

# The Top Management Group That Got Fired – by Itself

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On 20th May 1988 *Børsen* the leading Danish business newspaper ran an article containing an interview with Bent J. Simonsen, the managing director of Oticon. In the article, Bent J. Simonsen said that Oticon had decided to replace the entire management with one absolute leader: “Absolute monarchy in top management can be used to create a better feeling of community spirit. And that is exactly what Oticon is preparing itself for.”

Lars Kolind, who was vice managing director of the “Radiometerkoncern,” was sitting in his garden reading *Børsen*. He showed the article to his wife and said: “If the headhunters do their homework properly they will find me.”

And, so they did. The following day the President of Oticon’s Board of Directors, Palle Rasmussen, called Lars Kolind and invited him for a job interview. On October 1, 1988, Lars Kolind was appointed CEO at Oticon.

Lars Kolind’s first task was to create an overview of Oticon’s historical background and current situation.

## The Demant Era

Oticon was founded in 1904 when the Danish manufacturer Hans Demant became the sole agency for the American Hutchinson hearing aids.

In 1904 Hans Demant had gone to London to buy a hearing aid for his wife who was severely hearing impaired. After his return to Denmark, people heard about the hearing aid and were interested in buying a similar one. Seeing how large demand for hearing aids was, Hans Demant decided to contact the American hearing aid manufacturer, Mr. Hutchinson, and ask him for the sole agency for his products. This was how Oticon, the first company of its kind in the world, was founded.

In 1910, Hans Demant died and his son William Demant took over the company. With William Demant heading Oticon, the company started expanding rapidly. Even before World War One, retail sales covered all of Scandinavia and Saint Petersburg.

Due to the scarcity of goods during the Second World War, William Demant started his own production of hearing aids in 1944, and in 1946 his company was the first to produce and sell an all-Danish hearing aid: the Oticon model TA.

In 1957, William Demant converted his company into the William Demant, Ltd., later renamed Oticon, Ltd. The share capital was DKK 1 million, and all shares were placed in the Oticon Foundation, which was established at the same time. The purpose of the foundation was to: “Assure that all future profits are invested partly in research and development related to the compensation of hearing loss, and partly for the benefit of present and future employees and their families.”

William Demant was an enthusiastic salesman, and he never gave up an opportunity to sell Oticon products. The aging William Demant, on a trip to Russia, was so eager to do business that he was selling hearing aids in his hotel room, with the help of a Russian interpreter to enable communication.

Employee and customer well being was important to Demant. Personal contact was the cornerstone of his way of doing business, and his philosophy was that public relations and marketing was a function of friendships and personal contact: "When he had made a deal he shook hands on it. No papers and no contracts. His principle was a 'gentleman's agreement.' 'If you want to understand Oticon you need to know about Demant. His personality is still an important part of this business'" (Oticon employee).

As William Demant grew older, market trends were changing. An increasing number of hearing disabled patients started buying hearing aids through The Danish Hearing Care, which became an increasingly important customer of Oticon. The Danish Hearing Care became a middleman between the actual hearing aid user and Oticon. Then technical skills, rather than personal skills, became important in sales relations.

In 1958, William Demant decided to delegate the day-to-day operations to a top management group composed of four employees whom he trusted to have the necessary technological knowledge combined with personalities that he knew and respected. However, Demant continued to have his office at Oticon until he died in 1983.

The president of the new top management group was Bent J. Simonsen, an experienced salesman whose personality closely resembled that of Demant. The other top managers were the three professional businessmen and technically highly skilled persons: Bengt Danielsen, Henning Mønsted and Torben E. Nielsen.

## Growth and Expansion in the Seventies

Oticon expanded dramatically under the new management's direction. From 1958 until 1985 the company established subsidiaries in 14 countries (Table 1) and independent distributors in 80 countries. Expansion was driven in part by two factors: first a wish to transform Oticon from a craftsman's company into an internationally well known company, and second by market trends leading towards an internationalization of the hearing aid industry.

The three Vice Presidents headed one department each. Danielsen was in charge of the administration and accounting functions, research, as well as long term planning. Mønsted headed the International Department which included sales and marketing, logistics as well as the 14 subsidiaries. Nielsen was in charge of production and product development, called the Electronics department.

The management style at the head office was very hierarchical. Decisions were made democratically by the top management group. President Bent J. Simonsen had the final say. To a large extent, management information was monopolized, and only a minimum of information and knowledge circulated horizontally. Work processes and means of coordination were highly formalized. There were fixed working hours and meetings were held according to pre-established plans. Work tasks were well described. Within the departments there were great opportunities for being promoted. All departments were constantly striving to improve and specialize their skills.

Oticon's key activities were development and production of superior quality hearing aids. The product development process was carried out in an integrated way and the product development function was organized in teams of experts from the relevant departments. These teams typically consisted of employees from the departments of research, development, marketing and production. Final decisions were made by the parent department and not by the project teams.

Because of lack of space in the mid seventies, management decided to move the Electronics division into new office facilities, while the International department and the Administration department stayed at the head office. The geographical expansion of the different departments allowed management to separate accounting measures and compare results, and additionally enabled the different departments to concentrate on specializing within their individual

areas. Things went well. The high quality of Oticon's products and the company's extensive audiological knowledge base were serving to differentiate it from competitors and enabling Oticon to charge premium prices well above those of competitors products.

**Table 1. Oticon's Subsidiary Companies**

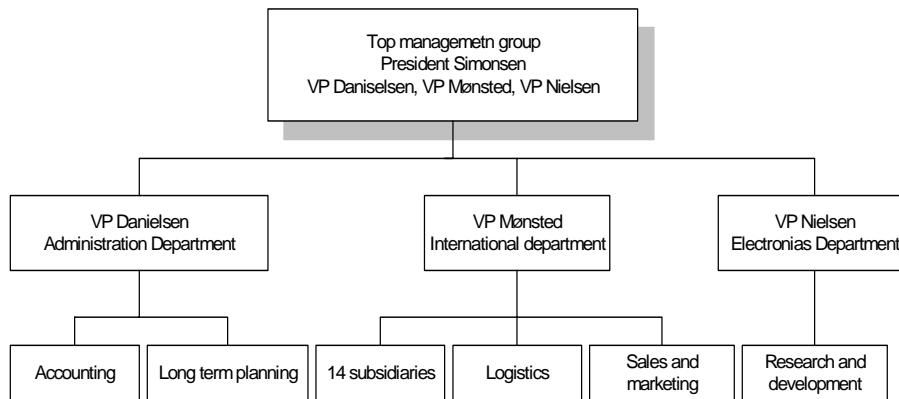
Name	Country	Date of establishment
Oticon AB	Sweden	October 2, 1944
Oticon Netherlands B.V.	Holland	May 29, 1964
Oticon Inc.	USA	September 30, 1965
Oticon S.A.	Switzerland	July 12, 1968
Oticon A/S	Norway	October 1, 1968
Oticon GmbH	Germany	July 1, 1969
Oticon K.K.	Japan	March 7, 1973
Oticon Italia s.r.l.	Italy	June 19, 1973
Oticon New Zealand Ltd.	New Zealand	August 1, 1974
Oticon France S.A.	France	October 1, 1974
Oticon Limited	Scotland	February 12, 1975
Oticon Export A/S	Denmark	April 2, 1979
Oticon Espana, S.A.	Spain	December 20, 1985
CLUB Hearing Instruments A/S	Denmark	January 1, 1992
Bernaфон AG	Switzerland	Taken over January 30, 1995

Source: Morsing (1995:236) Oticon's annual report (1996)

## Technology Changes in the Eighties

Oticon dominated the Danish market for hearing aids from the beginning of the sixties until the end of the seventies (Figure 1). Sales revenues were derived from a variety of countries, and in 1979 the company was the world's leading hearing aid manufacturer with a 15% share of the global market. Oticon had grown from being a smaller hearing aid manufacturer and sales company into being one of the world's leading edge companies and experts in mass production of technically advanced hearing aids. Oticon, based upon its advanced technological and audiological knowledge, was one of the first companies to convert pocket aids into Behind The Ear aids: "We were an internationally highly regarded company back then. When one of the four managers showed up at the annual fair in Germany people would gather around him and ask him about the newest tendencies and the development in the industry" (Oticon employee).

But in the eighties, new developments were threatening to undermine Oticon's success: "In the beginning of the eighties everything started to go really quickly and we didn't wake up at all because we thought our solution was the only right one. But then Starkey came around and they did well thanks to their really good marketing. And quite a long time passed before we finally realized that" (Oticon employee).

**Figure 1: Old Oticon's Head Office**

In the early eighties, the American company Starkey caught world wide attention when the American President Ronald Reagan wore one of its new, modern In The Ear hearing aids on an American TV show. In The Ear aids were of inferior quality to the Behind The Ear aids. This was why Oticon had avoided producing the aids, believing that their clients would continue to give priority to quality rather than appearances. However, sales of In The Ears in the USA quickly increased to 80% of the total sales of hearing aids.

## The Difference Between Behind The Ear and In The Ear Aids

As opposed to the traditional Behind The Ear aid, the In The Ear contained both the power supply and the amplification system in a more compact casing that could be inserted into the ear and thus much more discrete. The switch from the production of Behind The Ear to In The Ear aids meant that the production process became more complex due to the small size of the In The Ears.

Behind The Ear aids consisted of a small device that was placed behind the ear with a fine tube that lead the signal into the auditory canal by means of an earplug. The In The Ears were state-of-the-art products incorporating flexprint, thick film techniques, integrated chips and surface-mounted components. The In The Ears were smaller than the Behind The Ears; the smallest of them so small that it could be placed inside the inner ear. The so-called "full size" aids were a little larger and therefore also filled the outer ear.

With the introduction of In The Ear aids, production methods started to change. In The Ear aids required an individual fitting to the customer's ear and at the same time they also had to fulfill the wishes and the needs of the individual client. Therefore, hearing aids became just as much service products as production products, and they could no longer be mass-produced.

In the Ear aids had great impact on many areas. Customer needs had changed, hearing quality was no longer the only priority, better appearance was also required. Smaller competitors could now enter the market. With the increased number of competitors came an increased focus on prices. The clientele also began to change; private hearing clinics became more important customers than hospitals and other public hearing centers.

## External Influences Leading to Internal Weaknesses

By 1988 the hearing aid industry had experienced intensified competition.

The hearing aid industry was a good example of an industry in which the production was concentrated into a few countries. There were more suppliers who were all able to produce nearly identical products. The development was fastest on the American market which was also the biggest market for hearing aids.

The switch from the production of Behind The Ear to In The Ear aids meant that the production process became more complex due to the small size of the In The Ear's. In Denmark Oticon's two most important competitors were Widex and GN Danavox.

**Table 2. Financial figures and key financial figures, GN Nadavox, Oticon & Widex**

	1988	1989	1990	1991	1992	1993	1994	1995
Turnover								
-GN Danavox	125999	130107	115353	150226	163759	180932	187986	191319
- Oticon	432756	449601	455391	476531	538816	661284	750289	940198
- Widex	-	-	-	-	-	293625	259494	252703
Profit before tax								
- GN Danavox	5803	10819	2142	7512	24299	16445	17838	19961
- Oticon	-6208	16425	19670	2572	17684	83738	134456	136454
- Widex	-	-	-	-	-	276007	243924	13394
Net profit								
- GN Danavox	4466	9726	378	8767	22948	14329	15207	17422
- Oticon	-9040	13719	14724	-1762	10058	62565	88452	99351
- Widex	-	-	-	-	-	22800	12688	8438
Return on net capital								
- GN Danavox	0	22	-	19	44	20	18	11
- Oticon	-	13	13	-	7	45	46	46
- Widex	-	-	-	-	-	-	12	12
Share of net capital								
- GN Danavox	26	35	28	34	51	54	56	52
- Oticon	33	34	45	36	38	39	49	41
- Widex	-	-	-	-	-	44	47	44
Return on Sales*								
- GN Danavox	1	5	0	2	7	5	-	10
- Oticon	-	5	6	1	5	17	-	15
- Widex	-	-	-	-	-	-	-	13
Return on assets*								
- GN Danavox	1	8	0	4	13	8	-	12
- Oticon	-	5	6	1	5	17	-	21
- Widex	-	-	-	-	-	-	-	16
Rate of turnover, Assets*								
- GN Danavox	-	-	-	103	116	119	114	112
- Oticon	-	-	-	126	145	135	135	112
- Widex	-	-	-	-	-	-	133	152

Own calculations according to Greens

*Widex*, started by former Oticon employees, is a family undertaking well known for guarding all economic information. *Widex* is a rather closed company only discloses information when it is absolutely necessary. However, there is no doubt that *Widex* was at the front edge of the technological development, giving Oticon keen competition. (Table 3).

*GN Danavox* is a subsidiary of the Danish company GN Store Nord with its substantial net capital. GN Danavox has a very centralized organization headed by its very forceful director, Ole Lund.

As for Oticon's foreign competitors *Siemens*, the German company was tough - just as was the American company, *Starkey*.

All hearing aid manufacturers were dependent on the ability to exploit technology in an innovative way. The introduction of In The Ear aids had underlined that necessity. Hearing aid manufacturers were forced to produce state-of-the-art products continually, and at an ever-increasing rate. Earlier they were able to live on an invention for ten years, they now had a maximum period of five years to make a profit.

In the eighties Oticon lost market share. It had been dominant with a market share of 15% of the global sales of hearing aids (Table 3). In 1988, Oticon had a global market share of 10%. Widex and GN Danavox had a combined market share of 12%.

Oticon's prior success was grounded in solid engineering work, engineers had become very powerful, and the Electronics department received by far the most resources. "The heroes were technical heroes. But they were theoretical and skilled heroes, and not characterized by action and new ideas."

**Table 3. The Distribution of Global Sales of Hearing Aids**

Company	1960–1979	1980–1990
Oticon	15%	10%
GN Danavox	5%	5%
Widex	5%	7%
Foreign Competitors	75%	78%

Source: Thygesen Poulsen, 1993

Work processes at the head office were affected by the engineer's decision on what developments had to be made and when. The geographical separation gradually alienated the different departments of Oticon. Communication suffered and diffusion of responsibility was common. They began to compete for resources. "There was no common organizational culture. Rather there was a combat culture between Electronics and International. It was not even competition... if only it had been... but each of them was just striving to fulfill their own individual goals" (Oticon employee).

Consequently, Oticon was slow to develop and produce new products. When Oticon finally launched a new product it followed the competitor's product. Oticon's competitiveness began to deteriorate. These problems were compounded by the fact that the dollar exchange rate fell drastically in 1985. With 93% of its production exported this had serious consequences for the Oticon's actual earnings.

## Need for Changes

From the mid eighties Oticon's management realized that things needed to change in order for Oticon to catch up with competitors' moves and customers' demands. Employees started feeling insecure about Oticon's future; they were impatiently waiting for new initiatives from the man-

agement. "The old management was dragging on. It wanted to leave the company while it was showing upward going tendencies. To leave a company going downhill was not their idea, and therefore they weren't good for the company - they were thinking too short termed. In my opinion they should have left the company in 1979 - ten years earlier" (Oticon employee).

Several initiatives were taken to improve the situation. The International department started a major campaign in order to restore Oticon's image. A new MIS (Management Information System) was established. Some organizational restructuring was implemented. Even though Oticon's management was still highly respected, employee enthusiasm was limited: "You do not create a new organization by making a new slogan and saying a lot of fine words. The old management had no more power, and this influenced the whole organization by a certain slackness" (Oticon employee).

In 1988, the top management group realized that it had lost its impetus; it became clear to the management that it had run out of ideas. Oticon had always been managed in a very hierarchical way followed by a lot of respect from employees. By now the company was so tradition bound that it was difficult for the current management to convince employees that changes were for the better.

The board of directors and the top management agreed that it was necessary to infuse some fresh blood into Oticon to ensure the survival of the company. They decided that the best thing would be to replace management with a single leader. It would be easier for one person to get an overall feel of the organization, and to understand what was going on.

Oticon's top management group had already heard about Lars Kolind. He had a degree in mathematics, a Diploma in Economics (organization), teaching experience at the University of Copenhagen (politics), and experience as director of the research center "Risø." Currently he was vice managing director of the "Radiometerkoncern." They wanted to meet him in person. Lars Kolind was therefore invited for a job interview. After a few supplementary interviews, he was appointed CEO at Oticon. He started work on October 1st, 1988.

Lars Kolind spent his first months meeting employees, competitors and customers and analyzing the company's financial and competitive situation. This was what he came up with:

## One Must Take the Good with the Bad

Oticon's employees were well educated. Thanks to Oticon's own research center for psycho-acoustic research - Eriksholm, employees had access to the latest scientific information on the connection between physical sound and the experience of hearing - both with respect to healthy patients and hearing-disabled patients. This meant that employees at Oticon had the special knowledge required for producing the new, modern In The Ear aids that customers were demanding.

In the fiscal year 1987, Oticon's deficit was DKK 41 millions - out of an annual net turnover of 430 millions. This deficit was partly caused by the costs associated with the manufacturing of products. These costs exceeded selling prices by DKK 26 per hearing aid.

Oticon had been losing market share during a couple of years, and could not update its products. This situation had peaked with Oticon's belated production switch to the In The Ear aids. "In October 1988 I attended WHA's hearing aid fair in Germany to get an overall picture of the industry, and I was completely overwhelmed by presentations of remote controlled and digitally programmable hearing aids, especially from Siemens and Widex, who invested large amounts in the promotion with laser shows and exhibitions. And during 1989 I became even more nervous while competitors came up with marketing, seminars, magazines etc. There I was, CEO at Oticon, and we had nothing to offer" (Lars Kolind).

By 1988 Oticon had regained its third place, but this was not enough to secure the future existence of the company. "Oticon was once the world's leading hearing aid manufacturer. And we have the ability to regain that positioning. We are going to be the economically healthiest,

the technologically best and, in the end, also the biggest. We are not going to content ourselves with a number three positioning in the world, we are going to become number one!" (Lars Kolind).

## Kolind's Style

Very quickly, it became clear to Lars Kolind that the situation needed to change in order to assure the survival of the company. From the beginning he had some ideas on how changes could be implemented. Many of these ideas seemed rather unusual to most employees.

Employees got their first surprise when they met their new manager. Employees had had a lot of respect for Mr. Demant and his successors because they were very authoritarian. Lars Kolind was not authoritarian. He officially pronounced his religious faith and his devotion and close relationship for his wife and four children. Because his wife was working full time, he shared all duties with her. Sometimes he would have to leave early to pick up his children from the kindergarten. His dress style was relaxed, short shirt sleeves and casual shoes. As a boy scout he had met his wife and he still looked the part.

Lars Kolind was met with a certain skepticism from the employees and he did not fit into the distinguished and aristocratic organization of Oticon. "And it was almost symptomatic at the first reception we held with Lars because it was Lars who was walking around with the orange juice while the old sales manager was walking around with the campaign."

However, probably the biggest surprise came at a meeting shortly after Kolind's appointment when he called attention to the unacceptably high costs associated with the manufacturing of products. Earlier only top management discussed finance. Now it was put out in the open: "He told us what was wrong with the economy. In plain words, so that everybody would understand it" (Oticon employee).

He explained clearly that it was necessary to introduce considerable reductions. No one should feel too sure about their job, regardless of their position. "Actually that was the only thing I wanted to make sure during my job interview with the top management group: That the foundation's purpose to assure a good working environment would not disable me to make the necessary firings" (Lars Kolind).

This was a completely new concept for Oticon employees, who, previously, had virtually been secured lifelong employment.

To immediately reduce the unacceptably high costs, Lars Kolind fully centralized the economical decision making authority and demanded to sign every cost disposition leaving the company. Additionally, all large capital investments were to be presented to him with calculations of the expected earnings. "I chose the economy as a means to get control, and after a few days I controlled everything. No one could move a finger without having my accept to do so" (Lars Kolind).

Even though Lars Kolind formally took over the full responsibility of Oticon, three of the former managers remained. The former technical director was asked to reorganize and "clean up" the component factory at Hejrevejen. The sales director was appointed director of Oticon's subsidiary in France. And, the former CEO became president of the Oticon foundation. "Of course there was resistance, and his ideas were met with certain skepticism from the former directors who were still there and the board of directors that was still there. But I think that most employees found his ideas exciting" (Torben Petersen).



## Reductions, Cut Backs and the New Oticon

The centralization of the economical decision making authority was followed up by several reductions. Ten percent of the employees in the administration department were dismissed, and the department of long term planning was closed down. There were also cuts and budget reductions in the departments of logistics, sales, marketing, and accounting. This was not popular among the employees, But, the results were spectacular.

After the first quarter of 1989, Lars Kolind had slimmed down the organization and profits were positive. To show his appreciation, Lars Kolind gave employees a box of chocolates with a covering letter saying: "Now we earn more money in than we spend - Congratulations to all of us! - Lars."

By December 1989, after one year, gross sales had risen by 4% to DKK 444.6 million and profits to DKK 22.3 million against a loss of DKK 6.2 million in 1988. It was the first positive profit in three years.

Actually 40% of the annual net turnover in 1989 was constituted by products that had been introduced in 1987, one year before Lars Kolind's appointment. What Lars Kolind had done was to reduce manufacturing costs so that sales now contributed with positive figures. These cost reductions had primarily been carried out by running faster.

In Denmark, Christmas is a time for relaxation, joy and reflection. A time where you take the time to think deeply about things. Lars Kolind spent his Christmas vacation 1989 trying to conceptualize a new organizational structure of Oticon that would enable the company to take on competition and regain its positioning as a leading edge company.

## Questions for Consideration

1. Describe the current situation for Oticon in 1978, 1980, and 1988.
2. Discuss strategic misfits and how they should be resolved.
3. Recommend an organizational structure for Oticon for each of the three periods.
4. Discuss the strategic and organizational change process.
  - What kind of change was needed?
  - Why hire Lars Kolind?

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