

the other. But in the past decade or so, the global customer dimension is becoming increasingly important in many worldwide organizations.

The pressure to create such customer-driven organizations grew gradually in the new millennium. First, as global customers began demanding uniform prices and service levels from their suppliers, MNEs were forced to respond by creating dedicated global account managers who would take responsibility for all sales to customers around the world.⁵ Then, as customers expected increasing levels of value-added services, companies began to shift from "selling products" to "providing solutions."

These and similar forces led to the creation of transnational organizations in which front-end, customer-facing units bundled products from back-end, product-driven units. A good example of this was IBM's Global Services Organization, one of the most successful customer-facing organizations, which grew rapidly because of its ability to supply customers whose operations often spread around the globe with a combination of IBM's products, consulting services, and often an additional package of related, outsourced products and services.

Changing the Functional Management Role

In transnational organizations built around business, geography, and, more recently, the customer, functional managers responsible for finance, human resources, logistics, and other cross-business and cross-organizational specialties were often relegated to secondary staff roles. However, with the expansion of the information-based, knowledge-intensive service economy, the resources and expertise that resided in these specialized functions became increasingly important sources of competitive advantage. As a result, in recent years their roles have become progressively more central in many transnational organizations.

Managers of finance, HR, and IT functions gained importance because of their control of the scarce strategic resources of information and knowledge that were so critical to capture and leverage on a worldwide basis. With the globalization of financial markets in the global financial crisis of 2008 to 2009, the finance function was often able to play a critically important role in lowering the cost of capital and managing-border risk exposure. Just as dramatic has been the role of the HR experts as MNEs tapped into scarce knowledge and expertise outside the home country and leveraged it for global competitive advantage. Similarly, the

⁵ See L. H. Shi, J. C. White, S. Zou, and S. T. Cavusgil, "Global account management strategies: drivers and outcomes," *Journal of International Business Studies*, 41:4 (2010), 620-38.

This study finds that: (1) global strategic priority and globalization are significant drivers of four global account management (GAM) strategies - intercountry coordination, inter-organizational coordination, marketing activities' standardization, and global integration; (2) intercountry and inter-organizational coordination have significant effects on GAM performance; and (3) GAM performance significantly influences relationship continuity. Implications for theory are discussed.

emergence of the chief knowledge officer role reflects the importance that many companies are placing on the organization's ability to capture and leverage valuable information, best practices, and scarce knowledge and expertise wherever it exists in the company.

Again, this trend is creating a need for transnational companies to create organizational overlays supplemented by new channels of communication and forums of decision making that enable managers to develop and leverage the company's competitive advantage through its sophisticated organizational capabilities. The form and function of the transnational organization continues to adapt as MNE managers seek new ways to develop and deliver layers of competitive advantage.

CONCLUDING COMMENTS

In this chapter, we have looked at the organizational capabilities that the MNE must build to operate effectively in today's fast-changing global business environment. The strategic challenge, as we have described it, requires the MNE to capture and enhance global efficiency, national responsiveness, and worldwide learning simultaneously. To deliver on this complex and conflicting set of demands, a new form of organization is required - one that we call the transnational. The transnational organization is defined by its several core characteristics: its ability to legitimize multidimensional perspectives, its distributed and interdependent capabilities, and its flexible integrative processes. It is an organizational model that is becoming increasingly mainstream in today's complex and dynamic global strategic environment.



HARVARD BUSINESS SCHOOL

BRIEF CASES

Christopher A. Bartlett and Laura Winig

CASE 4.1 KENT CHEMICAL: ORGANIZING FOR INTERNATIONAL GROWTH

FEBRUARY 23, 2012

HBS Professor Christopher A. Bartlett and writer Laura Winig prepared this case solely as a basis for class discussion and not as a source of primary data, an endorsement, or an illustration of effective or ineffective management. This case, though based on real events, is fictionalized, and any resemblance to actual persons or entities is coincidental. There are occasional references to actual companies in the narration.

Copyright © 2012 President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685, write Harvard Business Publishing, Boston, MA 02163, or go to <http://www.hbsp.harvard.edu>. This publication may not be digitized, photocopied, or otherwise reproduced, posted, or transmitted, without the permission of Harvard Business School.

In July 2008, Luis Morales, president of Kent Chemical International (KCI), the international arm of Kent Chemical Products (KCP), balanced a computer on his lap, trying to merge the organizational charts of his KCI worldwide operations with KCP's domestic businesses. After his third attempt, the two charts finally shared the screen. He had achieved digital success, but as he looked at a chart that reminded him of a multiheaded hydra, Morales was not convinced he had found a real-life solution. Over the past two years, the KCI president had been searching for a way to better coordinate his fast-growing international operations with Kent's domestic core. Two previous reorganizations had not achieved that objective, and now the global economy looked as if it were headed for a recession. If he was to recommend another restructuring, Morales knew it would have to be successful.

Kent Chemical Products: The Company and Its Businesses

Kent was established in 1917 as a rubber producer, and its historical roots were still evident. The founding Fisher family owned 10% of the stock and was still the largest stockholder, family members held a few key positions, and corporate headquarters remained in Kent, Ohio, a town outside Akron.

During the 1940s, Kent had diversified into plastics and, as that market soared, expanded through acquisitions to become one of the country's largest producers and marketers of plastic additives and other specialty chemicals. Responding to postwar opportunities, KCP opened a research laboratory in 1953, harnessing technology-based research to drive product development. By the 2000s, Kent had become a leading global specialty-chemical company, with 2007 revenues of \$2.2 billion. (See Exhibit 1 for summary financials.) It held minority and majority stakes in more than two dozen businesses in the U.S. and overseas, employed 4,200 people including 1,200 offshore, operated 30 manufacturing facilities in 13 countries, and sold its products in almost 100 countries.

Kent offered a wide range of products from specialty lubricants to polymer additives, focusing on niche-market needs in the construction, electronics, medical products, and consumer industries. The range was managed through six

business divisions, three of which had significant international sales.

Consumer Products

Grease-B-Gone, the company's first major consumer product, was introduced in 1966 and became the leading de-greaser in the U.S. First targeted at the auto engine market, the brand had expanded into a range of specially formulated products designed for high-margin niche household applications such as oven, barbecue, and stainless steel cleaners. KCP subsequently introduced other specialty household products including drain openers, rust removers, and eco-friendly surface cleaners.

In the U.S., these products were distributed primarily through independent retailers and buying groups in the hardware and do-it-yourself sectors. Outside the U.S., consumer sales outlets and retail distribution channels varied by country. In Brazil, for example, Kent sold through distributors to small independent outlets; in France a direct sales force sold to national chains. And while consumer preferences in the U.S. were largely homogeneous, overseas the product's packaging, container size, aesthetics (scent, color, etc.), and even active ingredients could vary from one country to the next.

About one-third of this business's \$522 million worldwide sales were outside the U.S., with strong local and regional competitors in each offshore market. General household products were produced in the company's large, multiproduct mixing and packing plants in markets from France to Brazil to New Zealand. However, the only non-U.S. facility able to produce the specially formulated, aerosol-packaged *Grease-B-Gone* line was in France, in a single-product plant built in 1990.

Fire Protection Products

Kent entered the fire protection business in the 1950s by acquiring a company that had developed fire retardant chemicals for the apparel industry. Subsequently, Kent's R&D lab developed other fire retardants for the electronics, building, and transport industries. Then, following the 1967 fire that claimed the lives of three Apollo astronauts, government-funded research led Kent to develop a line of foamed chemicals, and gases, thereby allowing it to enter the larger fire control market segment.

Exhibit 1
Kent Chemical: Summary of Financial Data, 2003–2007 (\$ millions)

	2007	2006	2005	2004	2003
Consolidated Statements of Income					
Net sales	\$2,238	\$2,072	\$1,937	\$1,810	\$1,628
Cost of sales	1,700	1,440	1,339	1,277	1,150
	538	632	598	533	478
Selling, general, and administrative expenses	320	305	295	263	248
Research and development expenses	90	84	82	77	68
	410	389	377	340	316
	128	243	221	193	162
Income from operations					
Royalty, interest, and dividend income	33	51	44	49	47
Interest expense	-38	-44	-23	-30	-22
Other income (deductions)	-2	-20	-3	-3	-1
Taxes on income	-50	-110	-115	-96	-88
Income before minority interest and equity earnings	71	120	124	113	98
Minority interest earnings (losses) of subsidiaries	5	-1	-3	6	0
Earnings of associated companies	20	21	28	34	40
Net income	\$ 96	\$ 140	\$ 149	\$ 154	\$ 128
Kent Chemical International contributions to corporate results (Unaudited)					
Net sales	\$ 598	\$ 578	\$ 466	\$ 402	\$ 322
Net income	\$ 24	\$ 38	\$ 37	\$ 33	\$ 23

Medical Plastics

In the 1960s, Kent collaborated with a major hospital supply company to develop a non-leaching, sterilizable plastic that won the U.S. Food and Drug Administration approval to hold intravenous solutions. That partnership created plastic IV bags that gradually replaced the ubiquitous glass bottles hanging over hospital beds around the world. Building on that reputation, Kent became a leading supplier of plastics for medical applications. Over subsequent decades it developed special formulations for everything from surgical instruments to implantable devices to replacement joints.

Its customers were large global hospital supply and medical device companies which it worked in partnership to develop specialized plastics for targeted applications. In addition to properties such as biocompatibility, self-lubrication, and non-toxicity, these plastics also had to retain those characteristics under sterilization-imposed conditions of extreme temperature and moisture.

By 2008, fire retardants were mature commodities, but the fire control segment was a large, fast-growing and increasingly specialized field, requiring big investments in R&D to keep pace. The latter product line was sold to both fire control systems companies and original equipment manufacturers (OEMs) in the electronics, building, and oil refining industries. Intense price competition particularly in the retardant segment, caused Kent to focus on reducing production costs.

Outside the U.S., fire retardants were produced by former Kent licensees, FireGard plc in England and SichefFeuer AG in Germany, both with long histories in the industry. Fire protection regulations varied by country, so the chemical agents Kent produced in its four plants around the world often had to be adapted to local markets. A few multinational customers accounted for the majority of Kent's \$210 million in worldwide sales, 45% of which came from international markets. As the number-three competitor worldwide, Kent faced pressure from both local and global companies.

The company's growing line of medical products all were developed in the company's Ohio R&D labs and manufactured in one of two specialized plants in California and the Netherlands. Overseas sales accounted for about 35% of the business's \$625 million global revenue.

Kent Chemical International: Going Global for Growth

For many years, Kent's overseas operations were seen as a source of incremental sales through exports, licensing agreements, and minority joint ventures (JVs). That view changed in 1998, when Ben Fisher, KCP's newly appointed CEO, announced that a more strategic approach to global expansion would be his top priority: "Our goal is to remake Kent from a U.S. company dabbling in international markets to one that develops, manufactures, and sells worldwide."

Old Root Stock, New Growth

To implement his vision of a global integrated company, Fisher named Luis Morales to head the revitalized international division. Morales was a 22-year Kent veteran who had joined its Mexican subsidiary in sales, risen to become country manager, then moved to Ohio to run KCP's Consumer Products division. He had a reputation as a smart, hardworking team player who liked to win.

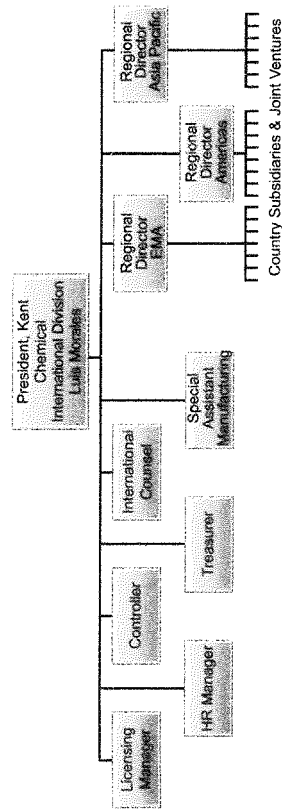
Morales began implementing the global integration strategy by taking majority interests in Kent's

15 offshore JVs, acquiring other overseas companies, and generally expanding global presence. The subsequent rapid international sales growth—from \$139 million in 1999 (11% of total revenue) to \$598 million in 2007 (27% of revenue)—was managed through Kent's International division. That division reported to Morales through three regional directors for Europe, Middle East, and Africa (EMEA); Central and South America; and Asia-Pacific—all located in Kent, Ohio. (See Exhibit 2.)

Historically, regional directors had managed subsidiary and JV managers in 22 countries with a light touch encouraging them to optimize their local positions. Because Kent was a minority shareholder of many of these companies, its financial and operating control were often limited. But strong informal links ensured the necessary financial and technological support. "For decades we'd provided them support, and they had sent us dividends," Morales said.

The entrepreneurial independence of offshore entities was often complicated by long competitive histories. Morales acknowledged that the regional directors' post-acquisition task of coordinating activities and integrating operations was extremely difficult. "For example, FireGard and SicherFeuer had been competitors for decades," he said. "Even after we took minority positions, they refused to cooperate or even to coordinate activities. In fact, it's only in the last couple of years that we've finally begun to get many of our own subsidiaries to stop exporting into each other's markets."

Exhibit 2 KCP International Division Organizational Chart, 2000



"When we began trying to integrate the strategies of our overseas operations, conflicts like this regularly reached my desk for resolution."

Parochial attitudes also blocked technology transfer when the informal relationships that had long linked offshore operations with U.S. technical experts were replaced by the more-formal structures that growth had required. Berthold Hugel, SicherFeuer's general manager, explained:

As we grew, a U.S.-based technical manager was appointed to the regional director's staff as our liaison with domestic divisions. Perhaps he just lacked good contacts, but we were never properly connected. So I sent an English-speaking SicherFeuer employee to Ohio to serve as our technical link. But he had no clout, so that didn't work either. Finally, I decided that the only way to get technical help and to learn what new products were being developed was for me personally to travel to Kent headquarters every 60 days. So that's what I did.

Frustration about links between geographic and production organizations also existed in the U.S. divisions, as reflected in the comments of Jack Davies, the VP responsible for Fire Protection:

We had developed this great new halogenated flame retardant product that was selling great in the U.S., but it was stalled in Europe. The U.K. subsidiary told me that their project-appropriation request had been blocked by corporate. I discovered that someone in the controller's office was withholding approval as a lever to force the U.K. to bring its receivables under control. It wasn't my responsibility, but I stepped in to put a stop to it.

The third problem worrying Morales was that even within his international division, the regional organization had difficulty coordinating issues with global implications. In the Medical

Plastics business for example, most of KCP's customers were multinational hospital supply and medical device companies. So when the Brazilian subsidiary unilaterally reduced prices on its line of general purpose polycarbonates as a loss leader to sell more of the expensive, technical medical products, the pricing impact was felt

Even after Kent took majority positions, establishing control often proved to be difficult. In 2000, the EMEA regional manager relocated his staff to Hamburg. "We needed to work more closely with local companies to rationalize overlapping activities and duplicative operations," he said. "But relocating didn't solve the problem. When my staff tried to consolidate redundant European manufacturing, for example, local managers with 20 or 30 years' experience in their markets ran circles around them. It soon became clear that most of the regional staff simply lacked the market knowledge and detailed technical expertise to counter the country subsidiaries' strong pushback."

New Strategies, New Stresses

As overseas operations grew, Morales became concerned that his organization was not adapting well to changing pressures and demands. His first concern was the impact of new systems. As Kent acquired majority positions, corporate reporting systems had been added to allow operations to be controlled and financial reports consolidated. But these changes had caused strains. "Having the data sometimes tempted my staff to second-guess local country managers," admitted Morales. "The subsidiaries felt that we set arbitrary financial targets that were out of touch with their market realities. Despite our good intentions, I think the country managers were often right."

Capital allocation had also become more complex. Subsidiaries now had to complete capital requests that were first reviewed by a regional manager, then by Morales, and often at the corporate level. In the process, relations between subsidiaries and their U.S. technical contacts shifted. A country manager explained: "Our U.S. colleagues used to consult with us on our projects, but once they were involved in the funding decisions, they became more critical and less collaborative."

Morales's second concern was that overseas subsidiaries' long history of independence led managers to protect their self-interests. "When the Korean subsidiary wanted to manufacture fire retardants for its electronics customers, its plans challenged the German subsidiary that had been exporting retardants to Korea for years," he said.

throughout Kent's worldwide medical plastics business.

The issue highlighted the fact that nobody was coordinating price, product, or sourcing decisions globally. "Worse still, because the international division had a regional rather than a product-based structure, our global product-development needs and priorities were seldom communicated to the research group," said Morales. "And since our R&D efforts respond to specific problems or identified applications, they rarely focused on offshore opportunities or needs."

The 2006 Reorganization: Bridging Gaps with GBDs

In June 2006, when CEO Ben Fisher also became Kent's board chairman, he used the occasion to announce a major reorganization. Angela Perri, who had joined KCP 20 years earlier as a PhD scientist in the R&D lab, was named president of the U.S. businesses. Perri was a capable, hard-driving, ambitious executive who most recently had run the U.S. Medical Plastics division.

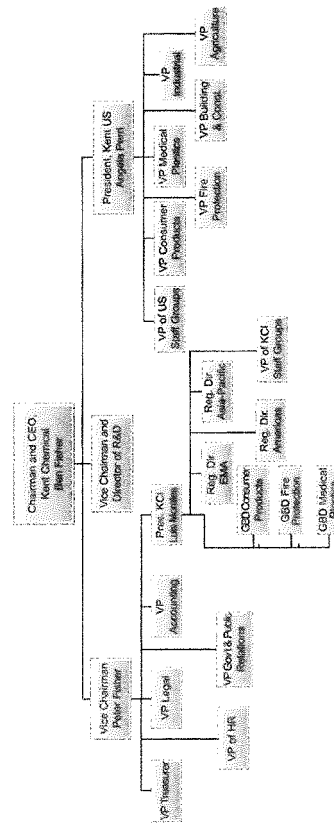
Simultaneously, Peter Fisher, Ben's 35-year-old son was named vice chairman with responsibility for all corporate staffs and the international operations. Peter had joined Kent in sales before heading the Consumer Products division for the past four years. Under the new organization, the International division became Kent Chemical International (KCI), a separate legal entity structured as

a subsidiary of KCP. Both Angela Perri and Peter Fisher reported to the chairman. (See Exhibit 3.)

Morales hoped the reorganization would improve domestic/international relations. "Historically, all vital communication between us occurred either at top levels or on the front lines," he said. "At my level, I'd negotiate funding decisions, and in the trenches relationships between U.S.-based technical experts and international plant managers got things done." But as overseas operations grew, Morales had become stretched thin as KCI's principal top-level contact. And the advice and support that had long flowed freely to the front lines was now provided slowly, reluctantly, and often accompanied by an invoice for intercompany charges. "The regional directors should have provided the extra link with the domestic divisions. But they never had the status or power of product division managers, who were all KCP vice presidents," said Morales.

To respond to these problems, Morales in 2006 appointed three global business directors (GBDs), each with a long, successful U.S. career before moving to KCI. The GBDs would be responsible for the three lines of business within KCI, and although the new roles were not well defined, they were announced as VP-level positions reporting directly to Morales. Each GBD assembled a staff of 3 to 6 product or project setting priorities.

Exhibit 3 Kent Chemical Products Organizational Chart, 2006



The consumer-products GBD was a 25-year Kent veteran of senior sales management in KCP's Consumer Products division. Before this appointment, he had run a small domestic JV. He explained his understanding of the new role: "I'm trying to inject consumer-oriented thinking into our overseas subsidiaries. I don't care if they see my role as advisory or directive, as long as they do what needs to be done. They have to realize they're part of a global company now." Responding to his mandate to "sort things out," particularly within EMEA, he saw his first priority as determining why the *Grease-B-Gone* line had not sold as well in Europe as it had in the U.S.—and then to fix it.

A second GBD was given responsibility for fire protection products. He had 10 years of international sales experience and four as manager of market planning in the Fire Protection division. "I'll need to assume worldwide technology control and marketing responsibility," he said. "The way I see it, regional managers should be mainly responsible for production and government relations."

The third GBD, an engineer and 15-year KCP veteran, was assigned to medical plastics. She saw her role as a strategic planner linking the U.S., regional, and subsidiary managers. "To be effective, the regional managers will have to maintain authority over their operations," she said. "I can be most useful by helping to integrate the international and domestic parts of our operation."

After just a few months, the GBDs were faltering. "The subsidiaries saw GBDs as interlopers, but some more than others," said Morales. "The medical-plastics GBD was appreciated because she provided useful worldwide business coordination. But the consumer-products GBD was a disaster. Subsidiaries felt he interfered in local issues where he had neither experience nor understanding."

Many reasons were offered for KCI's post-reorganization problems. The EMEA regional director thought the new structure just strained the existing organization's time and resources. "We wanted to integrate our businesses globally, but the GBDs didn't know what their role was, and as regional directors, we weren't clear about how to work with them," he said. "So we ended up in a lot of meetings that took us away from dealing with important day-to-day matters."

Morales felt the main problem was the GBDs' inability to provide a link to the domestic product

divisions and assume the conflict-resolution roles he had been playing. "Despite years of service, the GBDs lacked the credibility and power to get things done. And some of the domestic managers didn't help. They just seemed to want control over the fast growth overseas businesses," he said.

Jack Davies, the VP responsible for the Fire Protection division had a different view. He felt the problem lay in the people appointed as GBDs. "I don't think there was a single vice president in the domestic corporation who saw them as equals," he said.

The 2007 Adaptation: World Boards

By mid-2007, it was clear that the GBD concept was struggling. After long discussions with Morales about more-effective means to integrate KCI with KCP, Peter Fisher developed the idea to support GBDs with world boards. They would be composed of managers from the domestic and international organizations, with geographic, product, and functional expertise all represented. These boards would be responsible for developing strategies for the global businesses.

In June 2007, Peter Fisher presented the concept to a meeting of the company's top 150 managers:

The GBDs are serving an important function linking our U.S. and international operations. But they can't manage this vital role by themselves. To provide support, we are introducing world boards to help each business advance its global strategy and integrate its worldwide operations. They are not meant to replace local management. Their role will be as planners, reviewers, and communicators, not managers or controllers. They offer us an opportunity to work together and share responsibility for ensuring that our global businesses succeed.

A world board was formed for each of the company's three major worldwide businesses. Each was instructed to provide worldwide marketing and operations planning, optimize global sourcing, develop technology on a global scale, make investment recommendations, and build international management capabilities. Although they determined their own membership, they typically included the head of the U.S. product division, the division's technical

and marketing staff members, key country general managers, and their appropriate product managers. The GBD served as board chair, providing him or her with a forum to involve the domestic division managers in the international business, and to give regional and subsidiary managers a link to the parent company.

The fire protection world board got off to a strong start and generally met the stated objectives. "It works because the business has opportunities and problems with worldwide implications," said Berthold Hugel, the former German subsidiary general manager who was named Fire Protection GBD in 2007. "Also, before each board meeting, Jack Davies (the domestic division VP) and I sit down and work through all the issues so that the discussions never become politicized."

The other two world boards did not fare as well. The medical plastics board became a platform for discussion but rarely reached agreement or decided on action. And despite Peter Fisher's personal intervention, the consumer products board met only twice, then quietly disbanded. "We couldn't even agree on what issues needed to be managed locally or globally," said the new Consumer GBD.

Reflecting on the experience, Morales felt that the negative reaction to the 2006 GBD concept had made managers hesitate to embrace the world boards. "Some of my country and regional managers felt threatened and thought this was the first step in dismantling the regional organizations. And many domestic managers thought it was just a way to give our struggling GBDs more power," he said. He also noted that in order to succeed, all board members—GBDs, domestic division managers and country managers—had to be open, cooperative, rational team players, even when their interests were not being served. "The model requires practically perfect managers," he said.

Peter Fisher had a different view. "To accommodate all interests, some world boards had more than 20 members. They had just become too large and unwieldy. There were too many competing priorities, so the big issues were never addressed. And, frankly, many domestic division managers were blocking progress and trying to control the global business directly," he said.

From Perri's point of view, the domestic organization would have been more supportive if key managers had been consulted when the world boards were formed. "Peter and Luis expected the division managers to be involved and supportive. But I was never asked my opinion about the world boards' structure or activities, and frankly I didn't altogether agree with the concept," she said.

Back to the Drawing Board: Another Change?

In March 2008, with the world boards concept struggling and strains in international/domestic relationships, Perri met with Morales and Peter Fisher to discuss possible solutions. Perri was blunt. "We're a science-based company," she said. "Our competitive advantage is in using our scientific expertise to develop products. So it's a real problem that we have barriers between the scientific resources that I manage and the international markets that you control. We really need to fix this."

Peter Fisher responded. "I agree that our technological capability is a huge asset, Angela," he said. "But let's acknowledge that Kent's domestic growth has plateaued. So the company's future relies on our ability to expand into international markets. We need an organizational solution that empowers rather than subjugates our international presence."

The Consultants' Proposal

Recognizing the need to find a solution, the three senior executives contacted Sterling Partners, a respected international management consulting firm, to help them sort through the issue. For a fee of \$1.8 million, a team of four consultants worked with four Kent managers to gather information on the industry context, Kent's competitive position, and the strategic objectives of each of its global businesses. After analyzing these data, they prepared recommendations that they hoped would convince Kent chairman Ben Fisher, a longtime skeptic of both outside consultants and complex organizational structures.

The consultants concluded that one of the company's main problems was that it had been

imposing uniform organizational solutions on a strategically diverse portfolio. Because each business had a different mix of global imperatives and local demands, they suggested taking a more tailored approach. In summary, their detailed report of analysis and conclusions found:

- The consumer product line's key strategic need was for locally adapted marketing programs to respond to local consumer needs, distribution channel differences, and competition that varied by country. While the aerosol-based *Grease-B-Gone* line was sourced regionally, locally tailored general household products were usually produced in national mixing plants. The report suggested a business that should be predominantly managed locally and regionally.

- The consultants placed the medical plastics business at the other end of the local-global spectrum. Here the key success factor was the central R&D input required to develop new products and technologies. Manufacturing occurred in two specialized globally scaled plants where quality was tightly controlled. Customers were primarily multinational companies with worldwide operations. These factors indicated a business that needed global control.
- Fire control products fell between these extremes. Because R&D was important for innovation, global coordination was critical. But fire prevention was a highly regulated industry in which relationships with national regulatory bodies and control agencies were critical. While some customers were multinational corporations, many smaller national and regional customers (and competitors) were also significant. Product sourcing was largely regional.

Under the Fisher family's mandate that Kent not be broken up, the consultants recommended that the company evolve to a more differentiated organization using a tool they termed "decision matrix." The tool's purpose was to expand on their analysis by defining core decisions business by business and then creating a process to analyze how they should be decided. This process would involve assembling the key business, geographic, and functional managers from each

business and engaging them in discussions about the decisions. The discussions would be facilitated by a consultant.

As a model, the consultants had prepared a set of blank fire protection decision-matrix forms. The one for resource-allocation decisions for the European fire protection business is shown in Exhibit 4. This completed form identifies that multiple players would be responsible to provide input (IP), offer business or technical concurrence (BC or TC), and make recommendations (R). But it clarifies that the final decision (D) on product development would be made by the Fire Protection division VP.

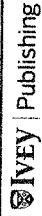
Ten similar sheets listed decisions relating to strategy development, budget preparation, marketing decisions, etc. In all, 62 European fire protection decisions were identified for review. As the next step, the consultants proposed that the executive team authorize a trial run of facilitated discussions with European fire protection managers to complete these forms.

A Brewing Storm, A Key Decision

Although many senior Kent managers found the report convincing, others were worried it was too complex. Some regional managers argued that the company should just revert to the geographic structure that had allowed it to grow. But several domestic managers felt the time had come to simplify the structure by giving them worldwide business responsibility.

While digesting the Sterling report, top management was also focused on the global economy. Its 2007 results had been down 30% from the previous year, and 2008 was beginning to look worse. With an ongoing subprime mortgage crisis in the U.S., some felt a global economic downturn was brewing.

Morales knew that the time had come to make his recommendation. Conscious he had two strikes against him on organizational change, he knew that his proposal not only had to resolve the company's organizational problems, but it also had to do so within a skeptical organization operating in a threatening global economic environment. It was probably the biggest decision of his career.



CASE 4.2 LUNDBECK KOREA: MANAGING AN INTERNATIONAL GROWTH ENGINE

Michael Roberts wrote this case under the supervision of Professor Paul Beamish solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

Richard Ivey School of Business Foundation prohibits any form of reproduction, storage or transmittal without its written permission. Reproduction of this material is not covered under authorization by any reproduction rights organization. To order copies or request permission to reproduce materials, contact Ivey Publishing, Richard Ivey School of Business Foundation, c/o Richard Ivey School of Business, The University of Western Ontario, London, Ontario, Canada, N6A 3K7, phone (519) 661-3208; fax (519) 661-3882; e-mail cases@ivey.uwo.ca.

Copyright © 2010, Richard Ivey School of Business Foundation

Version: 2012-02-14

Early in 2005, Michael Andersen, vice president of Lundbeck – a leading central nervous system (CNS) pharmaceutical company in Denmark, questioned whether he should rethink Lundbeck's reporting structure in Asia. In particular, the Korean subsidiary was experiencing very strong growth and Andersen wondered whether Lundbeck Korea would achieve its full potential if it remained part of Lundbeck Asia, the regional group, or whether it would be better to have the managers at Lundbeck Korea report directly to him in Copenhagen.

Korea had proven itself to be a rising star among Lundbeck's overseas subsidiaries, and the staff in Korea, led by country manager Jin-Ho Jun (Jun), wanted more independence to chart their own path. The Korean subsidiary's performance had far exceeded what was projected in the original business plan. It had grown from one employee in 2002 to over 50 employees in 2005, and had sales of KRW25 billion (approximately US\$22 million). Given the current success, Andersen wondered whether the current reporting structure was still appropriate.

The decision was not to be taken lightly; while the Korean division, under the leadership of Jun, was experiencing enormous growth, it was only

The CNS Landscape

However, these markets were fairly stable and generally experienced low single-digit growth. Exhibit 1 is a list of the top pharmaceutical markets. The major CNS pharmaceutical markets by country were: United States, 59%; Germany, 5%; Japan, 4%; France, 4%; United Kingdom, 4%; Spain, 3%; Italy, 2%; South Korea, 1.5%.

The bulk of the remaining 19 per cent of the CNS market came from emerging economies such as Brazil, China, India, and South Korea. While the market for CNS drugs in these emerging

* ** For U.S. decisions only
 * Joint decision
 D = Decides; A = Approves; R = Recommends; BC = Business concurrence; TC = Technical concurrence; C = Concur; I = Initiates; IP = Inputs

Resource Allocation

Decision	Regional Director EMEA	GSD Fire Protection Controller	Special Asst. Manufacturing Human Resources Manager	KCI: Fire Protection	European Fire Protection	Fregard plc	SicherFeuer AG	KCP Fire Protection	KCP Division (Ohio)	Corporate Staffs
1. Recommend allocation of resources to major new product development programs	R	R	R	R	R	R	R	R	R	TC
2. Recommend allocation of resources to major process development programs	R	IP	IP	RJ	IP	BC	BC	D	IP	C
3. Recommend allocation of resources for major cost reduction programs	R	IP	IP	R	BC	BC	BC	D	IP	TC
4. Determine need, location, and timing for adding or reducing manufacturing capacity	D*	IP	IP	R	D*	D*	D*	D*	R	TC
5. Decide management of production workforce (expansion, contraction, assignment)	C	IP	D		D	D	D	C		TC**
6. Decide on inter-region sourcing	R	IP	R		BC	BC	R	D	IP	C
7. Decide who maintains existing technologies	R	IP	R		BC	BC	BC	D	R/TC	C

Exhibit 4 Decision Matrix for Resource-Allocation Decisions on the European Fire Protection Business