique operations. Exploring for and producing oil and gas in the Gulf of Mexico pushed the frontiers of geology, geophysics, and related sciences. The Federal government periodically auctioned exploration rights to 5,000 acre, under-water blocks in different locations across the Gulf. Oil companies analyzed the reserve potential and economic opportunity of the blocks to determine which to bid on and how much to bid.

Auctions were a high stakes game with bids running as high as $250 million for a single block. There was little certainty of commercial oil or gas reserves and exploration wells, on average, had less than a 30 percent chance of success. After acquiring rights to a block the company faced huge drilling costs that could run from tens to hundreds of millions of dollars. If oil or gas was discovered in commercial quantity, gathering platforms, pumping stations, and underwater pipelines had to be designed, installed, and maintained.

The Production Department of the Gulf Division performed many functions in specialized units in platform and pipeline design, construction, and equipment engineering. To support offshore operations, a Gulf Division unit deployed 54 ships and 26 helicopters, and supervised seven equipment storage yards.
To manage its complexity and size, the Gulf Division had installed three additional levels of management over those in onshore divisions. Investment decisions had to move through the additional levels for ultimate approval by division top management.

**Data feedback**

Strategic renewal critically depends on the feedback of data for management's analysis so there is a rational basis for alignment decisions. In a meeting with headquarters and Gulf management, the consultant and HR Director presented findings from interviews and other sources:

- The Gulf Division was rated very good at production but only fair at exploration.
- The Division strongly emphasized production and exploiting existing reservoirs.
- The Division had too few exploration people spread over too many projects and too large an area. Exploration decisions had to go through too many levels and were not getting timely or adequate attention. As a result the division had missed several exploration opportunities.
- Project teams had difficulty coordinating exploration with production because specialists were increasingly separated by extended functional hierarchies. There often was inadequate information for exploration decisions and insufficient communication of existing information between exploration and production.
- High-potential, exploration and production professionals in the onshore divisions were declining promotions rather than transfer to the Gulf Division which they saw as highly bureaucratic. There was high turnover of professionals who were leaving the Gulf Division to work for other companies.
- The future environment indicated that the US Government would auction more blocks more frequently over the next five years.
- Bidding competition would probably intensify as large competitors would aggressively bid higher prices to obtain rights to more blocks.

**Evaluating alignment**

Given the findings, management needed to reevaluate how well the strengths and weaknesses of the current structure fit both the intended strategy and the potential opportunities and threats in the future environment.

Wyle's intended strategy emphasized exploration as the driving force in successful growth. Production was important but had to be in balance with exploration expertise. As one senior executive put it, “If we find oil, I have no doubt that production will figure out how to produce it.”

Management concluded that the Gulf Division was deviating from the firm's intended strategy by subordinating exploration to production, and as a result, would be increasingly vulnerable to competitors in the future. The Division had a reserve life ratio of six years, which meant that at the current rate of production, if no new reserves were found or acquired, the Division would deplete its reserves in six years. The Division was profitable now, but with the expected increase in bidding competition at auctions, could the current structure sustain future profitability?

In response to the data, management readily resolved its conflict and decided to replace the current structure with three self-contained profit centers similar to onshore divisions. Management convened a task force which completed drawing the geological boundaries for an East Gulf, Central Gulf, and West Gulf division in less than a week. Each division had sufficient prospects and producing wells to operate as a stand-alone profit center.

**Implementing renewal**

The new East Gulf, Central Gulf, and West Gulf divisions reported to a newly created Regional Office that provided legal, computer, and paleontology services. The incumbent
Gulf Division manager was elevated to Regional VP. His task was managing the transition of the Gulf Division into three separate yet highly interdependent divisions with geological overlap and access to common resources.

It was critical that managers at all levels of the new divisions worked in coordination. They would have to share resources such as drilling rigs, platform operations, and computer services that were too costly to duplicate in each division. By coordinating their efforts and resolving potential conflicts themselves, the divisions could minimize the need for regional office intervention and oversight.

**Start-up planning**

When there is a radical change in firm structure, it’s essential that key managers get to know each other and identify and develop solutions to anticipated problems before they implement the change. This will help them develop effective working relationships with their peers so that unanticipated problems that emerge can be resolved quickly.

A start-up planning workshop was held off-site for two days. The agenda was to acquaint the division management teams (Division Manager, Exploration Manager and Production Manager) with each other, help them learn to work within and across the divisions, review the design of the new structure, identify potential conflict issues, design a conflict management process, and review the personnel proposed to staff the remaining levels of exploration and production in each division.

The start-up workshop’s contributions to strategic renewal included:

- Managers developed a clear understanding of strategy and high commitment to implement structural change.
- Managers addressed conflicts, as they had in their exploration teams, with trusting, collaborative, face-to-face relationships.
- Division managers, on their own initiative, downsized the regional office structure by moving computer services into the Eastern Division and paleontology into the Western Division. Platform services stayed in the Central division. This increased the interdependence of the divisions, but the Division managers felt they could make better, faster decisions through collaboration than by sending disagreements up to the regional office.
- The division management teams reviewed the rosters of technical professionals assigned to staff the lower levels of exploration and production in each division. Then the managers spontaneously collaborated by discussing and trading personnel across all divisions, like a sports team draft of players, until they had assembled what they considered the best team for each division.

**Outcomes**

The transition and physical move to the new organization was rapidly and enthusiastically completed in three months. During the transition all exploration and production operations in the Gulf continued without interruption, including successful bidding at a major auction.

Interdivision coordination of the drilling rig schedule was smooth and effective and, as planned, the task was delegated to the three division exploration managers. Wyler

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prospered as a result of restructuring to three smaller, profit-center divisions that effectively managed the exploration project team format with coordinated, focused exploration efforts in each Gulf division. Oil reserves grew 70 percent over the next five years. The gains were greatest in the Eastern Division, which management of the original Gulf Division had treated as a barren, unattractive prospect area.

Three important lessons emerge from the Wyler case:

1. Management needs to continually monitor the gap between implemented and intended strategy, which often increases as the organization evolves a specialized structure to primarily pursue near-term gains.

2. Management needs to periodically modify structure to keep the gap between implemented and intended strategy within reasonable bounds.

3. In order to rapidly and effectively modify a company’s structure to align with its intended strategy, management needs to foster a culture of willing, constructive collaboration.

Note

1. Andrew S. Grove, Only the Paranoid Survive: How to Exploit the Crisis Points that Challenge Every Company and Career (Currency Doubleday, 1996).

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