Getting at Strategic Change

By James E. Catoline

A U.S.-based multinational corporation needed to achieve real strategic change, but wasn't sure how to get a handle on it. An international conference of all the major players resulted in five key strategic decisions. That approach may work for your company, too.

Going global may be the solution to a company's competitive woes, but it also creates problems of its own. Multinational corporations face several problems resulting from the diverse environment in which they function, their complex organizational structures and communication patterns, and the constant challenges of developing strategies in order to compete in a world market.

One company solved its international strategic planning and subsidiary management problems by increasing the involvement of the chief players in those processes. Its innovative approach is presented here as a case study of the process of diagnosing and then addressing the problems of managing multinational subsidiaries and planning worldwide strategy. It may serve as a model to other multinationals faced with similar management problems.

The multinational in question is a 20-year-old manufacturer of electronics equipment, with headquarters in the northeastern United States and foreign subsidiaries around the world. It has 25,000 employees worldwide and annual revenues of $3.5 billion, of which 45 percent comes from its North American operations. The case study is based on my work there between 1984 and 1986.

The company is fast-growing, though financially conservative, and has highly centralized management control. The international business is made up of sales and customer-support operations, with all manufacturing and R&D done in the United States. The international business has been growing 20 percent faster than the domestic core business.

At the time of my involvement, the international operations fell into three geographically dispersed divisions, each headed by a vice-president who reported to the senior vice-president of marketing at headquarters. Those divisions were

- Europe, Africa, and the Middle East;
- Central and South America;
- Japan, the Far East, and Australia.

Reporting to each divisional vice-president were as many as 20 country/subsidiary managers, as well as divisional functional staff responsible for sales and marketing, finance and administration, and customer service.

One of the company's chief goals was to increase its market share overseas, particularly in the personal-computer and office-automation areas. In the mid 1980s, those markets were fairly saturated domestically. Moreover, it needed to combat abroad the steady and fierce competition from giants like IBM, Mitsubishi, Siemens, and Olivetti.

Turnover in the sales force was high, more than 60 percent annually. Drastic fluctuations in currency exchange rates created transfer pricing problems. Larger foreign subsidiaries were profitable, while smaller ones were regularly in the red. Hardware and software products, designed and developed in the United States primarily for American markets, had to be shipped overseas. Since its inception in the early 1960s, the company had been surviving a high-growth market and rapidly changing technology. It was now at a crucial stage in its international development.

Getting at the problems

The size and growing importance of the overseas subsidiaries were changing the nature of management tasks and responsibilities. The pressures of global competition and demands of host-country environments pointed to an urgent need for new strategic responses and improved organizational configurations. As in other multinational corporations at this stage of their development, previously clear corporate objectives and organizational relationships had become clouded.

The corporation commissioned me to interview more than 100 middle- and upper-level managers at various levels of the international operations to determine the chief problems affecting the international business. The managers, from several countries and with various lengths of service, were open in discussing problems of their own organizations as well as of the company as a whole. All agreed that the

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problems needed to be addressed at a company-wide level.

I collected the results of the survey, reduced them to a list of critical issues facing the company, and presented it to the president and senior executives of the corporation. They asked me to develop a plan to address the issues.

Methodology: three steps

In my consultative role, I was faced with the challenge of developing a strategy that would ensure a systematic approach to dealing with all of the issues at once. The involvement of the relevant players within the corporation was critical.

Step 1: Identification of Chief Problems. I conducted extensive independent interviews of country management teams, sales managers, and international marketing managers to identify the critical strategic and organizational issues that faced the company. The managers saw the needs to

- delineate the roles and responsibilities of country/subsidiary management, and of corporate marketing and planning groups;
- develop an effective organizational structure to meet the demands of the company's growing international market;
- provide adequate support to the country/subsidiary management teams, while at the same time ensuring them a degree of autonomy.

Management at all levels of the international operations, as well as at corporate headquarters, recognized those issues as critical, but respondents felt that there was no focus of responsibility or adequate mechanism for dealing with them.

Step 2: Corporate Verification and Buy-In. Corporate managers reviewed that list of issues to verify and reaffirm it. We had to secure their "buy-in"—their commitment to and ownership of the process of finding solutions to the problems. In a number of brainstorming sessions, they decided to develop a major company-wide intervention, a global forum by which to address the issues.

Step 3: Design. The intervention would take the form of a company-sponsored, worldwide conference, focusing on the theme of international subsidiary management and strategic planning. Participants would be the president and senior vice-presidents of the corporation, international marketing managers, international division functional managers, international regional and country managers, and key members of their management teams.

Implementation

As principal architect for the conference, I was keenly aware of two critical points:

- the conference was to be a major strategic intervention for the company and could not be seen as either an elaborate management-training session or a worldwide social gathering;
- it was an opportunity to shape the company's strategic direction, clarify organizational processes, affect management behavior, and provide a forum for the exchange of ideas.

I was also aware that such an enormous event was unprecedented in the company's history. Various practical and logistical problems became apparent in the planning and implementation:

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- We had to find a time to get all the key players together, without interfering with sales or budget cycles, or conventions or stockholders' meetings. Many country managers would feel nervous about time spent away from their jobs.
- We needed a location that would offer the necessary remoteness for serious concentration, as well as adequate security, while providing easy accessibility for international travel, adequate communications, comfortable surroundings, and well-equipped facilities. The company wanted an attractive setting, but did not want the conference to seem like a bonus trip for high-performing sales personnel.
- We had to get the involvement of respected outside specialists who could serve as facilitators and subject-area experts.
- We had to orchestrate the entire project within a reasonable time frame and budget.

It was going to be a serious meeting where people would work together to solve common problems, but we needed a relaxed and informal atmosphere. And the conference could not degenerate into a free-for-all gripe session, devoid of any clear accomplishments. At all levels of the company, managers wanted a democratic forum that used the techniques of participative management. It would be a conference where, in the words of two senior executives, there would be "decisive action-planning" and those present would be "actively involved in strategizing and making company policy."

The conference needed to be highly structured, yet allow for a free and open exchange of ideas. We also needed clear examples of problems in order to spark debate.

To get examples and to ensure that participants would be prepared for the meeting, we organized them into work teams according to geographic and functional divisions. During the four months before the conference, each team met as often as necessary to prepare a kind of case study—a detailed, well-documented, and in-depth analysis of actual, specific problems and business results. The teams would work on the solutions to their problems at the conference, and present their analyses to senior management.

Meeting the objectives

The principal objectives of the conference were to

- provide participants with the conceptual knowledge and comparative information necessary to address the issues of international strategy and subsidiary management in the company;
- apply that information to concrete issues faced by the company in its worldwide growth;
- assist participants in developing recommendations to the company's top management on issues of international organization and strategy;
- develop specific action plans to address each of the critical issues delineated.

In order to meet those goals, we organized the eight-day conference program into three phases.

Phase I: Symposium on Key Strategic Issues

The objective of the opening phase of the conference was to provide an overview of concrete issues in international management with an emphasis on strategy, organization, and human-resource management. In designing and implementing the phase, we collaborated with six professors—experts in those fields—from three major international business schools: INSEAD in France, IMEDE in Switzerland, and the Harvard Business School in the United States. We arranged for them to meet with selected corporate and subsidiary managers in the company, who briefed them on key issues affecting the company's international business. Those issues would be core topics for lectures, cases, and seminars.

We also sought the participation of two strategic-planning specialists from respected international-management-consulting firms, and two senior executives of other multinational companies (one who was on our company's board of directors, and the other who was CEO of a smaller international company and the president of an international trade organization of which our company was a member).

The external advisors became a corps of specialists whose chief role was to provide expertise in setting the stage for the conference and leading seminars. They also served as objective observers to stimulate problem-solving in Phase II.

Phase I included lectures, small-group discussions of relevant case studies, and specialized seminars. It opened with an address by the company's CEO, who emphasized the importance of the conference. Attendees got an overview of the program and an outline of the week, heard a lecture on "The Concept of Strategy," and participated in a question-and-answer period.

Each of the next three days opened with a plenary-session lecture followed by individual seminars presented by the specialists. Attendance was limited, because the seminars were intensive and required outside preparation and small-group breakouts for case work.

The strategic themes addressed in the seminars included the following:

- strategies for emerging high-tech businesses;
- competitive and cooperative developments in the information-technology industry;
- global industries and national markets—national responsiveness versus global integration;
- new-product marketing directions—product development, introduction, and pricing;
- the impact of environmental variables on area or country management;
- managing headquarters/subsidiary relations;
- managing data, managing people, and managing conflicts;
- skills needed for the international manager;
- human-resource management in a multinational company;
- managing organizational change;
- future challenges and directions in international business.

Phase II: Problem-Solving in Work Teams

In this phase, teams from each international division worked with the case studies they had prepared before the conference. They used the specialists' expertise to discuss solutions to some of those problems, address common problems, develop solutions in collaboration with other international subsidiaries, and raise global issues to the attention of corporate executives.

Everyone had been enthusiastic about preparing the case studies before the conference, but the process led to unrealistic expectations.

Line managers with heavy responsibilities could not devote a lot of preparation time, even though they were aware that in the long run it would lead to solving some of their biggest problems and simplifying their work. Indeed, one of the biggest problems in multinational subsidiaries is that the planning tends to be short-range—the bulk of the work is devoted to "firefighting." Furthermore, country management teams were reluctant to share financial and sales figures in public, or admit significant problems to their peers and superiors.

The success of the conference, however, was dependent on having real issues on the table—sharing and solving problems together was critical.

During the intensive workshops of Phase II, each work team could call on any specialist as a resource. That encouraged in each group a sense of ownership of the debate and its conclusions, and did not let specialists stifle initiative and ideas. As the discussions developed and problems were delineated, the specialists helped groups with similar high-priority problems to achieve common solutions together, reducing the number of groups. The specialists also helped the groups formulate recommendations and develop effective presentations.

The work teams sought solutions to the following problems.

How should the company respond to broad environmental changes affecting its businesses? Specific issues were

- political, demographic, and economic trends;
- changing environmental and market demands;
- the economic rise of Japan and East Asia;
- the evolution of Europe and the role of the EEC;
- policies of various countries toward the information-technology industry and toward U.S.-based multinationals.

What are the current changes in the competitive environment, and how should the company respond to them? Specific issues were

- evolution of customers, their differences and similarities around the world, and whether they rent or purchase;
- pricing policies;
- competitive developments;
- the role of host governments.

What are the current problems and future direction of financing and merchandising? Specific issues were

- local bureaucracy;
- discretionary budget constraints;
- currency considerations, fluctuation of the dollar, and economic risk;
- local investment strategy.

What is the role of headquarters in supporting the international operations? Specific issues were

- corporate versus subsidiary responsibility for product specification, introduction, and pricing;
- autonomy of the subsidiary in setting up and implementing marketing strategy;
- the need to do more long-range planning, and the involvement of the subsidiaries in it.

What is the role of the subsidiary manager? Specific issues were

- achieving a balance between the need for support from corporate marketing and the need for greater autonomy in running the subsidiary business;
- developing an effective organizational structure (that is, managing the country, area, divisional, and corporate headquarters matrix, and developing formal and informal communication networks);
- the skills required by subsidiary managers;
- key human-resource-management issues (for example, recruitment, training and development, and managing motivational problems and the high turnover of the salesforce).

Phase III: Strategy Session—Action-Planning and Decision-Making

The analysis and solutions to subsidiary problems were now ready for presentation. Phase III had two parts. First, conference participants reconvened and each team presented its case and solutions before a panel of senior company executives (including the CEO, senior vice-presidents, and international division managers).

In most teams, the chairperson took the responsibility for presenting the group's conclusions in a brief summary illustrated by handouts and viewgraphs. That was followed by a question-and-answer period and a discussion among team members, specialists, senior executives, and other conference participants.

Time management was an important element during those discussions—each group needed adequate time to bring its key issues to the table. To ensure that the presentations would be open and candid, no criticism, defense, or brainstorming was allowed during the presentations themselves. The goal was for top management to hear and understand the problems, priorities, and recommendations of their international subsidiaries, and for country-management teams to listen to and learn from each other.

Someone recorded each group's conclusions and prepared a general summary for the second part of Phase III. The summary was distributed, and everyone had time to digest and discuss the problems and recommendations.

One of the specialists presented a synthesis of the top priorities for the company's international operations based on the work teams' conclusions. The discussion focused on developing specific action plans to address the top-priority issues, and on the feasibility of implementing recommended solutions. People with responsibility in specific areas came up with plans to implement the recommended changes. In some cases, subcommittees with representatives from various line, staff, and geographical divisions helped develop the strategy. Action items were recorded, dates and deadlines set, and the CEO agreed to follow through on each item and report back to participants at a later date.

Phase III was intensive and demanding, but everyone felt positive about the steps that were taken, and left the conference feeling exhilarated and exhausted.

Results

The conference took place in January 1986, during a time of considerable change for the company and for the information-technology industry in general. As a direct result of the conference the company was able to make five key strategic decisions regarding its international business.

1. There would be a new structure in the international organization, with the following changes:

- The head of the international division would be a senior vice-president reporting directly to the CEO, rather than to the vice-president of sales and marketing, as before. He or she would also be a member of the strategic corporate operations committee.
- Each of the three international regional divisions would be headed by a vice-president reporting to the international vice-president.
- The company would introduce the area-management concept, in which an area manager heads operations in a group of countries, instead of separate countries reporting independently to headquarters.

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That approach has many advantages. One is the reduced "intermediary" role of the regional headquarters. The area manager would facilitate communication between country or area staff and corporate headquarters. He or she would also take over some responsibilities previously handled only at the corporate level—for example, workforce planning and forecasting, setting recruitment strategy, salary planning, training and development, financial reporting and control, currency translation, and pricing strategy.

Area managers would have the responsibility to meet area profit objectives, determined in conjunction with corporate headquarters. That would increase autonomy and develop solid general managers in a geographical business area.

Countries that typically had generated smaller business results would no longer be overlooked in the organization. An area of two, three, or four countries with geographical, cultural, and market similarities would be able to contribute to a larger piece of the company's business and play a more important role in decision making.

The role of the country management team was expanded. Instead of several subordinates looking to one chief for direction, there would be a true team approach, with resulting simplification of effort and maximization of skills, as well as greater efficiency in delegation of duties.

The stress and pressure on area sales and marketing personnel would be reduced. The country management team would no longer be simply "out there" without adequate recognition and support. The area-management concept would expand the market base and present opportunities to share responsibilities, avoid duplication of effort, and allow job rotation and career development.

2. The role of the corporate marketing department would change significantly. It had always taken a generic and standardized approach in setting marketing strategy for the international divisions. As a result, individual countries' needs were not met. Under the new system, the mission of the group would remain generic—it would provide guidelines, support, research, and information geared specifically to the needs of each subsidiary. The subsidiaries themselves would be responsible for strategies for meeting local needs, and thus would be more involved in global strategy.

The new configuration would resemble a fan, with the corporate international marketing department, located at the narrow point, sending a generic strategic mission and objectives to each subsidiary. Corporate headquarters would not generate those objectives—they would come from the international subsidiaries themselves, be "globalized" at the corporate level, and then be returned to the subsidiaries as worldwide standards. The corporate group would provide direction and badly needed support services. In this system, corporate headquarters and overseas subsidiaries optimize their strengths.

3. Markets would expand through international disbursement of the R&D and manufacturing functions. In the past, subsidiaries merchandised products developed primarily for the U.S. market. Now, they could develop new products or modifications of existing products and market them locally. That would set the stage for the creation of new-product development, R&D, and manufacturing centers around the world. It would also allow for a more favorable business climate, as consumers and users came to perceive the product and the company as their own rather than as a foreign entity.

4. The company moved from a selling approach in the subsidiaries to a true marketing strategy. Subsidiaries could respond to feedback from customers, as well as supply products to accommodate their needs. That would provide greater autonomy and flexibility in product specification, development, and pricing at the subsidiary level.

5. The formation of focus groups among the country-management teams created a built-in mechanism to review and address future issues that affected the subsidiaries.

Conclusion

Because the conference was successful in creating strategic and organizational change, the company's senior management now plans to hold similar international strategy meetings annually. The conference is a way for the company to address the challenges of competing in a world market, ensure long-range strategic planning, and facilitate its own adjustment to change.

Such a conference can be a powerful tool in the ongoing process of developing any company's strategic direction. But a few elements are crucial to success.

Above all, there must be overall recognition of the need for change. It is also important to make sufficient information available to all the key players so that they fully understand the issues. Through the process of analyzing the issues, debating solutions, and recommending actions, participants will develop a shared vision of the required response. Management must not only agree on actions, but must also reinforce and follow up on them.

Preparation and follow-up are at least as important as the conference itself. During the preparation stage, the entire management community needs to be involved in the conference agenda. Likewise, a careful follow-up process ensures that managers do not slip back into a business-as-usual mode. At the follow-up stage, an internal or external consultant could act as an auditor of agreed-upon action, an agent of senior management to monitor and ensure enforcement of action plans, and a catalyst for maintaining focus and momentum.

Mini-conferences at the divisional and subsidiary level address local issues. They can contribute to the quality of an annual worldwide conference—by saving time, streamlining the process, focusing on the global issues, and developing proposals for appropriate response at the corporate level.

International companies large and small have come to recognize that in times of strategic and organizational transition, it is useful and necessary for managers to get together to plan and communicate the changes, develop new skills, and most important, harness their collective energy to diagnose and respond to the challenges before them.