**ABB: Reconfiguring the global organization[[1]](#endnote-1)[[2]](#endnote-2)**

In March 2020, Björn Rosengren became ABB’s seventh CEO since the company – now the global leader in electrification, industrial automation, and robotics - was established by the legendary industrialist Percy Barnevik in 1988 through a mega-merger between two competitors (Swiss and Swedish). After its formation, the company had been frequently described as a “classic example” of a transnational firm, adroitly balancing conflicting demands of markets, products, and functions on a global scale.

Barnevik’s vision was to create a global company that could deal effectively with three contradictions: being global and local, big and small, and radically decentralized but with centralized reporting and control. The original key principle was to empower local managers; decisions were to be made at the lowest possible level in a matrixed pyramid of 5,000+ profit centers (small business units cascading up to countries, regions, and product lines). However, this vision failed soon after the founder stepped down from his CEO role. The complex organization proved difficult to govern— too slow and costly.

Even after several round of divestitures and reorganizations attempting to streamline and rebalance the matrix, and despite its skilled workforce, technical excellence, and successes in some critical markets such as China, ABB’s financial performance continued to lag its peers for much of the company’s existence. By 2018, ABB was still structured as a 3-dimensional matrix organization with five business areas, three regions, and several strong and well-resourced group functions such as supply chain, service, and marketing/sales.

In early 2019, the company Chairman Peter Voser stepped in as an interim CEO, quickly implementing a new corporate-wide set of processes – the ABB OS (operating system). As part of the transformation, and with the divestiture of one of its major businesses as a catalyst, ABB underwent a major organizational restructuring: the regional dimension of the matrix was eliminated, costs and head count at the group level were cut drastically, and most group functions with operational activities (e.g. supply chain, sales & marketing, and corporate research) were entirely or largely moved to the business areas.

Rosengren was recruited to deepen the change considering his record as a CEO at Sandvik (a Swedish MNC) where he improved performance through radical decentralization and local accountability. As part of the transition to a decentralized business model, ABB’s 20 divisions (the highest operational level inside the company) and their leaders (now called division presidents) will be fully accountable for their strategy and performance, resources, and decisions.

In the new operating system, the business areas would focus on division governance, portfolio management and strategic development, and the joint management of some limited functions that still cut across divisions (a few areas of research as well as digitalization). The role of corporate center would be limited to group-level governance, steering of the business areas, and overall strategic development of ABB. The operating system has been rearticulated as the ABB Way – a select number of common processes, governance principles, brand, and values – and will form the “glue” of the Group.

As part of their full accountability for strategy and performance, divisions are free to collaborate with other ABB divisions, including those outside of their business area, if collaboration makes commercial sense and creates additional value – a concept expressed as “smart leaders collaborate”. But agility, speed and entrepreneurial decision-making close to customers should never be sacrificed for higher cross-division/cross-business area synergies as this could reintroduce central functions and matrix.

A new strategy has been put forward which puts more emphasis on stability and profitability before growth for most of the divisions. However, just changing the strategy and structure would not be enough. “ABB has never followed the same strategy for a long period, we were virtually always restructuring. That is why we weren’t performing,” Voser told Germany’s leading business journal when announcing the initial change initiatives in 2019. The challenge for Rosengren and his team was to put in place supporting organizational and people processes so that the new strategy would be fully executed, and its impact endure. For Rosengren the task was clear: “I believe that this is our last chance to prove to the market that we are able to deliver shareholder value.”[[3]](#endnote-3)

1. Draft, please do not cite or quote. [↑](#endnote-ref-1)
2. Based on interviews with current and former senior executives, company documents and presentations to investors, and Zalan and Pucik (2007). [↑](#endnote-ref-2)
3. Interview with Björn Rosengren, November 11, 2020 [↑](#endnote-ref-3)