

CASE FOR COMPETENCY DEVELOPMENT

AOL-AMERICA'S ONLY LINE?

A few years ago, no one would have named AOL one of the most powerful media organizations in the United States. The Internet service provider had been besieged by its own weaknesses—poor performance brought about by ineffectiveness and inefficiency. In the mid-1990s, AOL failed to incorporate a good Web browser into its soft-

ware; then the company found itself in trouble with investors because of accounting irregularities; finally, AOL alienated thousands of customers when it shifted to flat-rate pricing and failed to prepare for the huge increase in demand. Subscribers couldn't dial up, e-mails weren't delivered, and there was no one for customers to call for help. Eventually, cofounder and CEO Steve Case had to apologize in print advertisements, fix the problem, and

offer refunds. For a while, it seemed the damage was done. America Online was dubbed “America Onhold,” and the unflattering epithet wouldn’t go away. But making predictions in the volatile Internet industry is risky. Steve Case stubbornly refused to give up, and AOL has emerged stronger than ever as an organization. Experts who once laughed at Case’s prediction that by the year 2005 AOL would be as intrepid a force on the Internet as Microsoft aren’t laughing anymore. “When you see that 40 percent of all online traffic is coming through AOL, you’ve got to be there,” says Larry Rosen, the founder of N2K, who recently made a deal to become the exclusive music retailer on AOL.

AOL’s organizational culture reflects the management style of Steve Case. He’s been described as “shy and unassuming, a worrier warrior,” and a “quiet strategic thinker.” Although he holds about \$1 billion in AOL stock, Case usually eats in the company cafeteria and lives in a modest home outside Washington, D.C., with his wife and five children. He’s the embodiment of “office casual” attire—jeans and a polo shirt, or sometimes a more flashy Hawaiian number. He seems like a normal guy, accessible to anyone, which is why people relate to him. In short, he has human skills. He also has the conceptual skills to run AOL; although he’s not a “techie,” he understands how technology affects the average person who is his customer. In a criticism of his industry, he said, “Right now, there is too much focus on the technology and not enough on the consumer.”

AOL’s organizational culture reflected Case’s entrepreneurial spirit even as the company mushroomed from a few employees to several thousand. Currently, about 9,500 people work for AOL. Yet Case began to lose control of the organization because it was growing without clear planning and controlling functions. “This place was entrepreneurial to the point of confusion,” recalls Myer Berlow, an advertising executive who was hired in 1995. “Everyone got to do what they wanted.” As management functions were sliding, so was the company’s performance.

But Case never lost sight of his goal to make AOL a household name. Recognizing the importance of human capital, he hired new managers and at one point he even stepped aside as CEO. In an industry where brand name recognition and being first to market can mean the difference between success and failure, the company has been on the move. AOL invested in a number of strategic alliances, such as the one with Hughes Electronic Corp, which would send AOL over satellite TV, and another with 3Com and Motorola to put AOL on those companies’

palm devices and smart phones. Still, Case had a hard time explaining to the public—investors and customers alike—exactly what AOL’s resources were. “It was hard. People didn’t quite get it,” Case said in an interview for *U.S. News & World Report*. Once they did understand, they tended to brush AOL aside, believing that the reigning technology giants like Microsoft and AT&T would quickly grind AOL into the ground. But in a surprise move, even for an industry known for surprises, Case bid for Time Warner, creating what could be the largest merger in history.

In an environment that is constantly changing, and in which the rules seem to be rewritten every few months, it’s difficult for a company like AOL to access resources according to the traditional standards of how valuable and rare they are and whether they are inimitable and nonsubstitutable. But perhaps one of the company’s most important resources will be managers who can recognize how and with whom to join forces, as in the deals with Motorola and Hughes. In addition, the company needs people who can anticipate new ways to be present in as many homes around the world as possible. Case wants AOL to be more than a household word; he wants his company to be a household necessity.

Questions

1. List several steps that AOL can take over the next five years to create a sustained competitive advantage in the marketplace.
2. In what ways might a merger with a large company change the organizational culture of AOL?
3. Do you think managers with conceptual skills or human skills will be more important to AOL’s future? Why?
4. Visit AOL’s Web sites at <http://www.aol.com> and <http://www.corp.aol.com> and look for ways that AOL as a system seems to interact with its environment. Discuss your findings in class.

Source: William J. Holstein and Fred Vogelstein, “You’ve Got a Deal!” *U.S. News & World Report*, January 24, 2000, pp. 34–40; Fred Vogelstein, “The Talented Mr. Case,” *U.S. News & World Report*, January 24, 2000, pp. 41–42; Tim Jones and Gary Marx, “Weaned on Crisis, Landing on Top,” *Chicago Tribune*, January 16, 2000, section 1, p. 1; “On the Case at AOL,” *Businessweek Online*, January 10, 2000, <http://www.businessweek.com>; Om Malik, “Retail is the New AOL-MSN War Zone,” *Forbes.com*, November 11, 1999, <http://www.forbes.com>; Marc Gunther, “Mr. Case’s Neighborhood,” *Fortune*, March 30, 1998, pp. 69–80.