PLANNING, ORGANIZATION, AND CONTROL OF GLOBAL MARKETING OPERATIONS

17

CHAPTER OVERVIEW

1. GLOBAL STRATEGIC MARKETING PLANNING
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3. ORGANIZATIONAL DESIGN OPTIONS
4. ORGANIZING FOR GLOBAL BRAND MANAGEMENT
5. LIFE CYCLE OF ORGANIZATIONAL STRUCTURES
6. CONTROL OF GLOBAL MARKETING EFFORTS

The capstone of a company's global marketing activities will be its strategic marketing plan. To implement its global plans effectively, a company needs to reflect on the best organizational setup that enables it to successfully meet the threats and opportunities posed by the global marketing arena. Organizational issues that the global marketer must confront cover questions like: What is the proper communication and reporting structure? Who within our organization should bear responsibility for each of the functions that need to be carried out? How can we as an organization leverage the competencies and skills of our individual subsidiaries? Where should the decision-making authority belong for the various areas?

We consider the major factors that will influence the design of a global organizational structure. Multinational companies (MNCs) can choose from a wide variety of organizational structures. In this chapter, we discuss the major alternative configurations. We also highlight the central role played by country managers within the firm's organization. More and more companies try to build up and nurture global brands. We look at several organizational mechanisms that firms can adopt to facilitate such efforts. Because change requires flexibility, this chapter explores different ways that MNCs can handle environmental changes. MNCs must also decide where the decision-making locus belongs. The challenge is to come up with a structure that bridges the gap between two forces: being responsive to local conditions and integrating global marketing efforts. The final section focuses on control mechanisms companies can utilize to achieve their strategic goals.

◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆   GLOBAL STRATEGIC MARKETING PLANNING

The vast majority of multinational companies prepare a **global strategic marketing plan** to guide and implement their strategic and tactical marketing decisions. Such plans are usually developed on an annual basis and look at policies over multiple years. The content of a global strategic marketing plan can be very broad in scope but usually covers four areas:[1]

1. **Market situation analysis.** A situation analysis on a global basis of the company's customers (market segments, demand trends, etc.), the competition (SWOT[2] analysis), the company itself, and the collaborators (e.g., suppliers, distribution channels, alliance partners).

2. **Objectives.** For each country, management states goals that are achievable and challenging at the same time.

3. **Strategies.** Once the objectives have been determined, management needs to formulate marketing strategies for each country to achieve the set goals, including resource allocation.

4. **Action plans.** Strategies need to be translated into concrete actions that will implement those strategies. Specific actions are to be spelled out for each marketing mix element.

Although these are the core areas of a global strategic marketing plan, such a plan will also discuss anticipated results and include contingency plans.

Bottom-Up versus Top-Down Strategic Planning

International planning can be top-down (centralized) or bottom-up (decentralized). Obviously, hybrid forms that combine both options are also possible. With **top-down planning**, corporate headquarters guides the planning process. **Bottom-up planning** is the opposite. Here, the planning process starts with the local subsidiaries and is then consolidated at headquarters level. The bottom-up approach has the advantage of embracing local responsiveness. Top-down planning, on the other hand, facilitates performance monitoring. A centralized approach also makes it easier to market products with a global perspective. One survey of large multinational corporations found that pure bottom-up planning was most popular (used by 66 percent of the companies surveyed). Only 10 percent of the interviewed companies, on the other hand, relied on a pure top-down planning process. The balance used a hybrid format (11 percent) or no planning at all (12 percent).[3]

Pitfalls

Marketing plans can go awry. One survey identified the following obstacles as the main problems in preparing strategic plans for global markets:

1. Lack of information of the right kind (39 percent of the respondents).
2. Too few courses of action; too little discussion of alternatives (27 percent).
3. Unrealistic objectives (22 percent).
4. Failure to separate short/long-term plans (20 percent).
5. Lack of framework to identify strengths/weaknesses (19 percent).
6. Too many numbers (17 percent).
7. Lack of framework to define marketplace threats and opportunities (15 percent).

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[1] See, for instance, Douglas J. Dalrymple and Leonard J. Parsons, *Marketing Management* (New York: John Wiley & Sons, 2000), Chapter 17.

[2] SWOT analysis is the method used to evaluate the strengths, weaknesses, opportunities, and threats that the company is facing.

[3] Myung-Su Chae and John S. Hill, "The Hazards of Strategic Planning for Global Markets," *Long Range Planning*, 29(6) (1996), pp. 880–91.

8. Senior management de-emphasizing or forgetful about strategic/long-range plans (15 percent).

9. Too little cooperation between headquarters/subsidiaries or among subsidiaries (10 percent).

10. Too much information of the "wrong kind" (4 percent).

11. Too much planning jargon (1 percent).[4]

Obviously, external factors can also interfere with the strategic planning process. Changes in the political and the economic environment can upset the finest strategic plans. China's sudden clampdown on direct selling created upheaval for Avon, Amway, and Mary Kay, among other companies. The 2008-2009 global economic downturn wreaked havoc on the strategic plans of multinationals around the globe. McDonald's, for example, had finalized a three-year strategic plan by October 2008. However, as the global economy worsened, the company revisited its plan in December. McDonald's pressed its managers around the world to closely monitor cost items and data on customer traffic, buying patterns, and the general economic situation (e.g., unemployment rate).[5] As a result, McDonald's U.K. began running more ads for its value-priced Little Tasters menu and McDonald's China slashed prices by up to 33 percent. Other external factors that can hamper strategic marketing planning include changes in the competitive climate (e.g., deregulation), technological developments (e.g., 3G wireless technology), and consumer-related factors.

KEY CRITERIA IN GLOBAL ORGANIZATIONAL DESIGN ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆

As is true of most other global managerial issues, there is no magic formula that offers the "ideal" organizational setup under a given set of circumstances. Yet there are some factors that companies should consider when engineering their global organizational structure. In the following discussion, we make a distinction between environmental and firm-specific factors. We start with a look at the major environmental factors.

Competitive Environment. Global competitive pressures force MNCs to implement structures that facilitate quick decision-making and alertness. In industries where competition is highly localized, a decentralized structure where most of the decision-making is made at the country-level is often appropriate. Nevertheless, even in such situations, MNCs can often benefit substantially from mechanisms that allow the company to leverage its global knowledge base.

Environmental Factors

Rate of Environmental Change. Drastic environmental change is a way of life in scores of industries. New competitors or substitutes for a product emerge. Existing competitors form or disband strategic alliances. Consumer needs worldwide constantly change. Businesses that are subject to rapid change require an organizational design that facilitates continuous scanning of the firm's global environment and swift alertness to opportunities or threats posed by that environment.

Regional Trading Blocs. Companies that operate within a regional trading bloc (e.g., the European Union, NAFTA, MERCOSUR) usually integrate their marketing efforts to some extent across the affiliates within the block area. A case in point is the European Union. In light of the European integration, numerous MNCs decided to streamline their organizational structure. Many of these companies still maintain their local subsidiaries, but the locus of most decision-making now lies with the pan-European headquarters. As other trading blocs such as Asia's APEC and South America's

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[4]Ibid.

[5]"McDonald's seeks way to keep sizzling," *The Wall Street Journal Asia*, March 11, 2009, pp. 14–15.

MERCOSUR evolve toward the European model, one can expect similar makeovers in other regions.

Nature of Customers.   The company's customer base also has a great impact on the MNC's desired organizational setup. Companies such as DHL, IBM, and Citigroup, which have a "global" clientele, need to develop structures that permit a global reach and at the same time allow the company to stay "close" to their customers.

These are the major external drivers. We now turn to the prime firm-specific determinants.

Firm-Specific Factors   ***Strategic Importance of International Business.***   Typically, when overseas sales account for a very small fraction of the company's overall sales revenues, simple organizational structures (e.g., an export department) can easily handle the firm's global activities. As international sales grow, the organizational structure will evolve to mirror the growing importance of the firm's global activities. For instance, companies may start with an international division when they test the international waters. Once their overseas activities expand, they are likely to adopt an area-type (country- and/or region-based) structure.

Product Diversity.   The diversity of the company's foreign product line is another key factor in shaping the company's organization. Companies with substantial product diversity tend to go for a global product division configuration.

Company Heritage.   Differences in organizational structures within the same industry can also be explained via corporate culture. Nestlé and Unilever, for example, have always been highly decentralized MNCs. A lot of the decision-making authority has always been made at the local level. When Unilever realized that its marketing efforts required a more pan-European approach to compete with the likes of Procter & Gamble, the company transformed its organization and revised its performance measures to provide incentives for a European focus. One of Unilever's senior executives, however, noted that the changeover "comes hard to people who for years have been in an environment where total business power was delegated to them."[6] As long as a given formula works, there is little incentive for companies to tinker with it. Revamping an organization to make the structure more responsive to new environmental realities can be a daunting challenge.

Quality of Local Managerial Skills.   Decentralization could become a problem when local managerial talents are missing. Granted, companies can bring in expatriates, but this is typically an extremely expensive remedy that does not always work out. For instance, expatriate managers may find it hard to adjust to the local environment.

◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆   ## ORGANIZATIONAL DESIGN OPTIONS

The principal designs that firms can adopt to organize their global activities are:

- **International division.** Under this design, the company basically has two entities: the domestic division, which is responsible for the firm's domestic activities, and the international division, which is in charge of the company's international operations.
- **Product based structure.** With a product structure, the company's global activities are organized along its various product divisions.
- **Geographic structure.** This is a setup where the company configures its organization along geographic areas: countries, regions, or some combination of these two levels.

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[6]"Unilever adopts clean sheet approach," *Financial Times,* October 21, 1991.

• **Matrix organization.** This is an option where the company integrates two approaches—for instance, the product and geographic dimensions—with a dual chain of command.

We will now consider each of these options in greater detail. At the end of this section, we will also discuss the so-called **networked** organization model.

Most companies that engage in global marketing initially start by establishing an export department. Once international sales reach a threshold, the company might set up a full-blown international division. The charter of the international division is to develop and coordinate the firm's global operations. The unit also scans market opportunities in the global marketplace. In most cases, the division has equal standing with the other divisions within the company.

  This option is most suitable for companies that have a product line that is not too diverse and does not require a large amount of adaptation to local country needs. It is also a viable alternative for companies whose business is still primarily focused on the domestic market. Over time, as international marketing efforts become more important to the firm, most companies tend to switch to a more globally oriented organizational structure.

International Division Structure

The second option centers around the company's different product lines or strategic business units (SBUs). Each product division, being a separate profit center, is responsible for managing worldwide the activities for its product line. This alternative is especially popular among high-tech companies with highly complex products or MNCs with a very diversified product portfolio. Ericsson, John Deere, and Sun Microsystems are some of the companies that have adopted this structure. **Exhibit 17-1** shows how John Deere organizes its company.

  Several benefits are associated with a global product structure. The product focus offers the company a large degree of flexibility in terms of cross-country resource allocation and strategic planning. For instance, market penetration efforts in recently entered markets can be cross subsidized by profits generated in developed markets. In many companies, a global product structure goes in tandem with consolidated manufacturing and distribution operations. This approach is exemplified by Honeywell, the U.S. maker of control tools, which has set up centers of excellence that span the globe.[7] That way, an MNC can achieve substantial scale economies in the area of production and logistics, thereby improving the firm's competitive cost position. Another appeal is

Global Product Division Structure

EXHIBIT 17-1
ORGANIZATIONAL STRUCTURE OF JOHN DEERE OF A GLOBAL PRODUCT STRUCTURE
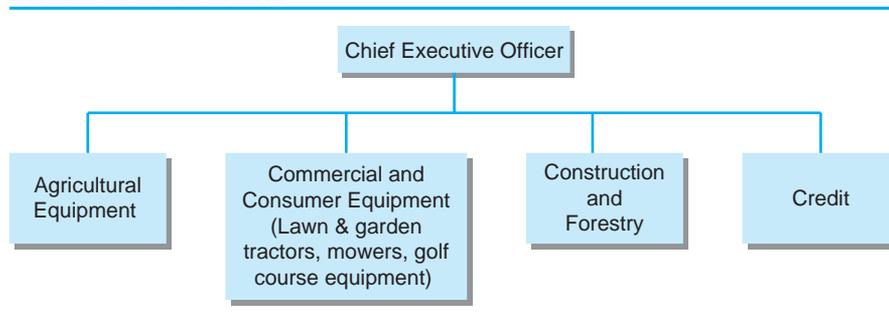
Source: www.deere.com

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[7]Honeywell, *1995 Annual Report.*

EXHIBIT 17-2
THE COCA-COLA COMPANY: EXAMPLE OF A GEOGRAPHIC
STRUCTURE

Operations	
Africa	*Latin America*
President	President
East and Central Africa	Brazil
Nigeria and Equatorial Africa	Latin Center Division
North and West Africa	Mexico
South Africa	South Latin Division
East, South Asia and Pacific Rim	*North Asia, Eurasia and Middle East*
President	President
India	China
Philippines	Eurasia and Middle East
South Pacific and Korea	Russia/Ukraine/Belarus
Southeast Asia and West Asia	Japan
European Union	*North America*
President	President
Central Europe	Canada
Germany and Nordic Division	Foodservice and Hospitality Division
Iberian Division	
Mediterranean Division	
Northwest Europe	

Source: The Coca-Cola Company, 2005
Annual Report

that global product structures facilitate the development of a global strategic focus to cope with challenges posed by global players.[8]

    The shortcomings of a product division are not insignificant. Lack of communication and coordination among the various product divisions could lead to needless duplication of tasks. A relentless product-driven orientation can distract the company from local market needs. The global product division system has also been criticized for scattering the global resources of the company.[9] Instead of sharing resources and creating a global know-how pool, international resources and expertise get fragmented. A too narrow focus on the product area will lead to a climate where companies fail to grasp the synergies that might exist between global product divisions.

Geographic Structure

The third option is the geographic structure, where the MNC is organized along geographic units. The units might be individual countries or regions. In many cases, MNCs use a combination of country-based subsidiaries and regional headquarters. There are other variants. Coca-Cola, for instance, has five different regions, each one of them being further divided into subregions, as is shown in **Exhibit 17-2**. Area structures are especially appealing to companies that market closely related product lines with very similar end-users and applications around the world.

Country-Based Subsidiaries. Scores of MNCs set up subsidiaries on a country-by-country basis. To some degree, such an organization reflects the marketing concept. By setting up country affiliates, the MNC can stay in close touch with the local market conditions. The firm can thereby easily spot new trends and swiftly respond to local market developments.

    Country-focused organizations have several serious handicaps, however. They tend to be costly. Coordination with corporate headquarters and among subsidiaries can easily become extremely cumbersome. A country-focus often leads to a "not-invented-here" mentality that hinders cross-border collaboration and support. Some critics of

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[8]W. H. Davidson and P. Haspeslagh, "Shaping a global product organization," *Harvard Business Review*, July–August 1982, pp. 125–32.
[9]W. H. Davidson and P. Haspeslagh, "Shaping a global product organization," p. 129.

the country-model derisively refer to the country-model as a mini-United Nations with a multitude of local fiefs run by scores of country managers.[10]

New Role of Country Managers. Corporate strategy gurus such as Ohmae foresee the demise of the country manager. Major companies have already cut down the role of their country managers within the organization, with power being transferred to a new breed, the "product champion." Often these days, country managers fulfill administrative duties and are described as "hotel managers." Companies such as P&G and Dow Chemical created global business divisions to handle investment strategic decisions. Oracle cut down its country managers to size when the company realized that its country-based organization had become a patchwork of local fiefs that did not communicate with each other: Oracle's logo in France differed from the one in the UK, global accounts like Michelin were treated as different customers, and so forth.[11] Several forces are held responsible for this shift away from strong country managers:[12]

- The threats posed by global competitors who turn the global marketplace into a global chess game.
- The growing prominence of global customers who often develop their sourcing strategies and make their purchase decisions on a global (or pan-regional) basis.
- The rise of regional trading blocs that facilitate the integration of manufacturing and logistics facilities but also open up arbitrage opportunities for gray marketers.
- Knowledge transparency. The internet and other information technologies allow customers and suppliers to become better knowledgeable about products and prices across the globe.

At the same time, several developments create a need for strong country managers.[13] Nurturing good links with local governments and other entities (e.g., the European Union) becomes increasingly crucial. Local customers still represent the lion's share of most companies' clientele. Local competitors sometimes pose a far bigger threat than global rivals. In many emerging markets, strong local brands (e.g., the Baidu search engine in China; the fast food restaurant Jollibee in the Philippines) often have a much more loyal following than regional or global brands. Many winning new-product or communication ideas come from local markets rather than regional or corporate headquarters. Also, if the role of local management is reduced to pen pushing and paperwork, it becomes harder to hire talented people. For these reasons, several firms have increased the clout of their country managers. A good example is 3M. In 1991, 3M set up 30 product-based units. To cut costs, 3M centralized procurement, production, distribution, and service centers (e.g., human resources). However, a decade later, 3M decided to hand power back to its country managers as they can provide a local perspective on group policies. The country managers also play a valuable role in establishing contacts with local customers and spotting opportunities for new businesses.[14]

To strike the balance between these countervailing forces, country managers of the twenty-first century should fit any of the following five profiles depending on the nature of the local market:[15]

- The *trader* who establishes a beachhead in a new market or heads a recently acquired local distributor. Traders should have an entrepreneurial spirit. Their roles include

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[10]Though some of the major MNCs operate in more countries than the number of UN member states.

[11]"From Baron to Hotelier," *The Economist* (May 11, 2002), pp. 57–58.

[12]John A. Quelch, "The new country managers," *McKinsey Quarterly*, 1992, No. 4, pp. 155–65.

[13]John A. Quelch and Helen Bloom, "The return of the country manager," *McKinsey Quarterly*, 1996, No. 2, pp. 30–43.

[14]"Country Managers Come Back in from the Cold," *Financial Times* (September 24, 2002).

[15]J. A. Quelch and H. Bloom, "The return of the country manager," pp. 38–39 in Michael Goold and Andrew Campbell, *Designing Effective Organizations* (San Francisco, CA: Jossey-Bass, 2002).

sales and marketing, scanning the environment for new ideas, gathering intelligence on the competition.

- The *builder* who develops local markets. Builders are entrepreneurs who are willing to be part of regional or global strategy teams.
- The *cabinet member* who is a team player with profit and loss responsibility for a small- to medium-sized country. Teamwork is key here, since marketing efforts may require a great deal of cross-border coordination, especially for global and pan-regional brands. Major strategic decisions are often made at the regional level rather than by the country subsidiary.
- The *ambassador* who is in charge of large and/or strategic markets. His responsibilities include handling government relations, integrating acquisitions and strategic alliances, coordinating activities across SBUs. In this role, the country manager can provide hands-on parenting for local markets that need more attention than they can get from the global product division. Ideally a seasoned manager, the ambassador should be somebody who is able to manage a large staff. For instance, Asea Brown Boveri, a Swiss/Swedish consortium, views the tasks of its Asia-based country managers as ''to exploit fully the synergies between our businesses in the countries, to develop customer based strategies, to build and strengthen relationships with local customers, governments, and communities.''[16]
- The *representative* in large, mature markets whose tasks include handling government relations and legal compliance and maintaining good relations with large, local customers. Dow Chemical, for example, realized that it needed to have strong local management in Germany who can talk shop with the German government authorities.

Whatever role is decided upon for the country manager, the main requirement is to clearly define the scope of the job. Some companies are now combining the two jobs of country manager and product champion.[17] This new breed of hybrid manager, referred to by some as a *country prince*, is based in a country that is seen as strategically important for the product category. Paris-based Nexans, the world's biggest maker of electric cables, adopted this approach. Nexans has three country princes. For instance, one heads the global product division for ship cables and is country manager for South Korea. **Exhibit 17-3** shows the job description for the Japan country manager at Twitter, the San Francisco-based social networking service.

EXHIBIT 17-3
JOB DESCRIPTION OF JAPAN COUNTRY MANAGER AT TWITTER

Responsibilities

- Lead all Twitter business operations in Japan.
- Identify, partner and collaborate with local strategic partner(s) in Japan to drive higher and sustained adoption for Twitter.
- Work closely with Japanese strategic partner to localize/internationalize the Twitter service.
- Construct a working road map for localization, define hiring plan and create a dashboard for Twitter usage and trends in Japan.
- Become the go-to person for all matters concerning Japan Twitter strategy, localization road map and execution.
- Budgetary responsibility and profit/loss leadership over Twitter investments in Japan.
- Liaison between Product and the Japanese Twitter Product, modeling changes and strategies based on analytical reasoning.
- Become a leading and vocal evangelist for the Japanese user base.
- Support the Business Development team in Twitter by identifying, evaluating, and testing revenue-generating strategies for the Japanese Twitter Product.
- Support the internationalization initiatives for Twitter in other regions.

Source: Adapted from twitter.jobscore.com, accessed on March 11, 2009.

[16]Gordon Redding, "ABB—The battle for the Pacific," *Long Range Planning*, 1995, vol. 28, no. 1, pp. 92–94.
[17]"The Country Prince Comes of Age," *Financial Times* (August 9, 2005): 7.

Regional Structures.   Many MNCs that do not feel entirely comfortable with a pure country-based organization opt for a region-based structure with regional headquarters. A typical structure has divisions for North America, Latin America, the Asia-Pacific, and EMEA.[18] To some extent, a regional structure offers a compromise between a completely centralized organization and the country-focused organization. The intent behind most region-based structures is to address two concerns: lack of responsiveness of headquarters to local market conditions and parochialism among local country managers. In more and more industries, markets tend to cluster around regions rather than national boundaries. In some cases, the regions are formal trading blocs like the European Union or NAFTA that allow almost complete free movement of goods across borders. In other cases, the clusters tend to be more culture-driven.

A survey done in the Asia-Pacific region singles out five distinct roles for regional headquarters (RHQs):[19]

- **Scouting.** The RHQ serves as a listening post to scan new opportunities and initiate new ventures.
- **Strategic stimulation.** The RHQ functions as a "switchboard" between the product divisions and the country managers. It helps the SBUs in understanding the regional environment.
- **Signaling commitment.** By establishing an RHQ, the MNC signals a commitment to the region that the company is serious about doing business in that region.
- **Coordination.** Often the most important role of the RHQ is to coordinate strategic and tactical decisions across the region. Areas of cohesion include developing pan-regional campaigns in regions with a lot of media overlap; price coordination, especially in markets where parallel imports pose a threat; consolidation of manufacturing; and logistics operations.
- **Pooling resources.** Certain support and administrative tasks are often done more efficiently at the regional level instead of locally. RQH might fulfill support functions like after-sales services, product development, and market research.

Matrix Structure

Imposing a single-dimensional (product, country, or function-based) management structure on complex global issues is often a recipe for disaster. In the wake of the serious shortcomings of the geographic or product based structures, several MNCs have opted for a matrix organization. The matrix structure explicitly recognizes the multi-dimensional nature of global strategic decision-making. With a matrix organization, two dimensions are integrated in the organization. For instance, the matrix might consist of geographic areas and business divisions. The geographic units are in charge for all product lines within their area. The product divisions have worldwide responsibility for their product line. As a result, the chain of command is often dual with managers reporting to two superiors. **Exhibit 17-4** shows an example of a matrix-like organization. Sometimes, the MNC might even set up a three-dimensional structure (geography, function, and business area). The various dimensions do not always carry equal weight. For instance, at Siemens the locus of control is shifting more and more toward the business areas, away from the geographic areas.

The matrix structure has two major advantages.[20] First, matrices reflect the growing complexities of the global market arena. In most industries MNCs face global *and* local competitors; global *and* local customers; global *and* local distributors. In that sense, the matrix structure facilitates the MNC's need to "think globally and act locally"—to be *glocal*—or, in Unilever's terminology, to be a *multi-local multinational*. The other
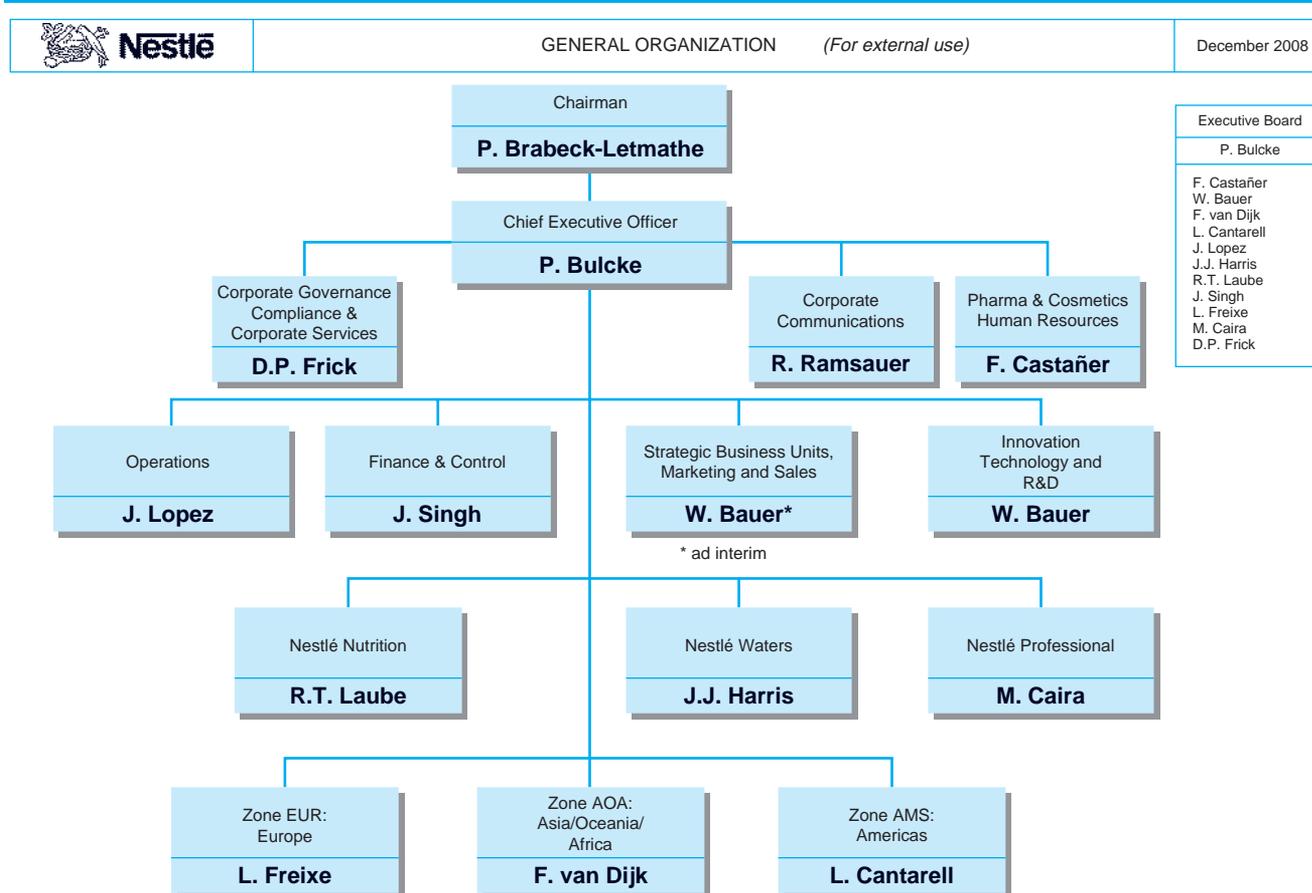
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[18]Europe, the Middle East, and Africa.

[19]Philippe Lasserre, "Regional headquarters: the spearhead for Asia Pacific markets," *Long Range Planning*, vol. 29, February 1996, pp. 30–37.

[20]Thomas H. Naylor, "The international strategy matrix," *Columbia Journal of World Business*, Summer 1985, pp. 11–19.

EXHIBIT 17-4
NESTLE'S ORGANIZATIONAL SETUP

| Nestlé | GENERAL ORGANIZATION | *(For external use)* | December 2008 |

		Executive Board
		P. Bulcke
		F. Castañer
		W. Bauer
		F. van Dijk
		L. Cantarell
		J. Lopez
		J.J. Harris
		R.T. Laube
		J. Singh
		L. Freixe
		M. Caira
		D.P. Frick

Chairman
P. Brabeck-Letmathe

Chief Executive Officer
P. Bulcke

Corporate Governance Compliance & Corporate Services
D.P. Frick

Corporate Communications
R. Ramsauer

Pharma & Cosmetics Human Resources
F. Castañer

Operations
J. Lopez

Finance & Control
J. Singh

Strategic Business Units, Marketing and Sales
W. Bauer*

Innovation Technology and R&D
W. Bauer

* ad interim

Nestlé Nutrition
R.T. Laube

Nestlé Waters
J.J. Harris

Nestlé Professional
M. Caira

Zone EUR: Europe
L. Freixe

Zone AOA: Asia/Oceania/Africa
F. van Dijk

Zone AMS: Americas
L. Cantarell

SG/FB

Source: www.nestle.com

appeal of the matrix organization is that, in principle at least, it fosters a team spirit and cooperation among business area managers, country managers and/or functional managers on a global basis.

In spite of these benefits, companies, such as BP and Philips (see **Global Perspective 17-1**), have disbanded their matrix structure. Others, such as IBM and Dow Chemical, have streamlined their matrix setup.[21] Matrix structures have lost their appeal among many MNCs for several reasons. Dual (or triple) reporting and profit responsibilities frequently lead to conflicts or confusion. For instance, a product division might concentrate its resources and attention on a few major markets, thereby upsetting the country managers of the MNC's smaller markets. Another shortcoming of the matrix is bureaucratic bloat. Very often, the decision-making process gets bogged down, thereby discouraging swift responsiveness toward competitive attacks in the local markets. Overlap among divisions often triggers tension, power clashes, and turf battles.[22]

The four organizational structures that we covered so far are the standard structures adopted by most MNCs. The simplicity of the one-dimensional structures and the

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[21] "End of a corporate era," *Financial Times* March 30, 1995, p. 15.
[22] Christopher A. Bartlett and Sumantra Ghoshal, "Matrix management, not a structure, a frame of mind," *Harvard Business Review*, July–August 1990, pp.138–45.

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*G*LOBAL PERSPECTIVE 17-1

PHILIPS'S QUEST FOR THE RIGHT ORGANIZATION

The Dutch company Philips is one of the world's biggest electronics companies, with 159,000 employees in 60 countries. The firm was one of the earliest adopters of the matrix structure. After World War II, it set up both national units and product divisions. The head of, say, the lighting division in France would report to two superiors: the French country manager and the global head of the lighting unit. Conflicts between the two lines of command were resolved via committees.

The matrix was plagued by numerous problems. One major issue was accountability: Who was to be held responsible for

Source: "The New Organization: A Survey of the Company—'The Matrix Master'," *The Economist* (January 21, 2006): 4.

the profit-and-loss account? Should it be the country boss or the product boss? In the early 1990s, Philips started to rethink its organization and created a number of units with worldwide responsibility. These new business units were built around products and based in the company's headquarters. Local country offices became subservient to the new units.

More recently, Philips tinkered further with its organization. To become more customer driven, Philips appointed a chief marketing officer. Under the motto "One Philips," it has launched several low-key changes. Employees are encouraged to work across different business units. They are also expected to rotate in their careers across geographical boundaries and product divisions.

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shortcomings of the matrix model have led several companies to look for better solutions. Below, we discuss one of the more popular forms: the *networked organization*.

The Global Network Solution

Global networking is one solution that has been suggested to cope with the short-comings associated with the classical hierarchical organization structures. The network model is an attempt to reconcile the tension between two opposing forces: the need for local responsiveness and the wish to be an integrated whole.[23] Strictly speaking, the network approach is not a formal structure but a mindset. That is, a company might still formally adopt, say, a *matrix* structure, but at the same time develop a global network. The networked global organization is sometimes also referred to as a **transnational**.[24] Several features characterize network structures:

- There is much less power at the center of the network than at the top of a hierarchical structure. Ideally, decisions are made through collaboration instead of being imposed from the top.
- Units relate as equals in status and power even though they fulfill different roles.
- The units that form the network relate to any other unit as necessary, they have multiple relationships.
- Within a network, units of similar size or function can perform very different tasks. They may change the role they play within the organization in response to local market needs and opportunities.[25]

According to advocates of the network model, MNCs should develop processes and linkages that allow each unit to tap into a global knowledge pool. A good metaphor for the global network is the atom. At the center is a common knowledge base. Each national unit can be viewed as a source of ideas, skills, capabilities, and knowledge that can be harnessed for the benefit of the total organization.[26] Asea Brown Boveri (ABB),

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[23]Christopher A. Bartlett and Sumantra Ghoshal, "Organizing for Worldwide Effectiveness: The Transnational Solution," *California Management Review*, Fall 1988, pp. 54–74.

[24]Christopher A. Bartlett and Sumantra Ghoshal, "Organizing for Worldwide Effectiveness: The Transnational Solution."

[25]David Arnold, *The Mirage of Global Markets. How Globalizing Companies Can Succeed as Markets Localize* (Upper Saddle River, NJ: Pearson Education, 2004), pp. 200–201.

[26]Christopher A. Bartlett, "Building and Managing the Transnational: The New Organizational Challenge," in *Competition in Global Industries*, Michael E. Porter, Ed., Boston, 1986, MA: Harvard Business School Press, pp. 367–401.

the Swiss-Swedish engineering consortium, is often touted as a prime example of a global networking.[27] Percy Barnevik, former CEO and one of the major forces behind ABB's transformation, describes ABB's vision as follows:

> Our vision was to create a truly global company that knows no borders, has many home countries and offers opportunities for all nationalities. While we strived for size to benefit from economies of scale and scope, our vision was also to avoid the stigma of the big company with a large headquarters and stifling bureaucracy, countless volumes of instructions, turf defenders and people working far from their customers. With our thousands of profit centers close to customers we wanted to create a small company culture with its huge advantages of flexibility, speed and the power to free up the creative potential of each employee.[28]

Some sample mechanisms to foster cross-border organizational integration without full centralization include the following:

- Best-practice sharing via formal or informal networks.
- Rotating key people within functions from one country to another.
- Training managers who can hold responsibilities over and above those of their main job.
- Developing common work patterns and ethic that facilitate cross-border cooperation. ABB, for instance, uses a company "bible" to tie together the different units within its organization. Its bible describes the firm's mission and values, long-term objectives, and guidelines on how to behave internally.[29] Another well-known example is "The Toyota Way."
- Creating a corporate academy. McDonald's "Hamburger University,"[30] which was founded in 1961, is a celebrated example.[31]

Technological advances have also spurred the creation of so-called "virtual teams" within more and more companies. Spread around the globe, these teams communicate through e-mail, Skype, or videoconferences rather than on a face-to-face basis. **Exhibit 17-5** lists guidelines for global virtual teams to be effective.

EXHIBIT 17-5
GUIDELINES ON GLOBAL VIRTUAL TEAMWORK
TIPS FOR TOP PERFORMANCE

- Start with face-to-face meeting to kick off trust building.
- Keep the team as small as practical.
- Have a code of practice on how to communicate and behave (e.g., how to respond to e-mails).
- Communicate regularly, but don't overdo it.
- Ensure everyone understands each other's role.
- Have a supportive sponsor who represents their interests at a senior level within the organization.
- Keep strong links with the parent organization.
- Reward results, not how people work.

Source: "'Virtual Teams' Endeavor to Build Trust," *Financial Times*, September 9, 2004, p. 8.

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[27]William Taylor, "The Logic of Global Business: An Interview with ABB's Percy Barnevik," *Harvard Business Review*, March–April 1991, pp. 91–105.

[28]Asea Brown Boveri, *1995 Annual Report*, p. 5.

[29]Manfred F.R. Kets de Vries," Making a Giant Dance," *Across the Board*, October 1994, pp. 27–32.

[30]See http://www.mcdonalds.com/corp/career/hamburger_university.html.

[31]Giancarlo Ghislanzoni, Risto Penttinen, and David Turnbull, "The Multilocal Challenge: Managing Cross-border Functions," *The McKinsey Quarterly*, 2008 (2), pp. 70–81.

ORGANIZING FOR GLOBAL BRAND MANAGEMENT   ◆ ◆ ◆ ◆ ◆ ◆ ◆

Global branding is the rage for more and more companies. However, to foster and nurture global brands, companies often find it useful to put organizational mechanisms in place. This is especially so for decentralized companies where local decisions involve global branding strategies. Several options exist: (1) a global branding committee, (2) a brand champion, (3) global brand manager, and (4) informal, ad hoc brand meetings. Let us look at each one of these in detail.

Global branding committees are usually made up of top-line executives from corporate (or regional) headquarters and local subsidiaries. Their charter is to integrate and steer global and local branding strategies. Visa International's ''Global Branding Marketing Group'' exemplifies this approach.[32] The group's goal is to establish better communications among regions and to leverage global media buying power. It is made up of the heads of marketing from each region. HP created a ''Global Brand Steering Committee'' in 1998. Its primary tasks include brand positioning and vision.[33]

Global Branding Committee

The **brand champion** is a top-line executive (sometimes a CEO) who serves as the brand's advocate.[34] The approach works well for companies whose senior executives have a passion and expertise for branding. One practitioner of brand championship is Nestlé. The company has a brand champion for each of its twelve corporate strategic brands. The brand champion approves all brand and line extension decisions,[35] monitors the presentation of the brand worldwide, and spreads insights on best practices within the organization.[36]

Brand Champion

The **global brand manager** is a steward of the brand whose main responsibility is to integrate branding efforts across countries and combat local biases. In the corporate hierarchy, the position is usually just below top-line executives. The position is most suitable for organizations where top management lacks marketing expertise, as is often the case with high-tech firms. For the global brand manager to be effective, the following conditions should hold:[37]

Global Brand Manager

- Commitment to branding at the top of the organization. Top-line executives—though most likely lacking a marketing background—should share the vision and a belief in strong branding.
- Need to create and manage a solid strategic planning process. Country managers should adopt the same format, vocabulary, and planning cycle.
- Need to travel to learn about local management and best practices and to meet local customers and/or distributors.
- Need for a system to identify, mentor, and train prospects that can fill the role.

Even if for some reason a company decides against a formal structure, it could still find it worthwhile to have informal mechanisms to guide global branding decisions. This usually takes the form of ad-hoc branding meetings. A good example is Abbott International, a U.S.-based pharmaceutical company. Whenever a new product is

Informal, Ad Hoc Branding Meetings

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[32]''U.S. Multinationals,'' *Advertising Age International* (June 1999), p. 44.
[33]Ibid.
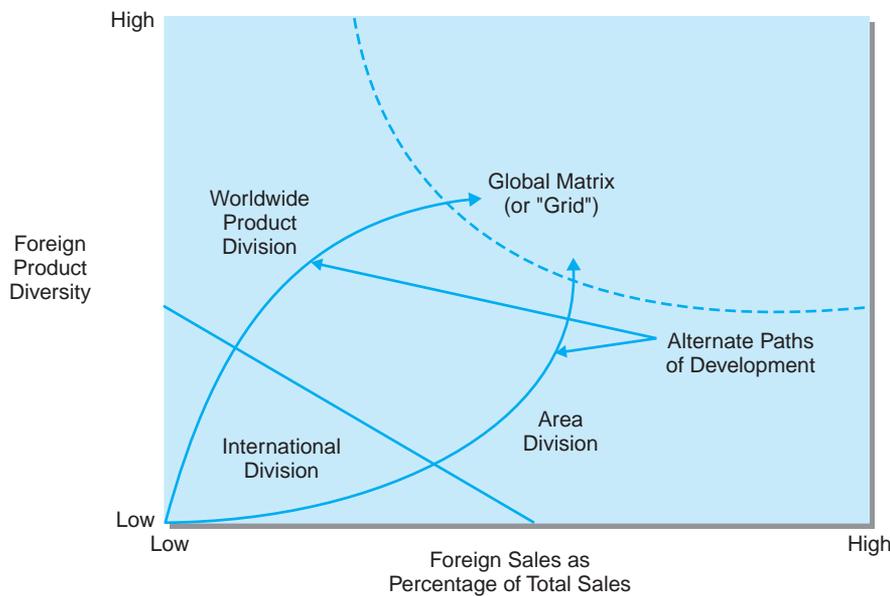[34]''David A. Aaker and Erich Joachimsthaler, ''The Lure of Global Branding,'' *Harvard Business Review*, (Nov.–Dec. 1999), p. 142.
[35]A brand extension is using the same brand for a new product in another product category; a line extension is launching new varieties (e.g., a new flavor, a new package format) of the brand within the same product category.
[36]Aaker and Joachimsthaler, p. 142.
[37]Aaker and Joachimsthaler, p. 142.

planned, international executives meet with local staff to discuss the global brand. The ad-hoc committee reviews patents and trademarks for each country to decide whether or not to use the U.S. name in the other countries.[38]

◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆   LIFE CYCLE OF ORGANIZATIONAL STRUCTURES

In December 2008 Dell announced plans to reorganize the company around three major customer segments, namely (1) large enterprise, (2) public (government, education, health care, and the environment), and (3) small and medium businesses. According to Michael Dell, the changeover resulted from listening to customers and responding to their desire for faster innovation and globally standardized products and services: "Customer requirements are increasingly being defined by how they use technology rather than where they use it. That's why we won't let ourselves be limited by geographic boundaries in solving their needs."[39] Organization structures are not set in stone. Change occurs and is not always welcomed by the local staff. Companies need to adapt their organization for several reasons.[40] First, existing structures may have become too rigid or complex with too many divisions and layers of management. A second reason is that the environment changes. To cope with these dynamics, the organization may need an overhaul. Third, managers learn new skills or new senior management is brought in from outside the firm. Fad prone managers are often attracted to new theories or paradigms, regardless of whether they actually serve the organization's purpose. Fourth, a key event such as a merger or major acquisition could force a company to rethink its organizational structure. A good example is Lenovo's takeover of IBM's PC division. The acquisition meant a higher emphasis for Lenovo on international markets and the corporate segment, and led to an overhaul of its organization. Finally, the pursuit of new strategic opportunities or directions often demands also a change in the organization.

Regardless of the reasons, successful restructuring takes time, planning, and resources. Change may imply new relationships, new responsibilities, or even downsizing. Not surprisingly, restructuring is often met with resistance by employees who think they "know better." Hence, apart from the "physical" changes, restructuring often requires a fundamental cultural change.[41]

In some cases companies have moved from one extreme to another before finding a suitable configuration. A case in point is Kraft General Foods Europe (KGFE).[42] In the early 1980s, KGFE tried to impose uniform marketing strategies across Europe. This attempt led to so much ill will among KGFE's local units that Kraft soon abandoned its centralized system. It was replaced by a loose system where country managers developed their own marketing strategies for all Kraft brands, including the regional (e.g., Miracoli pasta) and global brands (e.g., Philadelphia cream cheese). Not surprisingly, this system created a great deal of inconsistency in the marketing strategies used. In the 1990s Kraft was split into a North American and an international division with two chief executives, though the biggest product categories had "global councils" to cover best practices. Still, Kraft was struggling. In 2004, the dual structure was swept away in order to make Kraft truly global, cut costs, and ramp up innovation. The overhaul led to the creation of five global product units (beverages, snacks, cheese and dairy, convenient meals, and grocery) backed by two regional commercial units (one for North America, one for the rest of the world). Kraft also set up global units handling support functions such as supply chain and product development.[43]

[38]"U.S. Multinationals," p. 44.

[39]http://www.dell.com/content/topics/global.aspx/corp/pressoffice/en/2008/2008_12_31_rr_000? c=us&l=en&s=corp.

[40]Michael Goold and Andrew Campbell, *Designing Effective Organizations* (San Francisco: Jossey-Bass, 2002), pp. 88–89.

[41]"Be Principled for a Change," *Financial Times* (August 23, 2004): 9.

[42]"Cross-border Kraftsmen," *Financial Times* (June 17, 1993).

[43]"Search for the Right Ingredients," *Financial Times* (October 7, 2004): 8.

EXHIBIT 17-6
STOPFORD-WELLS INTERNATIONAL STRUCTURAL STAGES MODEL

Several management theorists have made an attempt to come up with the ''right'' fit between the MNC's environment (internal and external) and the organizational setup. One of the more popular schemas is the stages model shown in **Exhibit 17-6**, which was developed by Stopford and Wells.[44] The schema shows the relationship between the organizational structure, foreign product diversity, and the importance of foreign sales to the company (as a share of total sales). According to their model, when companies first explore the global marketplace they start off with an international division. As foreign sales expand without an increase in the firm's foreign product assortment diversity, the company will most likely switch to a geographic area structure. If instead the diversity of the firm's foreign product line substantially increases, it might organize itself along global product lines. Finally, when both product diversity and international sales grow significantly, MNCs tend to adopt a two-dimensional matrix structure.

The Stopford-Wells staged model has been criticized for several reasons. First, the model is a purely descriptive representation of how MNCs develop over time based on an analysis of U.S.-based MNCs. So, it would be misleading to apply the framework in a prescriptive manner, as several people have done.[45] Second, the structure of the organization is only one aspect of a global organization. Other, equally important, elements are the mindsets of the managers and managerial processes. The MNC's environment is dynamic; it changes all the time. Thus, a fit between the environment and the MNC's organizational structure is not enough. Global organizations also need flexibility.[46]

An in-depth study of a sample of ten successful U.S.-based MNCs showed that the key challenge for MNCs is building and sustaining the right management process instead of looking for the proper organizational structure.[47] According to the study, the installation of such a process moves through three stages. The first step is to recognize the complexity

[44]John M. Stopford and Louis T. Wells, Jr., *Managing the Multinational Enterprise: Organization of the Firm and Ownership of the Subsidiary.* New York: Basic Books, 1972.

[45]Christopher A. Bartlett, ''Building and Managing the Transnational: The New Organizational Challenge,'' in *Competition in Global Industries*, M.E. Porter, Ed., 1986, Boston, MA: Harvard Business School Press, pp. 367–401.

[46]Sumantra Ghoshal and Nitin Nohria, ''Horses for courses: Organizational Forms for Multinational Corporations,'' *Sloan Management Review*, Winter 1993, pp. 23–35.

[47]Christopher A. Bartlett, ''MNCs: get off the reorganization merry-go-round,'' *Harvard Business Review*, March–April 1983, pp. 138–46.

of the MNC's environment. Country and regional managers must look at strategic issues from multiple perspectives—a **glocal mindset,** so to speak. During the second stage, the company introduces communication channels and decision-making platforms to facilitate more flexibility. In the final stage, the MNC develops a corporate culture that fosters collaborative thinking and decision-making. Such an agenda could include activities such as formulating common goals and values, developing reward systems and evaluation criteria that encourage a cooperative spirit, and providing role models.

◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ## CONTROL OF GLOBAL MARKETING EFFORTS

To make global marketing strategies work, companies need to establish a control system. The main purpose of controls is to ensure that the behaviors of the various parties within the organization are in line with the company's strategic goals. We will first concentrate on formal control methods. We will then also turn to less formal means to implement control: establishing a corporate culture and management development.

Formal ("Bureaucratic") Control Systems

Any formal control system consists of basically three building blocks: (1) the establishment of performance standards, (2) the measurement and evaluation of performance against standards, and (3) the analysis and correction of deviations from standards.

Establishing Standards (Metrics). The first step of the control process is to set standards (metrics). These standards should be driven by the company's corporate goals. There are essentially two types of standards: behavior- and outcome-based. Behavior-based control involves specifying the actions that are necessary to achieve good performance. Managers are told through manuals/policies how to respond to various scenarios. Rewards are based on whether the observed behavior matches the prescribed behavior. Examples of behavior-based standards include distribution coverage, branding policies, pricing rules, and R&D spending. Output-based control depends on specific standards that are objective, reliable, and easy to measure. Outcome standards focus on very specific outcome-oriented measures such as profit-loss statements, return on investment (ROI), market share, sales, and customer satisfaction.

When applied too rigorously, behavior-based standards restrain local management's ability to respond effectively to local market conditions. An example is Johnson & Johnson's experience in the Philippines.[48] In the early 1990s, J&J's managers found out that young Philippine women used J&J's baby talcum to freshen their makeup. To cater toward their needs, local management developed a compact holder for the talcum powder. However, a few days before the planned launch of the new product, corporate headquarters asked the local managers to drop the product, claiming that the cosmetics business is not a core business for J&J. Only after the local marketing head made a personal plea for the product at J&J's headquarters was the subsidiary given the green light. The product became a big hit, though it was never launched in other markets since J&J did not want to run the risk of being perceived as a cosmetics maker.

Output-based standards such as profits can also create problems. For instance, a change in the company's transfer pricing rules[49] could distort profits of the local subsidiary even though its performance does not change.[50] Likewise, a high sales volume target could encourage a country subsidiary to get involved with the gray market in order to boost its numbers.

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[48]Niraj Dawar and Tony Frost, "Competing with Giants. Survival Strategies for Local Companies in Emerging Markets," *Harvard Business Review*, (March–April 1999), pp. 119–29.

[49]The transfer price is the price charged by one country subsidiary to another country affiliate for delivered goods or services to that affiliate (see also Chapter 12).

[50]Robert D. Hamilton III, Virginia A. Taylor, and Roger J. Kashlak, "Designing a Control System for a Multinational Subsidiary," *Long Range Planning*, 29(6), pp. 857–68.

For most companies, the two types of standards matter. Let us show you why with a simple illustration. Imagine that headquarters wants country A to increase its market share by 3 percentage points over a one-year period. Country A could take different approaches to achieve this target. One path is to do a lot of promotional activities—couponing, price promotions, trade deals, and so on. Another route is to spend more on advertising. Both paths could achieve the desired outcome. However, with the first option—heavy dealing—the company risks tarnishing its brand image. With the second option, the subsidiary would invest in brand equity. Thus, the same outcome can be realized through two totally different behaviors, one of which can ruin the long-term viability of the company's brand assets.

Ideally, standards are developed via a bottom-up and top-down planning process of listening, reflecting, dialoguing, and debating between headquarters and the local units. Standards should also strike a delicate balance between long- and short-term priorities.[51]

Measuring and Evaluating Performance.   Formal control systems also need mechanisms to monitor and evaluate performance. The actual performance is compared against the established standards. In many instances, it is fairly straightforward to measure performance, especially when the standards are based on within-country results. To make global or pan-regional strategies work, MNCs also need to assess and reward individual managers' contributions to the "common good." For example, two-thirds of the bonuses payable to Unilever's senior executives in Europe are driven by Unilever's performance in that region.[52] In practice, however, it is tremendously hard to gauge managers' contributions to the regional or global well-being of the firm.

Analyzing and Correcting Deviations.   The third element is to analyze deviations from the standards and, if necessary, make the necessary corrections. If actual performance does not meet the set standard, the company needs to analyze the cause behind the divergence. If necessary, corrective measures will be taken. This part of the control system also involves devising the right incentive mechanisms—checks and balances—that make subsidiary managers "tick." While proper reward systems are crucial to motivate subsidiary managers, one study has shown the key role played by the presence of *due process*.[53] Due process encompasses five features: (1) the head office should be familiar with the subsidiaries' local situation; (2) global strategy development should involve a two-way communication; (3) head office is relatively consistent in making decisions across local units; (4) local units can legitimately challenge headquarters' strategic views and decisions; and (5) subsidiary units receive explanations for final strategic decisions.

Informal Control Methods

Apart from formal control mechanisms, most MNCs also establish informal control methods. Below we cover the two most common informal control tools, namely, corporate culture and human resource development.

Corporate Culture.   For many MNCs with operations scattered all over the globe, shared cultural values are often a far more effective "glue" to bond subsidiaries than formal bureaucratic control tools. Corporate cultures can be *clan-based* or *market-based*.[54] Clan cultures have the following distinguishing features: they embody a long socialization process; strong, powerful norms; and a well-defined set of internalized controls. Market cultures are the opposite: norms are loose or absent; socialization

[51]Guy R. Jillings, "Think Globally, Act Locally," *Executive Excellence*, October 1993, p. 15.

[52]"Unilever adopts clean sheet approach," *The Financial Times*, October 21, 1991.

[53]W. Chan Kim and Renée A. Mauborgne, "Making Global Strategies Work," *Sloan Management Review*, Spring 1993, pp. 11–24.

[54]David Lei, John W. Slocum, Jr., and Robert W. Slater, "Global Strategy and Reward Systems: The Key Roles of Management Development and Corporate Culture," *Organizational Dynamics*, Winter 1989, pp. 27–41.

processes are limited; and control systems are purely based on performance measures. For most global organizations where integration is an overriding concern, a clan-like culture is instrumental in creating a shared vision.

Corporate values are more than slogans that embellish the company's annual report. To shape a shared vision, cultural values should have three properties:[55]

1. **Clarity.** The stated values should be simple, relevant, and concrete.
2. **Continuity.** Values should be stable over time, long-term oriented, not flavor-of-the-month type values.
3. **Consistency.** To avoid confusion, everyone within the organization should share the same vision. Everybody should speak the same language. Everyone should pursue the same agenda.

Human Resource Development. Another major informal control tool is a company's program for management development. These programs have three critical roles.[56] First and foremost, training programs can help managers worldwide in understanding the MNC's mission and vision and their part in pursuing them. Second, such programs can speed up the transfer of new values when changes in the company's environment dictate a "new" corporate mentality. Finally, they can also prove fruitful in allowing managers from all over the world to share their best practices and success stories.

"Soft" versus "Hard" Levers

A joint research project conducted by the Stanford Business School and McKinsey aimed to uncover what sort of tools multinationals rely on to resolve the global vs. local tensions.[57] The project, dubbed the "Globe Project," studied 16 multinational companies through in-depth interviews, questionnaires, and network analysis. Based on company interviews, the researchers identified seven management tools or "levers" that companies use to resolve the global/local trade-offs:

- *Organizational structure.* Creating formal positions and lines of authority.
- *Process.* Defining workflows and procedures.
- *Incentives.* Reward systems that encourage outcomes in line with the desired balance between global and local priorities.
- *Metrics.* Measurement systems that focus on desired outcomes.
- *Strategy.* The extent to which the central strategy guides local decisions.
- *Networks.* Building personal relationships that help resolve disputes and encourage sharing of knowledge and resources.
- *Culture.* Shared values that encourage a common approach among all members of the organization.

As you can see, there is some overlap between these levers and the control methods we discussed earlier. Three of the tools—process, incentives, and metrics—are *hard levers*; three other tools—strategy, networks, and culture—are *soft lever* (formal versus informal methods). Structure is a hybrid. The study scored each company that participated in the project on each of these levers. Depending on the score, a company could be classified as a "hard" or "soft" firm. 3M, the conglomerate with its unique innovation culture leans very heavily toward soft levers. Toyota, on the other hand, with its heavy focus on quality control is a prototypical "hard" company.

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[55]Christopher A. Bartlett and Sumantra Ghoshal, "Matrix Management: Not a Structure, a Frame of Mind," *Harvard Business Review*, July–August 1990, pp. 138–45.

[56]David Lei and colleagues, "Global Strategy and Reward Systems: The Key Roles of Management Development and Corporate Culture,"*Organizational Dynamics*, Winter 1989, p. 39.

[57]"Corporations with Hard and Soft Centres," *The Financial Times* (February 20, 2002), p. 11.

SUMMARY ◆

Running a multinational organization is a tremendous challenge. Local managers need empowerment so that the local unit is able to respond rapidly and effectively to local market threats, grab opportunities, and stay in tune with local market developments. Yet, a "laissez-faire" situation will easily evolve into a patchwork of local barons who will inevitably jeopardize the interests of the group as a whole. Too much centralization, however, will straitjacket the country manager, create resentment, and stifle local creativity and responsiveness. This tension global (integration, scale) versus local (market responsiveness) tension needs to be addressed. In this chapter we discussed the structures and control mechanisms that MNCs can use to shape a global organization. Companies can pick from a variety of structures, ranging from a single international division to a global network operation. Formal and informal (culture, management development) control mechanisms are available to run global operations. However, the dynamics of the global marketing arena means that building a global organization is much more than just choosing the "right" organizational configuration and control systems. Global players constantly need to reflect on how to strike the balance between centralization *and* decentralization, local responsiveness *and* global integration, center *and* periphery. As with many other challenges in global marketing, there are no one-size-fits-all solutions. In their search for the proper structure and strategic coherence, countless MNCs have come up with schemes that led to confusion, frustration, and ill will among subsidiary managers. We can, however, offer some pieces of advice though:

- **Recognize the need for business asymmetry.** Due to relentless environmental changes, power sharing between the centre and the periphery will vary over time, over business units and even across activities (product development, advertising, pricing) within business units. Different business units within the organization have different needs for responsiveness and global coordination.[58] Especially widely diversified companies should recognize that each business unit needs a different format, depending on its particular circumstances and needs. For instance, Asea Brown Boveri has businesses that are *superlocal* (e.g., electrical installation) and *superglobal* (e.g., power plant projects). P&G's model treats countries differently based on their income. In high-income countries, the business unit is in charge of resource allocation; in low-income countries (e.g., China, Eastern Europe) the region is responsible. The reason is that low-income countries are more challenging and less familiar business environments. However, the global product unit makes production and marketing decisions for products such as Pantene shampoo, which are global in nature—in terms of consumer buying habits and usage.[59]

- **Adopt a bottom-up approach.** Getting the balance right also requires democracy. When building up a global organization, make sure that every country subsidiary has a "voice." Subsidiaries of small countries should not be concerned about getting pushed over by their bigger counterparts.

- **Importance of a shared vision.** Getting the organizational structure right—the "arrows" and "boxes" so to speak—is important. Far more critical though is the organizational "psychology."[60] People are key in building an organization. Having a clear and consistent corporate vision is a major ingredient in getting people excited about the organization. To instill and communicate corporate values, companies should also have human resource development mechanisms in place that will facilitate the learning process.

- **Invest heavily in horizontal communication channels and information flows.** Very often multinational corporations focus primarily on vertical communication channels going from the country unit to corporate (or regional) headquarters but neglect horizontal information flows among the different country affiliates. As a result, country units become isolated and try to achieve their own profit goals instead of the overall company profit.[61]

- **Ensure that somebody has a global overview of each product line or brand.** Global oversight of a product line or brand is needed to facilitate transfer of learning and knowledge among markets and to leverage new product and marketing mix programs. The central hub could be corporate or regional headquarters or the lead market with the category's most sophisticated customers and/or distributors and in which most product innovations debut.[62] Lenovo's global marketing hub is located in Bangalore: Lenovo's India team develops global marketing campaigns targeted for dozens of countries, including the United States, France, and Brazil.

- **Need for a good mix of specialists of three types—country, functional, business.** There is no such a thing

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[58]"Fashionable federalism," *The Financial Times*, December 18, 1992.

[59]"From Baron to Hotelier," *The Economist* (May 11, 2002), pp. 57–58.

[60]Christopher A. Bartlett and Sumantra Ghoshal, "Matrix Management: Not a Structure, a Frame of Mind," *Harvard Business Review*, July-August 1990, pp. 138–45.

[61]David Arnold, *The Mirage of Global Markets. How Globalizing Companies Can Succeed as Markets Localize* (Upper Saddle River, NJ: Pearson, 2004), pp. 205–206.

[62]Ibid.

as a *transnational manager.* Companies should breed specialists of three different kinds: country, functional and global business (SBU). Country managers in particular—once feared to become part of the endangered species list—play a key role. As we discussed earlier in this chapter, the country manager's skills and role will differ from country to country. Some subsidiaries need a "trader"; others need an "ambassador."

- **Moving unit headquarters abroad seldom solves the organization's problems.** In recent years, several companies (e.g., IBM, HP, and Siemens) have moved business unit headquarters abroad. Several of these moves were done for very sensible reasons: getting closer to the customer or supplier, being in the big guys' backyard, cutting costs. For instance, the Japanese company Hoya, one of the world's largest makers of spectacle lenses, moved the headquarters of its vision care business to the Netherlands. The move was prompted by Europe's technological prowess in this sector.[63] Unfortunately, in many cases the relocation typically turns out to be mere window-dressing in a drive to become more global-oriented. Sometimes transfers can even be counterproductive, weakening the corporate identity or the "authenticity" of the brand when it is strongly linked to the firm's home country.[64]

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[63]"A European Move with Global Vision," *Financial Times* (January 12, 2006): 10.
[64]"Home Is Not Always Where the Heart Is," *Financial Times* (January 10, 2005): 6.

KEY TERMS ◆

Bottom-up (top-down) planning
Brand champion
Clan culture
Geographic structure

Global brand manager
Global networking
Global strategic marketing plan
International division

Market culture
Matrix structure
Networked organization
Product-based structure

Transnational

REVIEW QUESTIONS ◆

1. How does a global networked organization differ from the matrix structure?

2. Describe how external environmental drivers influence the organizational design decision.

3. What are the pros and cons of a regional organization structure?

4. What mechanisms can companies use to foster a global corporate culture?

5. What does it take for an MNC to be a "multi-local multinational"?

DISCUSSION QUESTIONS ◆

1. Do an online search for country manager jobs on the web (see Exhibit 17-3 for an example). Discuss the profile in the job description (e.g., responsibilities, qualifications).

2. In his book, *The End of the Nation State* (New York: The Free Press, 1995), Kenichi Ohmae makes the following observations about country-based organization structures:

One of the prime difficulties of organizing a company for global operations is the psychology of managers who are used to thinking by country-based line of authority rather than by line of opportunity. Lots of creative ideas for generating value are overlooked because such managers are captive to nation state-conditioned habits of mind. Once that constraint is relaxed . . . a nearly infinite range of new opportunities comes into focus: building cross-border alliances, establishing virtual companies, arbitraging differential costs of labor or even services . . . . I strongly believe that, as head-to-head battles within established geographies yield less and less incremental value, changing the battleground from nation to cross-border region will be at the core of 21st-century corporate strategy.

Do you agree or disagree with these comments? Why?

SHORT CASES

CASE 17-1

REVAMPING PROCTER & GAMBLE: "ORGANIZATION 2005"

Until the late 1990s, Procter & Gamble was split into four regional divisions: North America; Europe, Middle East, and Africa; Asia; and Latin America. Each division was responsible for its profits and losses. Despite heavy R&D spending, P&G failed through the 1990s to develop and successfully launch innovative products. After a lackluster sales performance during the mid-1990s, P&G decided to embark on a self-improvement plan. Top executives of the firm traveled around the country, visiting the CEOs of a dozen major companies such as Kellogg, Hewlett-Packard, and 3M in search for advice. The result of the whole exercise was "Organization 2005" a new bold plan to revamp the P&G organization. The goal of the restructuring exercise was to boost sales and profits by launching an array of new products, closing plants, and cutting jobs. The plan was spearheaded by then CEO Durk Jager. According to Jager, P&G's management had become too conservative: "Speed builds sales. But, speed has been an issue for us."

Under Organization 2005, P&G was to be remolded from a geographically based organization to one based on global product lines. The key elements of the program were:

• **Global Business Units (GBUs).** P&G moved from four geographic units to seven so-called GBUs based on product lines. Each GBU would have all the resources it needs to understand consumer needs in its product area and to do product innovation. By shifting the focus to products, P&G hoped to boost innovation and speed. The GBUs were to develop and sell products on a worldwide basis. They would replace a system where country managers ruled their local fiefs, setting prices and devising product policies as they saw fit. By 2000, P&G had consolidated into five GBUs: paper ($12 billion in net sales in FY 2001), fabric and home care ($11.7 billion), beauty care ($7.3 billion), health care ($4.4 billion), and food and beverage ($4.1 billion), such

as baby care, laundry detergents, shampoos, and beauty care.
• **Global Business Services (GBSs).** This new unit would bring support services such as accounting, information technology, and data management under one roof.
• **Market Development Organizations (MDOs).** The MDOs were created to tailor global marketing programs to local markets.
• **Corporate functions.** Corporate functions were streamlined Most of the corporate staff was transferred to one of the new business units.
• **Overhaul of reward systems and training programs.**

P&G saw the revamped organization as a continuation of the strategy it started in the 1980s when it moved from brand management to category management. With the new setup, category management would be run on a global basis. Durk Jager, P&G's CEO, made the case for Organization 2005 as follows: "Organization 2005 is focused on one thing: leveraging P&G's innovative capability. Because the single best way our growth . . . is to innovate bigger and move faster consistently and across the entire company. The cultural changes we are making will also create an environment that produces bolder, more stretching goals and plans, bigger innovations, and greater speed."

However, in FY 2000, P&G was struggling. Results were below plan. Core earnings (earnings excluding restructuring charges) grew a modest 2.0 percent. Durk Jager commented: "I am proud of our vision of Organization 2005, and we've made important progress. It's unfortunate our progress in stepping up top-line sales growth resulted in earnings disappointments." Jager resigned in June 2000, after less than two years on the job. A. G. Laffey, the new CEO, said: "In hindsight, it is clear that we have changed too much too fast, all with the right intent of accelerating growth—but still, too much change too fast."

Sources: "P&G's Hottest New Product: P&G," *Business Week* (October 5, 1998), pp. 58–59; "The what, not the where, to drive P&G," *Financial Times* (September 3, 1998), p. 18; www.pg.com/investor/news/recentnews_newsrel.html; http://www.indiainfoline.com/fmcg/feat/pgga.html.

DISCUSSION QUESTIONS

1. What went wrong with Organization 2005? Do you agree with Laffey's comments of "too much too fast"?

2. Is Organization 2005 fundamentally right for P&G? Or, should P&G nip Organization 2005 in the bud and if so, why?

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