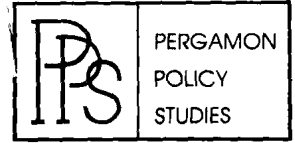


Managing and Organizing Multinational Corporations

Stanley M. Davis





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All cases are prepared as the basis for class discussion rather than to illustrate either effective or ineffective handling of administrative situations.

Case material of the Harvard Graduate School of Business Administration is made possible by the cooperation of business firms who may wish to remain anonymous by having names, quantities, and other identifying details disguised while maintaining basic relationships.

Introduction

During the past decade, Multinational Corporations (MNCs) have been the focus of considerable attention. The bulk of this attention has been on the interplay between MNCs and sovereign states. By focusing heavily on this exchange, more is known about the external face of the MNCs than about their daily inner world. How are these corporations organized? What kinds of decisions do their managers make in their regular rounds of business? How are people managed in global structures? And how do the MNCs differ from their domestic counterparts?

The purpose of this book is to provide the reader with an insider's view of the management and organization of some of the world's leading MNCs. The materials are balanced to present MNCs whose headquarters are located in several nations. Comparisons can therefore be made along headquarters' organizations in the three continents and about parent-subsidiary relations in yet other locations. The corporations each reflect practices and methods that are common to their home country culture and environment. Yet they all demonstrate the significant adjustments that are made when their management and organization cross national boundaries. While the United States spread of MNCs has been perhaps the most extensive, European enterprise abroad has the longest history, and the Japanese experience demonstrates both the advantages and difficulties of the late starter. Despite the differences in culture, experience, and extent of involvement, however, an underlying commonality can be seen in the issues that confront and in the fundamental management tools that are used to address them.

The book is divided into three parts: MNCs based in the United States, in Europe, and in Japan. Each part has three sections: (1) an introduction outlines the materials and issues presented; (2) a series of cases presenting actual problems of management and organization in several MNCs; and (3) a selection of readings that discuss the general issues raised by the cases. Most of the cases use the actual company names, and all are real situations and organizations. The cases generally call for decisions to be made; they are intended as vehicles for

discussion, rather than as examples of good or bad administration. The readings are intended as the commentary.

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PART 1

*United States
Multinational Corporations*

INTRODUCTION

CASES

C1: Cabot Corporation

This case discusses expatriate personnel policy in a U.S.-based multinational corporation. After several years of handling expatriation cases on an individual basis, Cabot's expatriate personnel coordinator had written a guide on the company's expatriation philosophy and policies. Recent experiences abroad suggested the need to revise the guide.

C2: Clark Equipment Company

Clark is a highly integrated manufacturer and distributor of capital goods around the world. Its international activities followed a typical pattern of evolution from emphasis on exports to licensing to foreign direct investment. Prior to 1970, U.S. operations were organized into product divisions and foreign activities were conducted through an international division. The organization was highly decentralized and there were few written or explicit policies. In Europe, many of Clark's subsidiaries manufactured more than one major product line, and capacity was too scattered to realize economies of large-scale production. The (A) case describes Clark's organization, and concludes with a top management proposal that the U.S. divisions take over direct responsibility for European operations. The reactions of U.S. division presidents, European division heads, and European headquarters are given. The (B) case gives a detailed account of the new organization, including the separation of marketing and operations, the development of product-centered operating subsidiaries, and the establishment of worldwide profit responsibility.

C3: IBM World Trade Corporation

In 1972 IBM conducted its international activities through a wholly owned subsidiary, IBM World Trade Corporation (WTC). WTC was organized geographically, with the main emphasis on management at the country level and

a strong focus on the data-processing (DP) side of the business. WTC's Vice-President for Office Products (OP), a separate division, believed that running OP was substantially different from running the very large data-processing business, and thus wanted them to be separate profit centers within each geographic area, instead of lumped together within each country's profit responsibility. The case describes the proposal and an alternative proposal, together with a discussion of the pros and cons of each.

C4: Pfizer International

Pfizer, one of the world's leading pharmaceutical companies, had 110 plants around the world in 1972, and international activities accounted for about 57% of companywide consolidated pre-tax income. The firm was organized around a philosophy of decentralized, geographically based management. During the previous decade it had experienced extensive diversification: pharmaceuticals, chemicals, agriculture, veterinary, and consumer products. This case describes the kinds of questions raised about the best ways of organizing and managing functional and product interdependencies on a geographical basis.

C5: Eaton Corporation

Eaton is another major U.S. corporation that is diversified by both product and geography. In contrast to IBM and Pfizer, however, it operates with worldwide product divisions, grouped around Automotive & Controls, Truck Components, Industrial & Security Products, and Materials Handling. In 1974 Eaton's senior management was concerned about coordinating activities across the product groups, with geographic areas, particularly in Europe. Many opportunities had been lost because of the separateness among the product groups. The case describes various proposed mechanisms for improving coordination; particularly, a European top manager, country managers, coordinating committees at regional and country levels, a European headquarters, and mechanisms for worldwide coordination of individual functions.

C6: First National City Bank

This case series describes the major changes that took place in 1973 in the management and organization of Citibank's multinational corporate banking activities. With 60% of its net income coming from international activities, the bank was concerned that local rather than global corporate clients were given preference because their volume and the returns were higher. New data had shown this was incorrect. Multinational corporations were serviced by the bank geographically, and this was sub-optimal. The (A) case gives the background and

describes the events and analysis leading up to the decision to reorganize. The (B) case states the bank's decision to create a World Corporation Group (WCG); (C) describes the organization and management of the WCG, and its relation to other relevant groups in the bank; and (D) presents the reactions of various affected managers after the WCG had been in operation for a year and a half. The series concludes with a discussion among the executive vice-presidents of alternate models for structuring new businesses, and of the possible organization of the bank in the future.

READINGS

R1: *Career Paths and Compensation in the Multinational Corporation* Calvin Reynolds

Reynolds' point is that the international compensation policies of the multinationals can and should be geared to their organization structures and corporate objectives. He outlines some of the pitfalls in traditional approaches to expatriate compensation, and then contrasts alternative policies for them and for third-country nationals, a group that now represents more than 40% of non-local management.

R2: *Basic Structures of Multinational Corporations* Stanley M. Davis

This reading describes the basic forms of organization design and shows how the structure for multinational firms evolves from domestic forms. It traces the shift from functional and product division structures in domestic firms, to an international division, and then to one of several global arrangements: geographic area divisions, worldwide product divisions, mixed and matrix structures.

R3: *Creating A Global Organization: Failures Along the Way* Michael Beer and Stanley M. Davis

This reading takes a detailed look at one company's painful experience as it changes from a domestic firm with international activities to a multinational corporation. The first part gives the evolution of the structure and the second part presents a behind-the-scenes picture of the power struggles and intergroup conflicts that shaped the successive changes. The lessons to be learned point to the importance of bridging domestic/international tensions, of providing

integration and guidance at the corporate level, and of developing competence and commitment among the divisional personnel if such shifts are to succeed.

**R4: *Trends in the Organization of
Multinational Corporations*
Stanley M. Davis**

This reading begins where R2 leaves off. The basic rules are now rather well understood, but changes in the external environment have reduced the effectiveness of the basic structures and new forms evolve. The general trend among the variety of new designs is a rejection of traditional structures that are based on functional, product *or* geographic design. The new designs attempt to integrate and manage competing needs simultaneously. The results are often complex and paradoxical structures whose success depends largely on managerial ability rather than on a logic of design.