

# The Fiefdom Syndrome

Former Microsoft and P&G exec **Robert J. Herbold** shares secrets on how to bust up bureaucracies.

**W**hen I arrived at Microsoft in 1994 as chief operating officer, I discovered that the company had great trouble closing its books at the end of every quarter. Starting with the third week after the end of the quarter, Bill Gates would regularly pop into my office and ask when in the world we would be getting those final numbers. While he was modestly anxious to see the numbers, Gates was frantic about the poor systems that led to such late results.

The root of the problem? Individual subsidiaries had become impenetrable fiefdoms that had hijacked control of their financials, hired their own finance people and redefined the chart of accounts to reflect the “uniqueness” of their markets.

They developed numerous information systems to get all of it under their own control.

There were similar challenges in HR, IT and procurement, and my job was to clean up

messes like these.

Microsoft wasn't unique. Many large companies suffer the ravages of fiefdoms, turf wars and bureaucracy. It's a problem that begins when individuals, groups or divisions try to protect their turfs, reshaping their environments to gain as much control as possible. Managers and employees become fixated on their own activities, their own careers and their own territories to the detriment of those around them. The fiefdoms become dangerously insular, losing perspective and awareness. Ultimately, they lose their ability to act consistently on behalf of the greater good of the company.

They also cost their companies plenty. Creators of fiefdoms tend to hoard resources. Determined to do things their own way, they often duplicate or complicate what should be done companywide.

While at Procter & Gamble in the late 1980s, I watched Sam Walton confront the challenge of dealing with seven different P&G sales organizations. It was a classic example of fiefdoms where the individual sales divisions worked very independently, selling the products of their specific division (detergent, paper, foods, household



cleaning products, etc.) and developing their own practices and procedures for dealing with customers.

It took Sam's personal involvement to break up this set of fiefdoms. He invited P&G's executive team to Bentonville and he pushed hard to "simply connect our computers up to your computers" and make all the product replenishment activity as automated as possible. Within 10 months, all of the replenishment activities were automated and one P&G sales team was formed to serve the needs of WalMart instead of having legions of fiefdoms coming to Bentonville all acting independently with different procedures. But without the strong support of P&G's CEO, the fiefdoms would still be flourishing today.

There are three basic human tendencies that cause fiefdoms to emerge. First is a strong desire to control any data that reflects on the group's or one of its individual's performance. People instinctively want control of any data in their organization used to measure the success of their activities. They want to be able to work with the data and consistently "accentuate the positive."

Second, they want to become as independent as is possible. They will add people, often duplicating functional resources found elsewhere in the company. These managers, who are running business divisions or geographical subsidiaries, begin to see themselves as rulers of their own small worlds, constantly building up additional resources in order to increase self-sufficiency and distance from management.

Third, they have an inflated assessment of their work. They become complacent about performance, focusing on their strengths and ignoring weaknesses. They believe they do great work, regardless of reality, and lose their sense of perspective and urgency to continually improve.

What CEOs wind up with are business divisions and subsidiaries that are hard to penetrate. The CEO is convinced their mediocre results could be outstanding if the opportunities were actually exploited.

Fiefdoms also often cause functional areas such as finance, IT, HR or procurement to get very fragmented across units within the company. Without strong functional leaders, the fiefdoms take over and you end up with no unified game plan for running each of the functional areas as one efficient unit throughout the company

charts that answer 95 percent of the questions that routinely get asked. Those should be available throughout the company, from the top down to the lowest levels of individuals in the various business units and subsidiaries. Management must then create a culture of "inspection," where all levels of management constantly probe into activi-

## CEOs must impose common IT systems, management metrics and behavioral disciplines to smash fiefdoms.

while effectively serving the business units and subsidiaries.

### Solving the Problem

One of the ways to deal with this is to put in place process disciplines. It's important to implement companywide processes and information systems that eliminate complexity. That Microsoft finance problem, where it was so difficult to close the books, was solved by eliminating massive numbers of information systems and personnel across the various subsidiaries. The company installed one set of systems for use on a global basis across the entire company with an easy-to-use set of menus for all employees to access key data that they are authorized to see.

Top management could easily pull up data within seconds on the detailed performance of a business unit (market shares, cost/revenue/profit data and so on) or the sales figures for particular products in certain geographies in specific time frames. This huge step forward in capability was accompanied by massive decreases in cost due to far fewer IT systems and personnel.

It is also crucial to define and utilize standardized data and templates (charts and tables that address frequently asked questions) that capture the basics of the operation. In just about every area of the company, there are 10 or 12 key tables or

ties going on below them, without compromising the delegation of responsibility for running the operation.

There are several behavioral disciplines for making sure the organization is running well and focused on serving its customers. To begin with, you need to stamp out overconfidence; it breeds fiefdoms. You need to reward a culture that constantly asks, What are we currently not doing as well as we should? and How quickly can we get into an advantageous position in that area versus our competitors?

Next, top management must implement steps to avoid the risks of functional fragmentation, where a function such as HR or IT becomes totally decentralized and, as a result, vast amounts of resources emerge throughout the various fiefdoms with no functional leadership keeping track of them. Strong functional leaders can solve this problem.

Finally, beware of skill atrophy. It breeds fiefdoms and management must keep their people nimble and ready to deal with change in advancements in technology. Whether you like it or not, often those individuals who you automatically assume are the experts in the area are much more out of date than you ever imagined. They've been left in the job too long and their main goal at this juncture in their life is to protect their current position.

Lastly, because functional fiefdoms can create organizational bottlenecks that often stifle innovation and slow down execution and responsiveness, top management must put procedures in place to eliminate or avoid such behavior.

### **Fiefdoms love to hoard their top performers. You need a “key people” process to prevent that.**

There are several key people disciplines designed to fight fiefdoms and keep personnel fresh and focused on the overall objective of the company. Undoubtedly, the most important is having a standardized, companywide performance appraisal system that clearly isolates the top performers as well as the weak performers, and is fool-proof from the standpoint of requiring managers to discuss these ratings with their subordinates.

I’ve seen company after company where the performance-appraisal system has badly atrophied because top management is not making sure it’s executed on a regular basis (usually once a year); has percentage targets for the individual ratings that are used

to classify employees on the spectrum from excellent to weak; and is closely tied to compensation so there’s big differentiation in salary between the performance levels of individuals. Without constant top management focus, it won’t take long before a high percentage of the individual employees will not even get a review and salary increases will coalesce to a very narrow band.

Another critical people discipline is to

have a “key people” process in place. CEOs should regularly—ideally every six months—discuss the top development prospects in the various areas of the company and make sure those individuals are moving around to enrich their experience while also creating major impact within the company. Fiefdoms love to hoard strong performers and not even acknowledge to the management that such strong performers exist. A good “key people” process confronts this directly.

While you look to finance, information technology, HR and so on to drive these kinds of disciplines, equal emphasis must be placed on creativity. Sales, marketing and product development must have a keen sense of urgency to create major innovation that excites customers. To enhance that creativity, management must make sure these groups adhere to the following key principles: minimize time spent on noncreative activities, avoid an internal focus,

don't compromise on creativity because of assumed or suggested constraints and focus on the customer and only on the customer.

### Communication, Communication

I've seen numerous examples where top management expects creativity from a certain group of people but that group is exposed to "layers of wisdom" as they try to gain acceptance of their ideas. First, their boss will give them suggestions, then their boss's boss, and so on. It isn't long before they begin to realize that their real objective is to come up with an idea and then let all these layers of wisdom pile on their thoughts and end up with something that hopefully all of them find acceptable. The goal becomes satisfying the chain of command as opposed to exciting customers. Top management must be very sensitive to the fact that it's easy for them to create that kind of environment because subordinates fundamentally want to please their management.

A key role of top management is to push

for strategies in the individual business units that are so innovative they will set the industry in a new direction and the products/services will emerge as clearly superior to those of the competition. Top management needs to institute the mind-set of continually pushing for that level of excellence. If top management doesn't set very high standards, fiefdom-like tendencies will set in and groups will constantly argue that their current plans are quite good and will try to get away without the thorough understanding and detailed evidence that should exist as support for achieving superior marketplace performance.

Broad communication to all employees is a very effective tool in fighting fiefdoms. Company leaders must make very clear what they want to happen to everyone in the company. Email, Web-casting and satellite broadcasts are tools that can help achieve this instant communication. When each employee is aware of top management's expectations of him or her, it becomes very

difficult for the "lords" of the fiefdoms to stay off on their own. It also makes it difficult for a fiefdom to avoid taking on responsibilities specifically assigned to them by top management, since the members of the fiefdom heard it directly from the top. There's no confusion if they hear it from you, the CEO.

Left to their own devices, people tend to go off on their own and become remarkably comfortable, regardless of what kind of results are being achieved. Skills atrophy, staffing becomes bloated and mediocrity prevails. A little of the right kind of attention from the CEO makes all the difference in ensuring that the right kind of culture—one in which creativity, innovation and cooperation thrive—exists for many years to come. ▲

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Adapted with permission from *The Fiefdom Syndrome: The Turf Battles That Undermine Careers and Companies—And How to Overcome Them* (Currency/Doubleday).