INSEAD

The Business School for the World®

IN1175

Wildfire Entertainment:

Organizational Structure Archetypes

07/2015-6139

This case was written by Charles Galunic, Professor of Organisational Behaviour and the AVIVA Chair in Leadership & Responsibility, and Warren Tierney, Research Associate OB Area, both at INSEAD. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

The case is loosely based on the mobile gaming industry. Wildfire Entertainment is a fictitious company. The structural features and changes discussed here are not meant to capture the history and experiences of any particular firm but rather to convey the formal structural options and challenges faced by many firms as they grow.

It has benefited from the advice and insights of INSEAD Professors: Jose-Luis Alvarez, Noah Askin, Henrik Bresman, Martin Gargiulo, Frederic Godart, Michael Jarrett and Mark Mortensen.

Additional material about INSEAD case studies (e.g., videos, spreadsheets, links) can be accessed at cases.insead.edu.

INSEAD

The Business School
for the World®

In 2006, two students with technical university training won a mobile game development competition. It had never been so easy to use computer code to make so many people happy, so why not start a company to do so?

Following a series of investments, their company was renamed Wildfire Entertainment, with its base in Amsterdam. Its focus was to offer consumers unique and novel stories via its games. By 2009, Wildfire Entertainment had developed over 50 games, but none of them really took off. It was also working on animated (short) films and learning apps (for pre-schoolers and primary school kids).

The company came close to shutting down when the first version of "Squealers", a puzzle game for the iPhone, was released. Squealers became one of the top games in the thriving mobile phone application market (it has since been downloaded over 1 billion times), with paid downloads accounting for roughly a quarter of total downloads, making it a top-selling game.

Wildfire Entertainment had a record-breaking year in 2012. Revenue doubled, with an EBIT margin of 50%, headcount more than doubled, and new offices and a New Business Ventures unit were set up.

Total Revenues (millions)			
2010	2011	2012	2013
€7	€80	€150	€160

The Mobile Phone Application Industry

In the late 1990s, Nokia had launched the very successful "Snake", an app preinstalled on all mobile devices manufactured by Nokia, which quickly became one of the most-played video games (over 350 million devices worldwide). This helped propel Nokia to the forefront of the mobile phone industry. Since then, smartphones had become more like computers than phones, thereby enhancing the capacity of designers to create all sorts of games and video apps that could be readily accessed via most mobile phone devices through increasingly efficient online platforms (App Store, Google Play, etc.).

As a result, a flourishing industry grew up. As of 2012, the Apple iOS apps market alone housed over 600,000 smartphone apps, with over 30 billion downloads to date. Similarly, the Android OS market gave access to hundreds of thousands of additional apps, with some 3 million downloads per day from its online platform. It had become a major marketplace, not least for entertaining games.

The Early Days

Wildfire Entertainment was, like its founders, an informal, exciting place to work. Priding themselves on a blend of free spirit, camaraderie and trust in the workplace, the founders wanted to keep things simple. The core structure was formed of project teams, with several in operation at any point in time.

In the early years, the organization employed 40 people, all housed in the same building, on the same floor, with the same coffee area, and in easy reach of places to eat in the neighbourhood. They wanted to do one thing: build great software products, with a focus on games but also on animations and learning apps. If any anxiety existed in the workplace, it sprang from concerns about how well the products would do in the marketplace.

There was no good reason to establish elaborate formal routines, formal job descriptions or regular work hours. The founding members made all the decisions, while the other employees focused on implementing their ideas. Often this led to cool products, some based on a whim. The structure was informal and fluid. The sense of intimacy inspired employees to be focused, committed and hardworking. Conversations between the employees were quick and generally productive. If someone had a problem or issue, or needed to coordinate with another task underway, they simply walked across the office area and spoke to the person they needed to talk to, who was easy enough to identify. If the issue could not be resolved, the problem moved up one level (there were only two levels). It was resolved quickly, with the founders providing effective real-time coordination of the inputs and outputs of the company. The culture was "healthy", with shared assumptions about responsiveness, collaboration and a strong work ethic, without having to be written down in booklet form.

Taken together, these made Wildfire Entertainment responsive and effective at completing objectives quickly and relatively cheaply. Similarly, the company could bring new apps to the market without delay.

Meanwhile, the mobile apps development landscape was being reshaped like few other industries in history. By 2011, smartphone and tablet shipments exceeded those of desktop and notebook computers combined. Users were clearly shifting from browsing on computers to surfing on their smartphones and using all sorts of apps. Wildfire Entertainment was perfectly positioned to reap the benefits from the smartphone's capacity to entertain. Games could become more colourful and sophisticated, and the diversity of projects grew.

However, as the number of projects increased, employees were required to work on more projects at once, substantially increasing the complexity of each individual job and reducing the time available to answer their colleagues' questions. Suddenly, coding a cool game was not enough; testing had to be done on more devices and platforms, software support had to be considered, payment and distribution systems needed to be evolved and scaled up.

Consequently, the organization was forced to continuously hire more employees as the workload became overwhelming. The lack of formularized routines began to push up costs substantially, and, more critically, slow down decision-making. Without any guidelines (and with the founders being so busy), employees would react to whatever crisis the organization happened to face that day. Time dedicated each month to 'fire-fighting' was increasing—the planning capability was weak and there was a lack of prioritization.

Although its initial success had propelled the company to prominence and visibility, the cracks on the surface were becoming deeper. No one took the time to create proactive routines or schedules to ensure that predetermined objectives would be completed. Even simple tasks became difficult to accomplish. The old informal relationships became less efficient as a basis for coordination and tensions began to rise. People who could not withstand the chaos left the company; others got frustrated because no career paths were emerging. There was still the

two-level structure—very flat, but no longer able to cope with the complexity of the work or the "adult" desire for a career roadmap.

Investors became worried as the environment at Wildfire transformed from entrepreneurial to chaotic. The founding members agreed that Wildfire needed to address both long-term planning issues and immediate operational issues. It was clear that mechanisms of accountability and sustainability needed to be implemented and standardized. The strategic context was also changing. Distributors of their products were now sophisticated organizations—this required a higher level of sophistication and professionalism in how Wildfire operated.

Seeking to resolve these issues the company hired Elizabeth Rankin.

Functional Structure

Elizabeth Rankin (an INSEAD MBA) had 10 years of consulting experience. While never managing a large company, she did have a good feel for companies of various sizes through her consulting work. It did not take long for Elizabeth to realize that the elements which had originally brought Wildfire Entertainment success (flexible, free-flowing job conditions) were now contributing to its downfall. Something needed to change.

Elizabeth was conscious that changing the structure at Wildfire would be extremely difficult as she lacked the specialized technological skills to give her legitimacy among its (mostly) technical people. Still, understanding strategy and interpersonal relations were the hallmarks of her business acumen, and the company's owners and investors realized that these were essential to propel the company forward. She was given their full support.

The first serious design she chose to implement was to create a hierarchical, functional system (see Figure 1). This required careful consideration of the job units themselves: What were the fundamental tasks people were performing? What was the basic work? This meant:

(1) considering various technical roles within an over-arching operations unit (storyline development, animation specialists, and mainstream software development engineers)

(2) creating a few "R&D" type jobs (so that forward-looking work could be accomplished without being bogged down by active, client-facing work)

(3) crafting core support functions (such as Finance/Accounting and Marketing).

Job descriptions and layers were created, each function having a head manager and then a variety of roles and levels within which people could be developed and promoted through. This design brought much greater clarity to the work and deepened the expertise within each unit, which effectively operated as a team. Suddenly the work was no longer split amongst various "projects" but could be carefully planned and coordinated across these functional units, with greater efficiency. The focus was immediately palpable—things got done faster, people had task clarity and yet felt connected to the whole, motivation improved, accountability was established and reporting manageable.

While this structure worked well for a few years, cracks started to appear in the system.

The main symptom of deeper problems was speed: the company was slowing down in generating cool products. First, sub-groups had proliferated within each function (for example, the software development team divided into personal computer and mobile phone devices, and then into personal computer, mobile phone, and tablet devices). Layering increased: from two levels in the golden era, the company now had seven, and it was still a modest-sized company. The deepening expertise within each function came at a price—no one saw the bigger business/product picture. Nor was the system producing enough "general managers" as opposed to simply functional specialists. More time seemed to be spent on taking care of the routines within one's function than thinking holistically about the business and what customers really wanted. Delays became the norm as even moderately important decisions had to be cascaded up the organizational chart to the senior management committee, resolved at this level (where backlogs formed), and then cascaded down to the appropriate level.

Worst of all, reporting increased to the point where people thought that they were doing "management" if they were fulfilling their "reporting" duties – no one realizing that these were not the same thing. Teams that had naturally worked together became increasingly polarized. In the beginning, story writers and software developers had worked side-by-side on specific projects in an active, real-time way. This was no longer the case. The culture of "collaboration" and "responsiveness" was being eroded, and morale was slipping.

Basically, the company was simply not giving enough focus to specific product-market categories (pre-teen games, ado/adult games, animations, learning tools). Once again the strategic context was shifting. These product-market areas had developed their own distinct consumer niche or culture, product scope and, in some cases, technologies (such as for animation work). The pure functional structure, while it had brought clarity early on, could no longer cope.

Matrix Structure

As the company continued to expand and the different product markets developed, Elizabeth (now into her third year) thought it was time for another restructuring.

Wildfire Entertainment needed to have dedicated teams for each of the main products. Specifically, production teams (which already existed) would be given more definition freedom, and voice. First and foremost, each would have a dedicated product team leader who would report directly to Elizabeth. The resulting production teams co-existed with the larger functional teams. That is, these individuals would report to both the functional heads from which they emerged and to the product team leaders (i.e., a matrix). The idea was to get the best of both worlds: an integrated holistic view of each major product line (which should bring more speed) without losing the efficiency (i.e., non-redundancy) and technical depth of a functional organization. Elizabeth felt that the product markets still overlapped enough to make dedicated resources unnecessary beyond this "simple" structure.

The matrix worked well enough in the first year, but then problems began to surface. One was "soft" in nature, having to do with how well the matrix structure was implemented. As the company grew, Elizabeth had less and less time to "referee" the matrix structure. Because resources were shared (integrated budgets were still the norm), disagreements and confusion emerged: Who has the final say over product features? Who controls distribution and rights

management? Should the product leaders be allowed to tell engineers what their priorities should be? How much of the software development budget can a specific product team access? Since there was too little consensus and compromise amongst the axes of the matrix structure to resolve these issues, politics were emerging as team members lower down sensed the confusion amongst their (competing) bosses. All product teams wanted the most experienced software developer exclusively working on their project. The engineering person on the product team would try to commit to the product team's engineering plans, but had no authority to change the engineering team's schedule. Truth became loose and operations slippery and confusing.

A second problem emerged from the matrix, this one having to do with the logic of the formal structure given the continued evolution of the various product market segments within which Wildfire operated. The circumstances of the major product-market streams (gaming, animation, learning tools) were different enough that the trade-off in favour of an integrated organization (over a divisionalized structure) was no longer obvious. Animators wanted to expand their offerings into longer length productions and series development, and the learning tools people wanted to explore special partnerships with schools, providing products (and now services) that would mimic the school curriculum and timing. Monetization could also change, as some institutional users preferred a subscription price "all-you-can-eat" arrangement, rather than an ad-based or pay-per-download model. The reality was that while all products were "digital" and benefited from core commonalities, these businesses were growing apart.

Moreover, Elizabeth could see that the core talent of the company was more varied than ever before (especially between animation and the other areas), which meant potential differences in how to source, develop and compensate individuals.

Divisional Structure

Although the trade-offs were more complex, Elizabeth had to decide whether to take a further step and move towards a divisional structure, now that the company was into the hundreds of employees, with more to come.

She considered three broad divisions: Game Development, Animation & Movie Development, and Learning Tools. The move, she thought, would be partly motivated by the continued success of the company but particularly by the substantial (yet unique) opportunities in each of these marketplaces. At the same time, she considered retaining a fourth division, Administration, to include utility functions that serviced the other three businesses (Finance, HR, IT, Legal). Elizabeth noted:

> *"I believe people do their best work when accountability is razor sharp, coordination is fluid, and there are few layers between the senior leaders and the people who make things happen behind their desks and on your screens. In a sense, I'm trying to return a large and growing company to its roots, so that the core operating teams have a bit of that feel of the golden days, the start-up days. I will also have more time to worry about larger strategic issues, not least possible acquisitions."*

"Of course, I do have worries. As my shareholders and our CFO constantly remind me, a divisional structure will have a lot more redundancies – it will be more expensive."

Elizabeth knew that restructuring work is never complete. She had seen more than one company adopt a decentralized, divisionalized structure, and then hit a wall once the growth party was over. Convergence in markets and technologies frequently occurs and areas of fervent technological invention and innovation may give way to a "dominant design" technology (commoditization) that requires greater focus on efficiencies, sharing and integration. She knew she had to keep an eye on the silo mentality that divisional structures encourage:

"This is a big challenge and puzzle for me: how do I reap the benefits of autonomy but avoid the sort of silo mentality that will prevent me from capturing efficiencies and integration opportunities when they appear?"

Beyond the Archetypes

Her experience as a consultant had taught her that firms go through cycles of centralization (as technologies, operations, and/or customers converged) and decentralization (through disruptive and novel business models and/or technologies). She understood that structures are not forever but must evolve to fit the times, that every company must find a custom-built solution. The key was to let the strategic context and reality guide these changes:

"I have seen personalities drive these changes, just wanting to do something 'different' because they had to justify their appointment...not a good recipe for organization design."

She also knew that she had to look into futuristic structures like "the network organization" or "holacracy", while realizing that these really had a lot to do with the informal, cultural underpinnings of the firm, a sphere that required constant attention.

Figure 1: Functional Structure

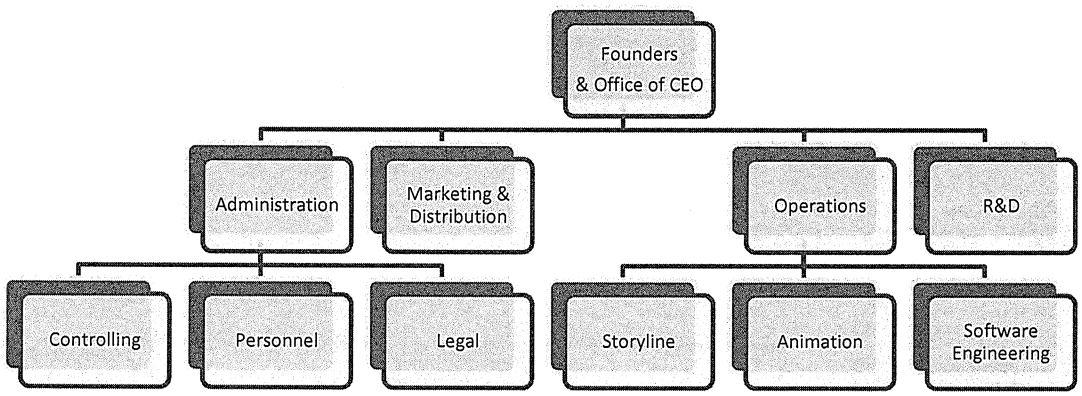

Figure 2: Matrix Structure

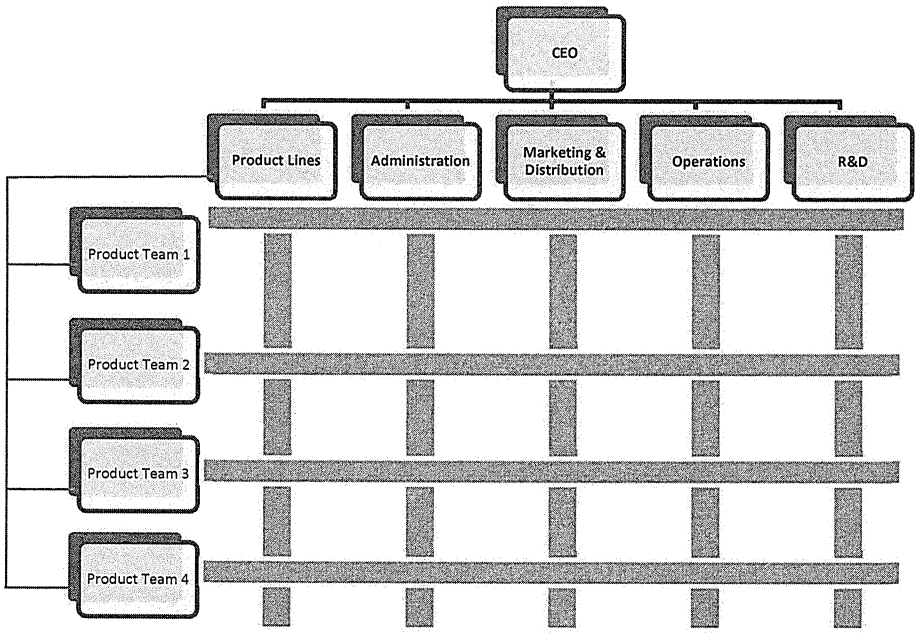

Figure 3: Divisional Structure