MANAGING THE GLOBAL CORPORATION

Case Studies in Strategy and Management

William H. Davidson

José de la Torre

McGRAW-HILL SERIES IN INTERNATIONAL BUSINESS AND ECONOMICS

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Preface

OUR GLOBAL ENVIRONMENT

There is little doubt that the world is shrinking by the day. As distances and obstacles to international transactions diminish, producers and consumers expand their horizons. Regardless of the type of endeavor, the playing field is now the globe.

Modern advances in communication technologies and in transportation have brought distant lands and events into nearly everyone's field of vision and within the scope of personal experience. National cultural achievements, whether gastronomic, artistic, or literary, are rapidly shared by a world eager to savor humanity's inventiveness and to complement traditional domestic choices. Scientific discoveries spread widely at astonishing speed; often they are replicated across the globe within weeks of their first announcement. And no one can claim that sporting events, except for a few esoteric national pastimes, are any longer the domain of any one nation. But it is perhaps in the field of business that the transformation from a national to a global environment has been most dramatic.

In the immediate postwar period the ratio of world trade to world output (excluding the Soviet bloc countries and China) was considerably under 10 percent. By the late 1980s this ratio had surpassed 20 percent. In manufactured goods, world trade now represents more than 35 percent of total output of industrial products. Trade in minerals and agricultural products has also risen dramatically since the early 1950s. Thus, trade volume expanded at nearly 9 percent per annum during the last quarter of a century, far outpacing and significantly contributing to the unprecedented economic growth the world has experienced during this period.

Trade in so-called invisibles—tourism, the myriad of services from engineering to telecommunications that are critical to any modern society, dividend and financial flows, and other international transfers—grew at an even faster rate, to the point that they approached 50 percent of the value of merchandise trade in 1988. Led by the globalization of financial services and markets, this component of world trade promises to remain the fastest growing segment. In fact, the liberalization of trade in services and the international protection of intellectual property rights are two subjects of critical importance to the current Uruguay Round of trade negotiations under the auspices of the General

Agreement on Tariffs and Trade, which, if successful, may stimulate faster growth for many of the world's economies.

International capital flows, both portfolio investments by individuals and institutions as well as foreign direct investments (FDI) by corporations have also grown dramatically during the postwar period. In recent years, their growth has been accompanied by considerable diversification in the sources and destinations of investment. For example, whereas corporations based in the United States were responsible for nearly 60 percent of the total stock of FDI as recently as 1967, the rapid expansion of European and Japanese multinational corporations had reduced this figure to less than 40 percent by 1987. The United States, once the principal source of international investment capital, has become the major recipient. International investment activity in stocks, bonds, real estate, and other assets now plays a central role in securities markets, as greater integration of the world's major capital markets is driven by technological change. The recent frenzy of cross-border mergers and acquisitions within Europe and between Europe and the United States provides further evidence that the globalization of capital markets goes hand in hand with events in the real sector.

Yet, as direct investment continues to expand its organizational form and structure are rapidly diversifying. Joint ventures, licensing arrangements, as well as a multitude of non-equity collaborative agreements appear to be gaining ground relative to traditional investment patterns in wholly owned subsidiaries, as new companies and new countries enter the international arena. Partnerships and alliances represent one of the most dynamic dimensions of the global business environment in the 1980s.

Finally, the speed of technological diffusion has risen markedly since the early 1950s. Then, less than 20 percent of U.S. innovations would be transferred abroad within the first 3 years following their introduction to the domestic market. The figure today is closer to 65 percent. Furthermore, although it used to be safe to predict an international life cycle that started in the United States and moved first to Europe, then to Japan, and eventually to the less developed countries (with a gap of maybe 5 to 10 years between each major stage), major innovations today have equal probability of emanating from any of the three major trading areas and are almost instantaneously adopted by the others. The rapid growth of Japanese and European firms among the top earners of U.S. patents corroborates this trend. And yet, the growing interdependence of world markets means that the source of innovation and the location of production are increasingly divorced both from each other as well as from the location of demand.

One ignores these trends only at one's peril. Business executives need to understand the factors driving industries and firms to compete on a global basis and to develop management strategies and policies to deal with this reality. Although the speed and degree of globalization will vary by industry according to a variety of technical and environmental factors, all modern executives, in any field of specialization, must incorporate knowledgeably a global perspective in the execution of their tasks.

ORGANIZATION OF THE BOOK

We have written and designed this book to enrich the advanced student's understanding of business issues and problems encountered in managing global corporations. The field of international management encompasses a broad range of skills and disciplines. Case studies represent ideal vehicles for integrating the various perspectives needed to master typical international business situations. The cases printed in this volume reflect the authors' belief that international business is a cross-disciplinary field that can only be mastered through the integration of various skills, functions, and disciplines. The book is organized into ten parts with primary focus on individual areas of management concern.

Part One: Defining a Global Competitive Strategy

Part One of the book deals with the broader environmental context of international business. The cases in this part emphasize technological and political dimensions of the international business environment. They also provide insights into the process and dynamics of industry globalization and the unique competitive interrelationships found in most industries subject to international competition.

Considerable debate and confusion surround the questions of what constitutes a global industry and what may be termed global, multinational, international, or transnational (if we accept the United Nations' terminology) companies. For our purposes, *global industries* are characterized by fairly homogenous market demand worldwide and exhibit minimum-scale requirements that exceed the size of any single national market. Global industry structures are derived from an overwhelming economic imparative to amortize R&D costs, exploit economies of scale, or take advantage of other firm-specific resources on a global basis. These industries (e.g., commercial aircraft or mainframe computers) are typically but not exclusively populated by *global companies,* that is, firms which optimize their activities as if the world were a single market, a definition rooted in their organizational and operating logic and not on industry association or international scope. In contrast, we define *multinational companies* as consisting of a loosely coupled network of national subsidiaries, enjoying varying degrees of self-sufficiency. These firms can successfully inhabit both global industries, where they pursue strategies of raising domestic barriers to the entry of global competitors, or *fragmented industries* (e.g., processed foods or retail banking), where they position themselves to compete against purely domestic firms by emphasizing certain advantages derived from their multicountry operations. Finally, *international companies* is a term we reserve to those mainly domestic companies which nonetheless participate in the international economy through exports and a few nonintegrated subsidiaries, licensees, and agents.

The transition from fragmented to global economic and technological conditions has characterized this last quarter of a century for many industries. How firms adapt or fail to accommodate to the new requirements of industries undergoing such a transition is the thrust of these first set of cases.

Case One (Tissot) serves as an excellent introduction to the set of issues that will preoccupy us throughout this collection. The electronic revolution has significantly altered the nature of competition in the watch industry. The case traces the results of this evolution from the perspective of a firm which is caught between the remnants of the traditional "craft" which made the Swiss industry world leaders for many years and the mass production and worldwide distribution strategies followed by the recent entrants from Japan and Hong Kong. Tissot's management must formulate a global strategy consistent with the industry's evolution and company's capabilities and previous experience.

In Cases Two through Four, the Michelin tire industry series takes us a step back in order to allow for a longitudinal analysis of the process of industry globalization. These cases permit extensive analysis of individual competitors in an industry experiencing rapid technological change and global market integration. The cases also address some public policy issues that often play a central role in determining the conditions for success in international business.

An additional industry analysis exercise is focused on the construction machinery industry in Case Five. The initial process of internationalization in this heavy manufacturing sector was led by a U.S. firm, Caterpillar, and a second wave of international activity was initiated by Komatsu, a Japanese producer of heavy construction equipment. The comprehensive note on the industry provides an opportunity to conduct a detailed analysis of industry economics, cost structure, market conditions, principal competitors, and a thorough environmental analysis. Complete case studies of Caterpillar and Komatsu in Case Six also permit a full analysis of the issues and options facing the two principal global competitors in this industry, as they move from an "international" to a more "global" strategy.

Case Seven (Heineken N.V.) is the last case in this part and describes the historical growth and development of a global company in a fragmented and domestically oriented industry. Contrary to the other sectors analyzed above, the economics of brewing do not call for extensive globalization. Yet, the company has been active in world markets for over a century. The case focuses on a reassessment of Heineken's international strategy with a view to increase the commitment of resources to fully owned subsidiaries in major markets.

Part Two: Translating a Global Strategy into Local Action

While Part One focuses on global forces shaping industry environments, Part Two emphasizes the local dimension of managing a global corporation. Any global strategy still needs to be implemented through local operations, and although cold analytical reasoning may prevail in arriving at a clear and logical world design, personalities, historical commitments, and individual emotions enter the decision as soon as the specifics of a given proposal are on the table.

Cases Eight (Athenian Brewery S.A.) and Nine (J. J. Murphy's Brewery) exemplify two situations that put Heineken's new international strategy (discussed above) to the test and require it to be highly responsive to local conditions. The Greek market is growing, and Heineken's 98-percent-owned affiliate needs to expand its facilities. But its dominance of the local market, its competitors' lack of success, and its relatively poor profitability present a challenge in the face of a newly elected socialist government. The opposite is the case in Ireland, where Heineken's licensee has just gone into bankruptcy, and the company holds a weak position in the face of a strong international competitor, Guinness. Here, however, local distributors and the government would welcome Heineken's involvement.

Two other case studies also focus on how multinational firms operate in relating global strategic considerations to local action in individual host countries. In Case Ten, Southland Bank and Trust Co. is a mid-size regional U.S. bank, headquartered in Atlanta, whose "turnaround" plan includes achieving a leading position in the international wholesale banking segment. The case is focused from the perspective of its London branch manager, who must translate these corporate objectives into a local strategy in one of the most competitive banking centers in the world. Case Eleven (The American Express Company in France) examines a proposal for the company's Traveler Cheques' group to enter into a joint venture with three leading French banks to issue French-franc-denominated traveler cheques. The venture raises many questions as to the structure of the arrangement and its impact on Amex's worldwide operations of one of its most successful global products.

Part Three: Market Entry and Participation Policies

Corporations can participate in individual markets in a variety of ways. The firm may choose to enter a market by engaging the services of an agent or distributor, through a licensee, by undertaking a variety of joint venture forms, through acquisition, or by the formation of a wholly owned subsidiary. The issues and frameworks relevant to these decisions are the focus of Part Three.

Case Twelve (Patho-Control, Inc.) focuses on a small pharmaceutical venture only in its second year of operations. The company is approached to set up distribution in Europe through agents or a combination export management firm and to undertake a licensing agreement in Colombia. The management of the young company must assess its various options and choose the best strategy for expanding to foreign markets in the face of limited resources and knowledge. Case Thirteen (Copperweld Inc.) discusses a firm that successfully introduced a new welded-tube technology to the U.S. market in the 1960s, a market which was approaching saturation. Early export sales to Europe indicate that the same substitution process might occur there, but market and competitive conditions are very different. A proposal is made to invest in a $40 million facility to develop this market, but questions arise concerning joint venture partners, the possible reaction of competitors, and the most appropriate location.

Case Fourteen (Norman Machine Tool Company) provides a detailed analysis of a U.S. corporation's efforts to establish a joint venture in the People's Republic of China. Faced with severe competitive pressures from Japanese and European producers of machine tools, management believes they need a low-cost offshore operation to respond. The case describes Norman's negotiations with Chinese authorities over a 2-year period aimed at establishing a joint venture with the leading Chinese producer of machine tools; the case documents some of the key barriers and obstacles faced by firms attempting to establish a presence in the PRC.

Part Four: Alliances, Mergers, and Acquisitions

A topic of great current interest occupies Part Four—the growth of a firm's international activities by collaborative alliances, mergers, and acquisitions. Traditionally, joint ventures and similar collaborations were undertaken by international investors only when they had been coerced by host country regulations, and these collaborations were typically limited to agreements with mostly silent partners in developing countries. Since the late 1970s we have seen a rash of collaborations and alliances between partners of equal technical or market standing, involving operations in the industrial countries. Similarly, market entry or expansion by acquisition has been an increasingly favorite choice for firms coping with the structural rationalization that has accompanied the process of globalization in many industries.

The cases in this part deal with information technology and financial services, two industries that have undergone major technological and competitive challenges in the last 20 years. Case Fifteen (Italtel) examines the options facing the Italian Telephone Authority and its principal equipment supplier in establishing relationships with potential sources of critical technology as the industry shifts to digital switching and transmission. The case also deals with the choices of three major multinational companies operating in Italy—ITT, LM Ericsson, and GTE—as they too must decide whether to join forces with Italtel or risk going alone.

Cases Sixteen through Eighteen deal with the relationship between AT&T and Olivetti in the office automation industry and allow for a simulation of how to structure an international alliance in a complex and rapidly evolving competitive environment. Newly deregulated AT&T is transforming itself from a domestic monopoly to a competitive, high-tech company free to move into new world markets. It plans to enter the information processing field through the automated office equipment sector and to challenge IBM and the Japanese in the process. Olivetti has undergone a dramatic turnaround in office equipment and automation. Its U.S. position is still weak, however, and it lacks the capital strength to expand significantly there. The industry note (Case Eighteen) provides background data on markets, competitors, and technologies.

Case Nineteen (Midland Bank PLC) describes the early process of internationalization at Midland Bank through a series of acquisitions, the establishment of branches and affiliates in foreign countries, and a major international collaborative venture. By the late 1970s, Midland has changed its strategy to include greater direct participation in world financial markets under its own name. This leads to various attempts to enter the U.S. market and to a bid to acquire Crocker National Corporation in 1980. By 1982, as major management changes affect the upper echelons of the bank, Midland still faces the issue of how best to integrate Crocker in a global strategy.

Part Five: Managing Political Risks at Home and Abroad

Assessing and managing the political environment is an integral part of the job of any senior international manager. Political constraints often make the best economic strategy unfeasible. Compromises which call for suboptimal economic performance may yield unexpected benefits in the form of political patronage, privileged access to markets, or procurement opportunities. But these advantages may be short-lived, requiring difficult trade-offs on the part of management. And when difficult political decisions cannot be postponed or avoided, the task of managing the possible negative fallout is critically important.

Part Five addresses the issue of political risk at home and abroad. Case Twenty in this series deals with the home environment and analyzes General Electric's decision to develop a rationalized production system for its world electric iron business. The case addresses how the corporation managed the political dimensions of this decision, specifically in California, while shifting to a new manufacturing configuration.

Case Twenty-One [Honeywell in France (A)] addresses the Honeywell Corporation's relationship with the public sector in France at a critical juncture. Following the electoral victory of the Socialist party in May 1981, Honeywell's partners in CII-Honeywell Bull, the main French computer manufacturer, were subject to nationalization. Honeywell's role in the joint venture was apt to change, and managing the relationship with its French partners would require significant political skills in the future.

Case Twenty-Two (Houston Machinery Inc.) deals with a U.S. corporation's attempt to establish a joint venture in Mexico. The joint venture requires the approval of a state-owned corporation and a government ministry. The management of Houston Machinery Inc. must structure the venture so that it is viewed attractively in the political arena in Mexico.

Part Six: Managing the International Marketing Function

Among the most critical issues facing any manager with global marketing responsibilities are the selection of markets which the firm will enter and the extent to which product positioning and marketing strategies need to be adapted to local circumstances. In fact, the debate on the relative advantages of standardization versus adaptation has been at the core of the international marketing literature for nearly 20 years. Related to these issues, and often defining the choices, is how the internatinal marketing function is structured to balance these twin objectives of uniformity across markets and rèsponsiveness to the idiosyncracies of domestic consumers.

Case Twenty-Three (General Electric Programmable Controllers) presents a situation in which a new business unit is attempting to develop a global marketing strategy for the introduction of a high-technology product. The company needs to develop a set of criteria and a process for assigning priorities to markets and for selecting entry strategies in each market so as to achieve the company's objective to become a global leader in this emergent industry.

Case Twenty-Four deals with Procter & Gamble Europe's decision to launch a new product, Vizir, in the European detergent market. The company's past success has been achieved through a number of national subsidiaries with strong local management and responsive to national differences in consumer habits and market structures. In June 1981, as P&G's German affiliate prepares to launch Vizir in its local market, questions arise as to whether a Europe-wide product roll-out would not be preferable, and, if so, should the company standardize its product formulation, packaging, advertising, and promotion. Case Twenty-Five [Kolbe Coloured Chemical Division (A)] presents a vehicle for analyzing international marketing coordination issues in an industrial product setting. The newly appointed divisional marketing manager with worldwide responsibilities must build a global segmentation and positioning strategy for the division's products and then sell it to its fairly autonomous operating units around the world.

Part Seven: Managing the International Financial/Control Function

Part Seven treats the proper role of the financial and controller's functions in the strategic management of international operations. These functions are often viewed as discrete, standalone activities with their own specific skills and expertise. Our emphasis is instead on the linkages between the finance and control functions and general international management issues.

In Case Twenty-Six, the Argentine subsidiary of Gillette Corporation requires a major capital expansion to finance the introduction of the Trac II shaving system in the local market. The corporate treasurer's office must help in evaluating the attractiveness of the investment and, if the investment is approved, help arrange the necessary financing in a highly inflationary environment. The case develops the role of the corporate finance function in determining criteria for international project evaluation and implementation, subsidiary capital structure, exposure management, cash management, and capital budgeting. It also describes how the objectives of the treasury unit interact with those of general management in the field.

Case Twenty-Seven [Ford of Europe (A)] raises two basic issues: the role of financial control systems in implementing Ford's corporate strategy within a changing European automotive environment, and the contrast between Western and Japanese financial control systems. An internal company study has shown that comparable Japanese companies had 35 to 60 percent fewer finance people proportionally than Ford. The data in the case allow for examining the role of the control function in different multinational corporations.

Part Eight: The Management of International Operations

Part Eight's five cases deal with the management of international operations. Two cases tackle the more traditional issues of technology transfer and the balance and coordination of international manufacturing facilities. Two others provide detailed insights into the product development process from an R&D and technology management perspective. The importance of integrated operations in support of global strategies is emphasized in these cases as well.

The series starts with a relatively narrow focus on the management of the manufacturing function in an international setting. Case Twenty-Eight (Applichem) provides extensive data on operating costs, raw material utilization rates, personnel, overheads, transportation costs, and exchange, inflation, and wage rates for six manufacturing plants around the world. At issue are problems such as how to compare productivity, facilitate learning, and transfer best practices across plants. Case Twenty-Nine (Honeywell Pace) examines the organization of production in a system where components are manufactured in a number of highly specialized plants in the United States, Japan, and Scotland. Changes in the European environment and excess inventories in Belgium force a reassessment of the company's global manufacturing strategy and organization.

Cases Thirty (Nestlé, S.A.) and Thirty-One (Ford of Europe—Product Research and Development) provide a detailed view into the management and organization of the product development process in these two very different organizations. The cases contrast the food industry, which requires significant levels of local adaptation and greater autonomy at the subsidiary level in terms of product development decisions, with the automotive industry, which, at least in terms of the European market, has been under increasing pressures to design and bring into market fairly universal products with broad appeal across countries. The different organizational and managerial issues raised by these two examples allow for some generalization on the role of the R&D function in multinational operations.

Finally, Case Thirty-Two [Benetton (A)] presents a more integrated view of the role of operations management in a global corporation. Benetton's success in the European market was accompanied by major innovations in manufacturing, logistics, and merchandising. By the end of 1982, Benetton's plans to expand further into the U.S. and Japanese markets require it to evaluate whether its unique methods of providing production and logistical support could be extended to these operations.

Part Nine: Organization, Systems, People, and the Role of Top Management

Part Nine addresses the complex issues of implementation associated with global operations. How does the firm operating in a widely diverse set of environments achieve strategic unity of purpose while preserving the adaptability and motivation required for success at the local level? Cases Thirty-Three through Thirty-Eight tackle these issues on an increasingly complex scale, building from the general organizational-strategic interaction familiar to students of corporate strategy to introduce the additional difficulties of culture, language, and distance.

Case Thirty-Three (Republic-Telecom Inc.) describes the organization and management issues associated with the initial stages of internationalization of a company's business. The case describes a specific international venture opportunity and the process by which the company reviewed and acted on it. The roles of project champions, formal strategic planning systems, and senior executives can be analyzed in shaping international venture strategy. In Case Thirty-Four [A.B. Throsten (1)] a dispute between the management of the Swedish subsidiary of a diversified Canadian company and its headquarters' staff escalates and comes to the attention of top management. They must deal with an investment proposal of small financial importance but of great significance for the future structure and management culture of the entire organization. This case serves as an excellent bridge to the organizational problems typical of the transition from international to multinational structures.

The next two cases focus on the impact of rapid growth and international diversification on a company's management style and organization. A specific issue under study in Case Thirty-Five [Benetton (B)] is whether a separate U.S. subsidiary should be created to handle what could soon turn into Benetton's largest single market, including the question of what scope of activity such a subsidiary might have. Case Thirty-Six (Heineken Organizational Issues) presents some of the tensions which existed within the organization at the time of the strategic changes described in Case Seven. Essentially, the natural overlap of responsibilities between the geographic area coordinators and the worldwide functional managers leads to questions concerning their relative role and importance and whether the balance of power between areas and functions ought to be changed.

The last two cases in Part Nine deal primarily with people issues. Case Thirty-Seven (Suji-INS K.K.) presents a situation in which a U.S. and a Japanese firm are attempting to develop organizational and management systems that are mutually compatible in a joint venture in Japan. The case addresses the role of senior management in creating, designing, and implementing an international business relationship as well as the human resource requirements of effective joint venture management in the face of cultural conflicts. Case Thirty-Eight (Ciba-Geigy—Management Development) focuses on the human resources management function in a sophisticated global corporation. The triggering decision is the need to appoint a new pharma-