16 Leadership, Organization, and Corporate Social Responsibility

Sony Corporation is a legend in the global consumer electronics industry. Its reputation for innovation and engineering has made it the envy of rivals. For decades, quality-conscious consumers paid premium prices for the company's Trinitron color televisions. Sony was a key player in the development of the VCR and virtually invented the personal stereo with its Walkman product line. Sony was a codeveloper of the compact disc music format. The various PlayStation models enjoy a commanding 70 percent market share of the video game console market. By the first years of the twenty-first century, however, Sony's vaunted innovation and marketing machine appeared to be faltering. The company had not anticipated the rapid consumer acceptance of flat-panel, widescreen LCD and plasma TV sets, and the Walkman was eclipsed by Apple's iPod and iTunes Music Store. In 2005, a tumbling stock price resulted in the resignation of chairman and CEO Nobuyuki Idei. Sir Howard Stringer, a Welsh-born American who had been knighted in 2000, was named as Idei's replacement. Although Stringer had been in charge of Sony's U.S. operations, his appointment to the top position came as a surprise to some observers: He is neither Japanese nor an engineer. One of his first priorities will be to bridge the divide between Sony's media businesses, which include music, games, and motion pictures, and its hardware businesses. As Sir Howard himself declared, "We've got to get the relationship between content and devices seamlessly managed."

This chapter focuses on the integration of each element of the marketing mix into a total plan that addresses opportunities and threats in the global marketing environment. Howard Stringer's appointment to the top job at Sony illustrates some of the challenges facing business leaders in the twenty-first century: They must be capable of articulating a coherent global vision and strategy that integrates global efficiency, local responsiveness, and leverage. The leader is also the architect of an organization design that is appropriate for the company's strategy. Finally, the leader must ensure that the organization takes a proactive approach to corporate social responsibility.

When Sir Howard Stringer was named chairman and chief executive of Sony in 2005, he became the first non-Japanese executive in the consumer electronics giant's history. Sir Howard's predecessor, Nobuyuki Idei (L) is credited with engineering Sony's turnaround in the late 1990s. Now Sir Howard faces new challenges. He has praise for Nintendo's latest videogame console, the Wii, calling it, "a very good business model." However, Sir Howard is also confident that Sony's PS3 is on track to post solid sales gains, especially when the price is cut and more game titles become available. On the subject of executive compensation, Sir Howard believes that, by American standards, "Japanese executives are astonishingly underpaid." But, he added in a recent interview, "Most executives in Japan don't work for money, pure and simple. They are motivated by something else."[1]

LEADERSHIP

Global marketing demands exceptional leadership. As noted throughout this book, the hallmark of a global company is the capacity to formulate and implement global strategies that leverage worldwide learning, respond fully to local needs and wants, and draw on the talent and energy of every member of the organization. This heroic task requires global vision and sensitivity to local needs. Overall, the leader's challenge is to direct the efforts and creativity of everyone in the company toward a global effort that best uses organizational resources to exploit global opportunities. As Carly Fiorina, former CEO of Hewlett-Packard, said in her 2002 commencement address at the Massachusetts Institute of Technology:

> Leadership is not about hierarchy or title or status: It is about having influence and mastering change. Leadership is not about bragging rights or battles or even the accumulation of wealth; it's about connecting and engaging at multiple levels. It's about challenging minds and capturing hearts. Leadership in this new era is about empowering others to decide for themselves. Leadership is about empowering others to reach their full potential. Leaders can no longer view strategy and execution as abstract concepts, but must realize that both elements are ultimately about people.[2]

An important leadership task is articulating beliefs, values, policies, and the intended geographic scope of a company's activities. Using the mission statement or similar document as a reference and guide, members of each operating unit must address their immediate responsibilities and at the same time cooperate with functional, product, and country experts in different locations. However, it is one thing to spell out the vision and another thing entirely to secure

1 Aline van Duyn, "View from the Top: Sir Howard Stringer," *Financial Times* (June 15, 2007), p. 10.
2 Carleton "Carly" S. Fiorina, Commencement Address, Massachusetts Institute of Technology, Cambridge, MA, June 2, 2000. See also "It's Death if You Stop Trying New Things," *Financial Times* (November 20, 2003), p. 8.

commitment to it throughout the organization. As noted in Chapter 1, global marketing entails engaging in significant business activities outside the home country. This means exposure to different languages and cultures. In addition, global marketing involves skillful application of specific concepts, considerations, and strategies. Such endeavors may represent substantial change, especially in U.S. companies with a long tradition of domestic focus. When the "go global" initiative is greeted with skepticism, the CEO must be a change agent who prepares and motivates employees.

As former Whirlpool CEO David Whitwam described his own efforts in this regard in the early 1990s:

> When we announced the Philips acquisition, I traveled to every location in the company, talked with our people, explained why it was so important. Most opposed the move. They thought, "We're spending a billion dollars on a company that has been losing money for 10 years? We're going to take resources we could use right here and ship them across the Atlantic because we think this is becoming a 'global' industry? What the hell does that mean?"[3]

Jack Welch encountered similar resistance at GE. "The lower you are in the organization, the less clear it is that globalization is a great idea," he said. As Paolo Fresco, a former GE vice chairman, explained:

> To certain people, globalization is a threat without rewards. You look at the engineer for X-ray in Milwaukee and there is no upside on this one for him. He runs the risk of losing his job, he runs the risk of losing authority—he might find his boss is a guy who does not even know how to speak his language.[4]

In addition to "selling" their visions, top management at both Whirlpool and GE face the formidable task of building a cadre of globally oriented managers. Similar challenges are facing corporate leaders in other parts of the world. For example, Uichiro Niwa, former president of ITOCHU Corporation, took steps to ensure that more of the trading company's $115 billion in annual transactions are conducted online.[5] He also radically changed the way he communicated with employees. He relied more on e-mail, a practice that until recently was virtually unknown in Japan. He also convened face-to-face meetings and conferences with employees to solicit suggestions and to hear complaints. This too represented a dramatic change in the way Japanese companies are being led; traditionally, low-level employees were expected to accept the edicts of top management without questioning them.

Top Management Nationality

Many globally minded companies realize that the best person for a top management job or board position is not necessarily someone born in the home country. Speaking of U.S. companies, Christopher Bartlett of the Harvard Business School has noted:

> Companies are realizing that they have a portfolio of human resources worldwide, that their brightest technical person might come from Germany, or their best financial manager from England. They are starting to tap their worldwide human resources. And as they do, it will not be surprising to see non-Americans rise to the top.[6]

---

3 William C. Taylor and Alan M. Webber, *Going Global: Four Entrepreneurs Map the New World Marketplace* (New York: Penguin Books USA, 1996), p. 12.

4 Noel M. Tichy and Stratford Sherman, *Control Your Destiny or Someone Else Will* (New York: HarperBusiness, 1994), p. 227.

5 Robert Guth, "Facing a Web Revolution, a Mighty Japanese Trader Reinvents Itself," *The Wall Street Journal* (March 27, 2000), p. B1.

6 Kerry Peckter, "The Foreigners Are Coming," *International Business* (September 1993), p. 53.

The ability to speak foreign languages is one difference between managers born and raised in the United States and those born and raised elsewhere. For example, the U.S. Department of Education recently reported that 200 million Chinese children are studying English; by contrast, only 24,000 American children are studying Chinese! Roberto Goizueta, the Cuban-born CEO of Coca-Cola who died in 1997, spoke English, Spanish, and Portuguese; Ford's former chief executive, Alexander Trotman, was born in England and speaks English, French, and German. Sigismundus W. W. Lubsen, the former president and CEO of Quaker Chemical Corporation, is a good example of today's cosmopolitan executive. Born in the Netherlands and educated in Rotterdam as well as New York, Lubsen, who speaks Dutch, English, French, and German, says, "I was lucky to be born in a place where if you drove for an hour in any direction, you were in a different country, speaking a different language. It made me very comfortable traveling in different cultures."[7] Table 16-1 shows additional examples of corporate leaders who are not native to the headquarters country.

As noted in the chapter introduction, Howard Stringer is the chief executive at Sony. Generally speaking, however, Japanese companies have been reluctant to place non-Japanese nationals in top positions. For years, only Sony, Mazda, and Mitsubishi had foreigners on their boards. In March 1999, however, after Renault SA bought a 36.8 percent stake in Nissan Motor, the French company installed a Brazilian, Carlos Ghosn, as president. An outsider, Ghosn was required to move aggressively to cut costs and make drastic changes in Nissan's structure. He also introduced two new words into Nissan's lexicon: *speed* and *commitment*. Ghosn's turnaround effort was so successful that his life story and exploits have been celebrated in *Big Comic Story*, a comic that is popular with Japan's salarymen.[9]

"In the end it does not matter whether the CEO is Japanese or not. Mitsubishi is a Japanese company."[10]

Rolf Eckrodt, CEO, Mitsubishi Motors

global MARKETING Q&A

Wall Street Journal: "A lot of your management team is Nokia born and bred. What do you do to encourage global, international thinking?"

Jorma Ollila, Chairman, Nokia: "The fact is that we are global, truly global, so that we are present in all major markets. And 1 percent of our sales is in our home market, where 65 percent of R&D happens and the senior management team sits. It really is an issue.

"You have to have had good international exposure, hopefully working abroad so you have really hit some hard international challenges. Then we rotate a lot, so there are a lot of Finnish expats outside. And one-third of our expats are non-Finns—Americans in Thailand and Canadians in China. It is a modus operandi. But it is a tough issue."[8]

[7] Peckter, p. 58.

[8] David Pringle and Raju Narisetti, "Guiding Nokia in Technology's Rough Seas," *The Wall Street Journal* (November 24, 2003), pp. B1, B2.

[9] Norihiko Shirouzu, "U-Turn: A Revival at Nissan Shows There's Hope for Ailing Japan Inc.," *The Wall Street Journal* (November 16, 2000), pp. A1, A10. See also Todd Zaun, "Look! Up in the Sky! It's Nissan's Chief Executive!" *The Wall Street Journal* (December 27, 2001), p. B1.

[10] Todd Zaun, "Now at the Helm, Eckrodt Must Produce Results at Mitsubishi," *The Wall Street Journal* (March 29, 2002), p. A11.

Table 16-1

Who's in Charge? Executives of 2006

Company (Headquarters Country)	Executive (Nationality)	Position
Cadbury Schweppes PLC (Great Britain)	Todd Stitzer (United States)	CEO
Carrefour (France)	José-Luis Duran (Spain)	Chairman, Management Board
Coca-Cola Company	E. Neville Isdell (Northern Ireland)	Chairman and CEO
Eastman Kodak (United States)	Antonio Perez (Spain)	Chairman, President, and CEO
Ford Motor Company (United States)	Nick Scheele (Great Britain)	President and COO
L'Oréal SA (France)	Lindsay Owen-Jones (Great Britain)	Chairman
Mitsubishi Motors (Japan)	Rolf Eckrodt (Germany)	CEO
Nissan Motor (Japan)	Carlos Ghosn (Brazil)	Co-Chairman, President, and CEO; President and CEO, Nissan North America
Pearson PLC (Great Britain)	Marjorie Scardino (United States)	CEO
PepsiCo (United States)	Indra K. Nooyi (India)	CEO
Reuters Group PLC (Great Britain)	Tom Glocer (United States)	CEO
Samsung Electronics (Korea)	David Steel (Great Britain)	Vice President of Business Development
Schering-Plough (United States)	Fred Hassan (Pakistan)	Chairman, President, and CEO
Sony (Japan)	Howard Stringer (Wales)	Chairman and CEO
Sual (Russia)	Chris Norval (South Africa)	CEO
Wolters Kluwer NV (Netherlands)	Nancy McKinstry (United States)	Chairman and CEO

Leadership and Core Competence

Core competence, a concept developed by global strategy experts C. K. Prahalad and Gary Hamel, was introduced in Chapter 15. In the 1980s, many business executives were assessed on their ability to reorganize their corporations. In the 1990s, Prahalad and Hamel believed executives were judged on their ability to identify, nurture, and exploit the core competencies that make growth possible. Simply put, **core competence** is something that an organization can do better than competitors. Prahalad and Hamel note that a core competence has three characteristics:

- It provides potential access to a wide variety of markets.
- It makes a significant contribution to perceived customer benefits.
- It is difficult for competitors to imitate.

Table 16-2

Responsibility for Global Marketing

Company (Headquarters Country)	Executive	Position/Title
adidas-Solomon (Germany)	Erich Stamminger	Senior Vice President of Global Marketing
Apple Computer (United States)	Greg Joswiak	Vice President of Worldwide iPod Product Marketing
Calvin Klein (United States)	Kim Vernon	Senior Vice President, Global Advertising, Marketing and Communications
Coca-Cola (United States)	Mary Minnick	President of Global Marketing, Strategy, and Innovation
DaimlerChrysler (United States/Germany)	George Murphy	Senior Vice President for Global Marketing
Kraft Foods (United States)	Betsy D. Holden	President, Global Marketing and Category Development
McDonald's (United States)	Larry Light	Global Chief Marketing Officer
Procter & Gamble (United States)	Jim Stengel	Global Marketing Officer
Reebok International (United States)	Muktesh Pant	Vice President of Global Brand Marketing
Warner Music (United States)	John Reid	Executive Vice President, Warner Music International

Indra Nooyi, chairman and chief executive of PepsiCo, is faced with rising prices for raw materials and weak demand for carbonated soft drinks in the United States. Despite these threats, Nooyi believes the snack-and-beverage giant's current strategy is on track. In recent quarters, the strongest results have come from PepsiCo's fast-growing international division. Snack sales are particularly strong in Mexico and Russia; international sales volume for beverage brands is also increasing, particularly in the Middle East, Argentina, China, and Brazil.

Few companies are likely to build world leadership in more than five or six fundamental competencies. In the long run, an organization will derive its global competitiveness from its ability to bring high-quality, low-cost products to market faster than its competitors. To do this, an organization must be viewed as a portfolio of competencies rather than a portfolio of businesses. In some instances, a company has the technical resources to build competencies, but key executives lack the vision to do so. As Jorma Ollila, chairman of Finland's Nokia, noted, "Design is a fundamental building block of the [Nokia] brand. It is central to our product creation and is a core competence integrated into the entire company."[11] Ollila's comment underscores the fact that today's executives must rethink the concept of the corporation if they wish to operationalize the concept of core competencies. In addition, the task of management must be viewed as building both competencies and the administrative means for assembling resources spread across multiple businesses.[12] Table 16-2 lists some of the individuals responsible for global marketing at select companies.

ORGANIZING FOR GLOBAL MARKETING

The goal in **organizing** for global marketing is to find a structure that enables the company to respond to relevant market environment differences while ensuring the diffusion of corporate knowledge and experience from national markets throughout the entire corporate system. The pull between the value of centralized knowledge and coordination and the need for individualized response to the local situation creates a constant tension in the global marketing organization. A key issue in global organization is how to achieve balance between autonomy and integration. Subsidiaries need autonomy to adapt to

[11] Neil McCartney, "Squaring Up to Usability at Nokia," *Financial Times—IT Review Telecom World* (October 13, 2003), p. 4.

[12] C. K. Prahalad and Gary Hamel, "The Core Competence of the Corporation," *Harvard Business Review* 68, no. 3 (May–June 1990), pp. 79–86.

their local environment, but the business as a whole needs integration to implement global strategy.[13]

When management at a domestic company decides to pursue international expansion, the issue of how to organize arises immediately. Who should be responsible for this expansion? Should product divisions operate directly or should an international division be established? Should individual country subsidiaries report directly to the company president or should a special corporate officer be appointed to take full-time responsibility for international activities? After the decision of how to organize initial international operations has been reached, a growing company is faced with a number of reappraisal points during the development of its international business activities. Should a company abandon its international division, and, if so, what alternative structure should it adopt? Should it form an area or regional headquarters? What should be the relationship of staff executives at corporate, regional, and subsidiary offices? Specifically, how should it organize the marketing function? To what extent should regional and corporate marketing executives become involved in subsidiary marketing management?

Even companies with years of experience competing around the globe find it necessary to adjust their organizational designs in response to environmental change. It is perhaps not surprising that, during his tenure at Quaker Chemical, Sigismundus Lubsen favored a global approach to organizational design over a domestic/international approach. He advised Peter A. Benoliel, his predecessor CEO, to have units in Holland, France, Italy, Spain, and England report to a regional vice president in Europe. "I saw that it would not be a big deal to put all of the European units under one common denominator," Lubsen recalled.[14]

As markets globalize and as Japan opens its own market to more competition from overseas, more Japanese companies are likely to break from traditional organization patterns. Many of the Japanese companies discussed in this text qualify as global or transnational companies because they serve world markets, source globally, or do both. Typically, however, knowledge is created at headquarters in Japan and then transferred to other country units. For example, Canon enjoys a high reputation for world-class, innovative imaging products such as bubble-jet printers and laser printers. In recent years, Canon has shifted more control to subsidiaries, hired more non-Japanese staff and management personnel, and assimilated more innovations that were not developed in Japan. In 1996, R&D responsibility for software was shifted from Tokyo to the United States, responsibility for telecommunication products to France, and computer language translation to Great Britain. As Canon President Fujio Mitarai explained, "The Tokyo headquarters cannot know everything. Its job should be to provide low-cost capital, to move top management between regions, and come up with investment initiatives. Beyond that, the local subsidiaries must assume total responsibility for management. We are not there yet, but we are moving step by step in that direction." Toru Takahashi, director of R&D, shares this view. "We used to think that we should keep research and development in Japan, but that has changed," he said. Despite these changes, Canon's board of directors includes only Japanese nationals.[15]

---

13 George S. Yip, *Total Global Strategy* (Upper Saddle River, NJ: Prentice Hall, 1992), p. 179.

14 Kerry Peckter, "The Foreigners Are Coming," *International Business* (September 1993), p. 58.

15 William Dawkins, "Time to Pull Back the Screen," *Financial Times* (November 18, 1996), p. 12. See also Sumantra Ghoshal and Christopher A. Bartlett, *The Individualized Corporation* (New York: Harper Perennial, 1999), pp. 179–181.

No single correct organizational structure exists for global marketing. Even within a particular industry, worldwide companies have developed different strategic and organizational responses to changes in their environments.[16] Still, it is possible to make some generalizations. Leading-edge global competitors share one key organizational design characteristic: Their corporate structure is flat and simple, rather than tall and complex. The message is clear: The world is complicated enough so there is no need to add to the confusion with a complex internal structuring. Simple structures increase the speed and clarity of communication and allow the concentration of organizational energy and valuable resources on learning, rather than on controlling, monitoring, and reporting.[17] According to David Whitwam, former CEO of Whirlpool, "You must create an organization whose people are adept at exchanging ideas, processes, and systems across borders, people who are absolutely free of the 'not-invented-here' syndrome, people who are constantly working together to identify the best global opportunities and the biggest global problems facing the organization."[18]

A geographically dispersed company cannot limit its knowledge to product, function, and the home territory. Company personnel must acquire knowledge of the complex set of social, political, economic, and institutional arrangements that exist within each international market. Many companies start with ad hoc arrangements such as having all foreign subsidiaries report to a designated vice president or to the president. Eventually, such companies establish an international division to manage their geographically dispersed new businesses. It is clear, however, that the international division in the multiproduct company is an unstable organizational arrangement. As a company grows, this initial organizational structure frequently gives way to various alternative structures.

In the fast-changing competitive global environment of the twenty-first century, corporations will have to find new, more creative ways to organize. New forms of flexibility, efficiency, and responsiveness are required to meet the demands of globalizing markets. The need to be cost effective, to be customer driven, to deliver the best quality, and to deliver that quality quickly are some of today's global realities. Recently, several authors have described new organization designs that represent responses to today's competitive environment. These designs acknowledge the need to find more responsive and flexible structures, to flatten the organization, and to employ teams. There is the recognition of the need to develop networks, to develop stronger relationships among participants, and to exploit technology. These designs also reflect an evolution in approaches to organizational effectiveness. At the turn of the twentieth century, Frederick Taylor claimed that all managers had to see the world the same way. Then came the contingency theorists who said that effective organizations design themselves to match their conditions. These two basic theories are reflected in today's popular management writings. As Henry Mintzberg has observed, "To Michael Porter, effectiveness resides in strategy, while to Tom Peters it is the operations that count—executing any strategy with excellence."[19]

[16] Christopher Bartlett and Sumantra Ghoshal, *Managing Across Borders: The Transnational Solution* (Boston: Harvard Business School Press, 1989), p. 3.

[17] Vladimir Pucik, "Globalization and Human Resource Management," in V. Pucik, N. Tichy, and C. Barnett (eds.), *Globalizing Management: Creating and Leading the Competitive Organization* (New York: J. Wiley & Sons, 1992), p. 70.

[18] Regina Fazio Maruca, "The Right Way to Go Global: An Interview with Whirlpool CEO David Whitwam," *Harvard Business Review* 72, no. 2 (March–April 1994), p. 137.

[19] Henry Mintzberg, "The Effective Organization: Forces and Forms," *Sloan Management Review* 32, no. 2 (Winter 1991), pp. 54–55.

Kenichi Ohmae has written extensively on the implications of globalization on organization design. He recommends a type of "global superstructure" at the highest level that provides a view of the world as a single unit. The staff members of this unit are responsible for ensuring that work is performed in the best location and coordinating efficient movement of information and products across borders. Below this level, Ohmae envisions organizational units assigned to regions "governed by economies of service and economies of scale in information." In Ohmae's view of the world, there are 30 regions with populations ranging from 5 million to 20 million people. For example, China would be viewed as several distinct regions; the same is true of the United States. The first task of the CEO in such an organization is to become oriented to the single unit that is the borderless business sphere, much as an astronaut might view the earth from space. Then, zooming in, the CEO attempts to identify differences. As Ohmae explains,

> A CEO has to look at the entire global economy and then put the company's resources where they will capture the biggest market share of the most attractive regions. Perhaps as you draw closer from outer space you see a region around the Pacific Northwest, near Puget Sound, that is vibrant and prosperous. Then you recognize the region stretching from New York to Boston that is still doing awful. You might see a booming concentration of computer companies and software publishers around Denver, and similar concentrations around Dallas-Fort Worth.

the rest of the story

An American Takes the Helm at Sony

Management writers often use terms like *silos*, *stovepipes*, or *chimneys* to describe an organization in which autonomous business units operate with their own agendas and a minimum of horizontal interdependence. This was the situation at Sony, where the internal rivalries between different engineering units—the PC and Walkman groups, for example—were ingrained in the corporate culture and regarded as healthy.

The intracorporate rivalries were especially evident as Sony ramped up for the 2004 launch of Connect, an online paid music service to compete with Apple's iTunes. Sony's personal computer group developed the software; it was to be played on a new generation of Walkman devices that were created by the company's portable audio unit. Meanwhile, management at the company's music division—Sony is home to the Columbia, Epic, and RCA labels and its artist roster includes Aerosmith and Outkast—insisted on strict copy-protection measures because of concerns about piracy. As head of Sony's U.S. operations, Sir Howard had been a supporter of the service; however, he was not able to compel Sony's different divisions to work together. Given its somewhat disjointed development history, it is not surprising that consumers gave Connect a lukewarm reception.

Because Sony's consumer electronics business accounts for more than two-thirds of Sony's worldwide sales, breathing new life into the unit is important. To do this, Sir Howard developed a restructuring plan that called for cutting 10,000 jobs, reducing the number of manufacturing sites from 65 to 54, and eliminating some unprofitable products. In an effort to improve horizontal communication, he also merged some of the electronics business's units

Cost cutting is only part of the story. Boosting revenues with new products is also crucial to Sony's recovery. Sir Howard believes that Sony's TV business will recover, thanks in part to the new Bravia line of HDTVs. The company has also launched an e-book. Although Sir Howard had high hopes for the launch of the PlayStation 3 game console in mid-2006, production issues delayed the introduction until November. By the time the crucial Christmas shopping season was over, industry observers were pronouncing Nintendo's Wii the victor in the videogame console wars.

Will Sir Howard succeed in effecting a turnaround at Sony? While some consider him to be an outsider, he is known for his nonconfrontational style. Because of Sony's complexity, Sir Howard will be heavily reliant on the skills of his Japanese managers. Speaking of his management team, Sir Howard explains, "I had to do two things: develop those relationships and convince them that the kind of changes I had in mind would be worthwhile." William Ouchi, author of *Theory Z*, says, "Sony is going through the major repositioning that Intel has gone through and AOL is going through. From hardware to software to communications to content, every segment of these industries is being turned topsy-turvy."

Sixty Minutes, the CBS news magazine, recently aired a profile of Sir Howard. A DVD of the program is widely available, and it makes an excellent companion to the text discussion.

Sources: Yukari Iwatani Kane, "Sony Expects to Trim PS3 Losses, Plans More Games, Online Features," The Wall Street Journal *(May 18, 2007), p. B4; Phred Dvorak, "Sony Aims to Cut Costs, Workers to Revive Its Electronics Business,"* The Wall Street Journal *(September 23, 2005), p. A5; Dvorak, "Out of Tune: At Sony, Rivalries Were Encouraged; Then Came iPod,"* The Wall Street Journal *(June 29, 2005), pp. A1, A6; Lorne Manly and Andrew Ross Sorkin, "Choice of Stringer Aims to Prevent Further Setbacks,"* The New York Times *(March 8, 2005), pp. C1, C8; Dvorak and Merissa Marr, "Shock Treatment: Sony, Lagging Behind Rivals, Hands Reins to a Foreigner,"* The Wall Street Journal *(March 7, 2005), pp. A1, A8.*

> Along the coast of California and in parts of New England you will see regions that are strong centers for health care and biotechnology. As a CEO, that's where you put your resources and shift your emphasis.[20]

Successful companies, the real global winners, must have both good strategies and good execution.

Patterns of International Organizational Development

Organizations vary in terms of the size and potential of targeted global markets and local management competence in different country markets. Conflicting pressures may arise from the need for product and technical knowledge; functional expertise in marketing, finance, and operations; and area and country knowledge. Because the constellation of pressures that shape organizations is never exactly the same, no two organizations pass through organizational stages in exactly the same way, nor do they arrive at precisely the same organizational pattern. Nevertheless, some general patterns hold.

A company engaging in limited export activities often has a small in-house export department as a separate functional area. Most domestically oriented companies undertake initial foreign expansion by means of foreign sales offices or subsidiaries that report directly to the company president or other designated company officer. This person carries out his or her responsibilities without assistance from a headquarters staff group. This is a typical initial arrangement for companies getting started in international marketing operations.

International Division Structure

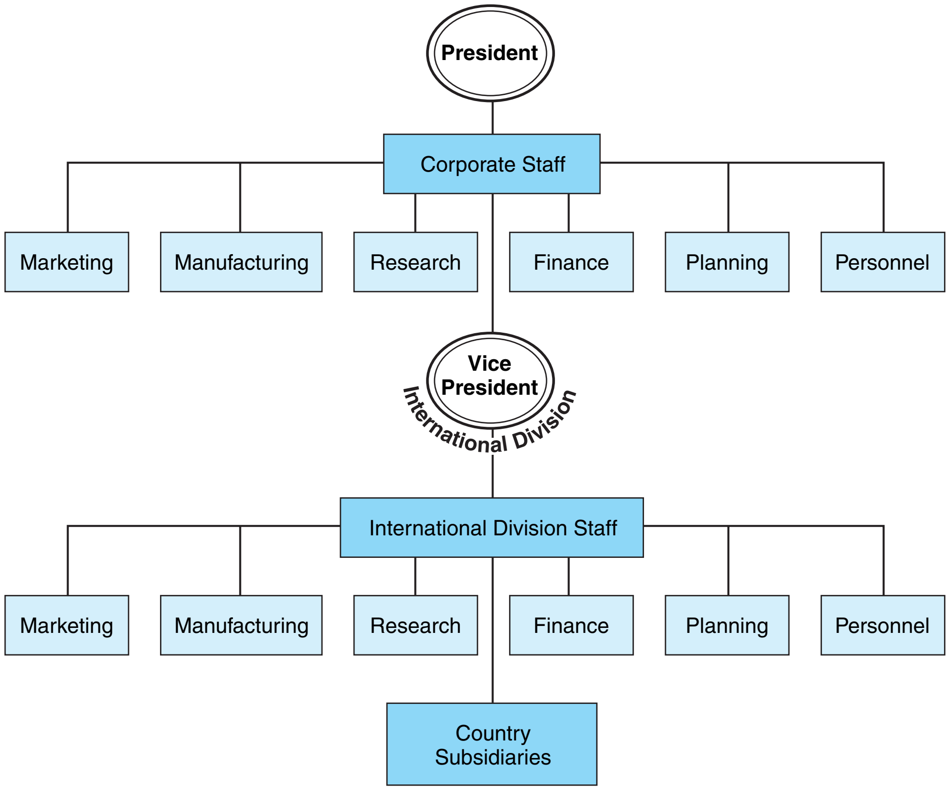
As a company's international business grows, the complexity of coordinating and directing this activity extends beyond the scope of a single person. Pressure is created to assemble a staff that will take responsibility for coordination and direction of the growing international activities of the organization. Eventually, this pressure leads to the creation of the international division, as illustrated in Figure 16-1. Wal-Mart, Levi Strauss, Anheuser-Busch, Best Buy, Walt Disney Company, and Hershey are some examples of companies whose structures include international divisions. When Hershey announced the creation of its international division in 2005, J. P. Bilbrey, the division's senior vice president, noted that Hershey will no longer utilize the extension strategy of exporting its chocolate products from the United States. Instead, the company will tailor products to local markets and also manufacture locally. As Bilbrey explained, "We're changing our business model in Asia. The product was not locally relevant and it also got there at an unattractive cost."[21]

Four factors contribute to the establishment of an international division. First, top management's commitment to global operations has increased enough to justify an organizational unit headed by a senior manager. Second, the complexity of international operations requires a single organizational unit whose management has sufficient authority to make its own determination on important issues such as which market entry strategy to employ. Third, an international division is frequently formed when the firm has recognized the need for internal specialists to deal with the special demands of global operations. A fourth contributing factor is management's recognition of the importance of strategically scanning the global horizon for opportunities and

[20] William C. Taylor and Alan M. Webber, *Going Global: Four Entrepreneurs Map the New World Marketplace* (New York: Penguin, 1996), pp. 48–58.
[21] Jeremy Grant, "Hershey Chews Over Growth Strategy," *Financial Times* (December 14, 2005), p. 23.

Figure 16-1

Functional Corporate Structure, Domestic Corporate Staff Orientation, International Division



aligning them with company resources rather than simply responding on an ad hoc basis to situations as they arise.

Regional Management Centers

When business is conducted in a single region that is characterized by similarities in economic, social, geographical, and political conditions, there is both justification and need for a management center. Thus, another stage of organizational evolution is the emergence of an area or regional headquarters as a management layer between the country organization and the international division headquarters. The increasing importance of the EU as a regional market has prompted a number of companies to change their organizational structures by setting up regional headquarters there. In the mid-1990s, Quaker Oats established its European headquarters in Brussels; Electrolux, the Swedish home appliance company, has also regionalized its European operations.[22] A regional center typically coordinates decisions on pricing, sourcing, and other matters. Executives at the regional center also participate in the planning and control of each country's operations with an eye toward applying company knowledge on a regional basis and optimally utilizing corporate resources on a regional basis. This organizational design is illustrated in Figure 16-2.

Regional management can offer a company several advantages. First, many regional managers agree that an on-the-scene regional management unit makes sense where there is a real need for coordinated, pan-regional decision making. Coordinated regional planning and control are becoming necessary as the national subsidiary continues to lose its relevance as an independent operating unit. Regional management can probably achieve the best balance of geographical, product, and functional considerations required to implement corporate

[22] "... And Other Ways to Peel the Onion," *Economist* (January 7, 1995), pp. 52–53.

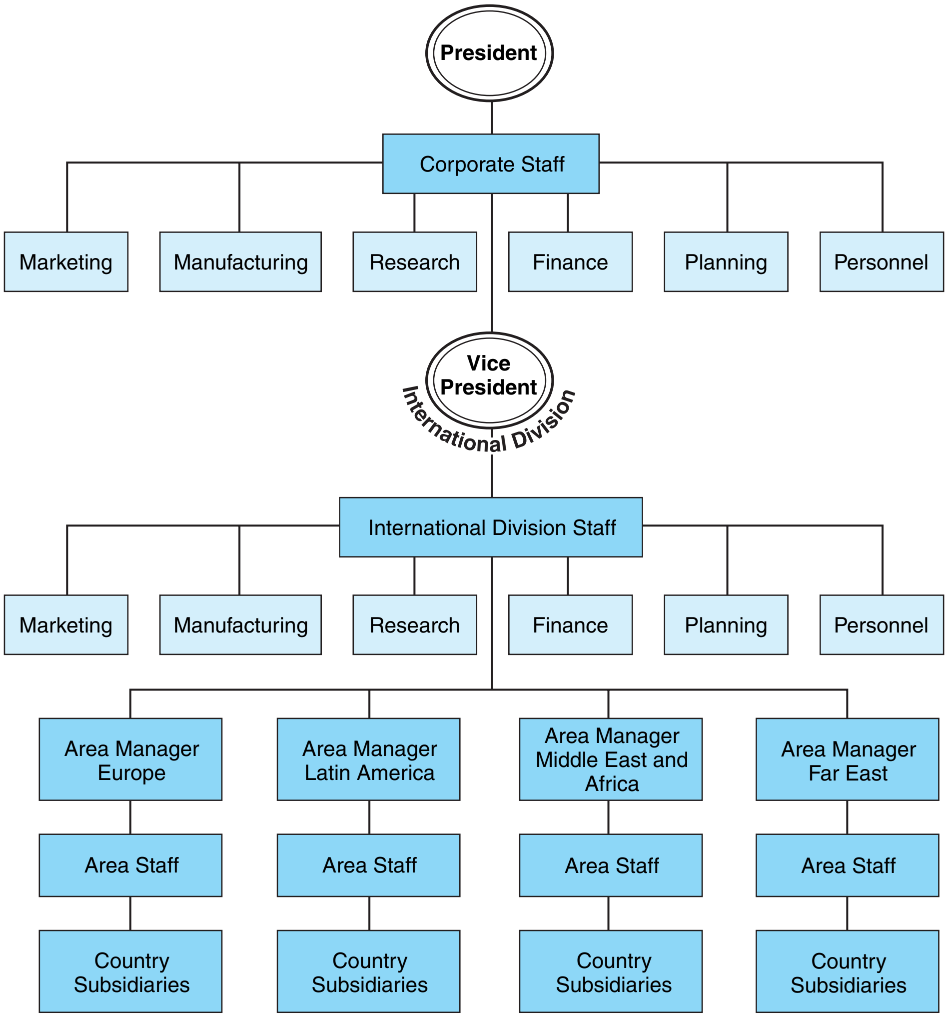


Figure 16-2

Functional Corporate Structure, Domestic Corporate Staff Orientation, International Division, Area Divisions

objectives effectively. By shifting operations and decision making to the region, the company is better able to maintain an insider advantage.[23]

A major disadvantage of a regional center is its cost. The cost of a two-person office could exceed $600,000 per year. The scale of regional management must be in line with the scale of operations in a region. A regional headquarters is inappropriate if the size of the operations it manages is inadequate to cover the costs of the additional layer of management. The basic issue with regard to the regional headquarters is "Does it contribute enough to organizational effectiveness to justify its cost and the complexity of another layer of management?"

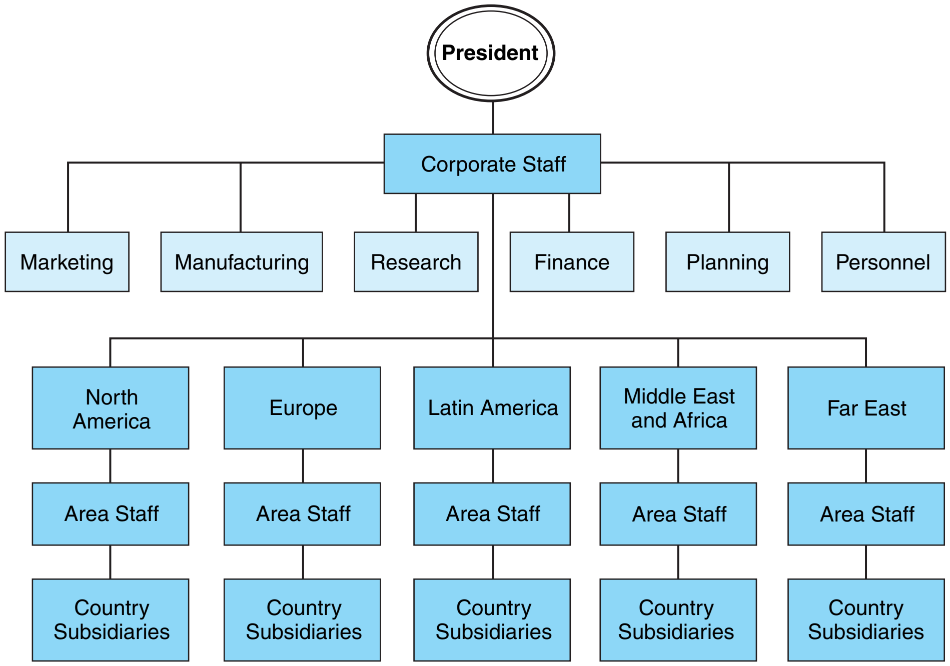
Geographical and Product Division Structures

As a company becomes more global, management frequently faces the dilemma of whether to organize by geography or by product lines. The geographical structure involves the assignment of operational responsibility for geographic areas of the world to line managers. The corporate headquarters retains responsibility for worldwide planning and control, and each area of the world—including the "home" or base market—is organizationally equal. For the company with French origins, France is simply another geographic market under this organizational arrangement. This structure is most common in companies with closely related product lines that

[23] Allen J. Morrison, David A. Ricks, and Kendall Roth, "Globalization Versus Regionalization: Which Way for the Multinational?" *Organizational Dynamics* (Winter 1991), pp. 17–29.

Figure 16-3

Geographic Corporate Structure, World Corporate Staff Orientation, Area Divisions Worldwide



are sold in similar end-use markets around the world. For example, the major international oil companies utilize the geographical structure, which is illustrated in Figure 16-3. McDonald's organizational design integrates the international division and geographical structures. McDonald's U.S. is organized into five geographical operating divisions and McDonald's International has four.

When an organization assigns regional or worldwide product responsibility to its product divisions, manufacturing standardization can result in significant economies. For example, Whirlpool recently reorganized its European operations, switching from a geographic or country orientation to one based on product lines. One potential disadvantage of the product approach is that local input from individual country managers may be ignored with the result that products will not be sufficiently tailored to local markets. The essence of the Ford 2000 reorganization initiated in 1995 was to integrate North American and European operations. Over a three-year period, the company saved $5 billion in development costs. However, by 2000, Ford's European market share had slipped nearly 5 percent. In a shift back toward the geographic model, then-CEO Jacques Nasser returned to regional executives some of the authority they had lost.[24]

The challenges associated with devising the structure that is best suited to improving global sales can be seen in Procter & Gamble's ambitious Organization 2005 plan. Initiated by CEO Durk Jager in 1999, this reorganization entailed replacing separate country organizations with five global business units for key product categories such as paper products and feminine hygiene. A number of executives were reassigned; in Europe alone, 1,000 staff members were transferred to Geneva. Many managers, upset about the transfers and news that P&G intended to cut 15,000 jobs worldwide, quit the company; the resulting upheaval cost CEO Jager his job. To appease middle managers, new CEO A. G. Lafley restored some of the previous geographic focus.[25]

[24] Joann S. Lublin, "Division Problem: Place vs. Product: It's Tough to Choose a Management Model," *The Wall Street Journal* (June 27, 2001), pp. A1, A4.

[25] Emily Nelson, " Rallying the Troops at P&G: New CEO Lafley Aims to End Upheaval by Revamping Program of Globalization," *The Wall Street Journal* (August 31, 2000), pp. B1, B4.

The Matrix Design

In the fully developed large-scale global company, product or business, function, area, and customer know-how are simultaneously focused on the organization's worldwide marketing objectives. This type of total competence is a **matrix organization**. Management's task in the matrix organization is to achieve an organizational balance that brings together different perspectives and skills to accomplish the organization's objectives. In 1998, both Gillette and Ericsson announced plans to reorganize into matrix organizations. Ericsson's matrix is focused on three customer segments: network operators, private consumers, and commercial enterprises.[26] Gillette's new structure separates product-line management from geographical sales and marketing responsibility.[27] Likewise, Boeing has reorganized its commercial transport design and manufacturing engineers into a matrix organization built around five platform or aircraft model-specific groups. Previously, Boeing was organized along functional lines; the new design is expected to lower costs and quicken updates and problem solving. It will also unite essential design, engineering, and manufacturing processes between Boeing's commercial transport factories and component plants, enhancing product consistency.[28] Why are executives at these and other companies implementing matrix designs? The matrix form of organization is well-suited to global companies because it can be used to establish a multiple-command structure that gives equal emphasis to functional and geographical departments.

Professor John Hunt of the London Business School suggests four considerations regarding the matrix organizational design. First, the matrix is appropriate when the market is demanding and dynamic. Second, employees must accept higher levels of ambiguity and understand that policy manuals cannot cover every eventuality. Third, in country markets where the command-and-control model persists, it is best to overlay matrices on only small portions of the workforce. Finally, management must be able to clearly state what each axis of the matrix can and cannot do. However, this must be accomplished without creating a bureaucracy.[29]

Having established that the matrix is appropriate, management can expect the matrix to integrate four basic competencies on a worldwide basis:

1. *Geographic knowledge.* An understanding of the basic economic, social, cultural, political, and governmental market and competitive dimensions of a country is essential. The country subsidiary is the major structural device employed today to enable the corporation to acquire geographical knowledge.
2. *Product knowledge and know-how.* Product managers with a worldwide responsibility can achieve this level of competence on a global basis. Another way of achieving global product competence is simply to duplicate product management organizations in domestic and international divisions, achieving high competence in both organizational units.
3. *Functional competence in such fields as finance, production, and, especially, marketing.* Corporate functional staff with worldwide responsibility contributes toward the development of functional competence on a global basis. In a handful of companies, the corporate functional manager, who is responsible for the development of his or her functional activity on a global basis, reviews the appointment of country subsidiary functional managers.

[26] "Ericsson to Simplify Business Structure," *Financial Times* (September 29, 1998), p. 21.
[27] Mark Maremont, "Gillette to Shut 14 of Its Plants, Lay Off 4,700," *The Wall Street Journal* (September 29, 1998), pp. A3, A15.
[28] Paul Proctor, "Boeing Shifts to 'Platform Teams,'" *Aviation Week & Space Technology* (May 17, 1999) pp. 63–64.
[29] John W. Hunt, "Is Matrix Management a Recipe for Chaos?" *Financial Times* (January 12, 1998), p. 10.

global MARKETING Q&A

Wall Street Journal: "By going to a global structure where you have functional leaders located in one place as opposed to dispersal of responsibility in regional centers as you've had in the past, don't you risk losing the ability to tailor products, marketing, information technology systems, whatever, to the needs of these very different regional markets?"

Rick Wagoner, Chairman and Chief Executive Officer, General Motors: "Ask the flip side of your question. Why would you be convinced that doing everything locally would give you better answers? My point is simply, this isn't 'either/or.' And trying to force it in an either/or box is a problem for me. What people have a hard time accepting is that the global auto industry is going to be played out as a matrix. People really have trouble because they want to know who's in charge. And the answer is going to be, increasingly, 'it depends.'"

Source: The Wall Street Journal *(Western Edition) by Lee Hawkins, Jr. and Joseph B. White. Copyright 2005 by Dow Jones & Company, Inc. Reproduced with permission of Dow Jones & Company, Inc. in the format Other book via Copyright Clearance Center.*

4. *A knowledge of the customer or industry and its needs.* Certain large and extremely sophisticated global companies have staff with a responsibility for serving industries on a global basis to assist the line managers in the country organizations in their efforts to penetrate specific customer markets.

Under this arrangement, instead of designating national organizations or product divisions as profit centers, both are responsible for profitability—the national organization for country profits and the product divisions for national and worldwide product profitability. Figure 16-4 illustrates the matrix organization. This organization chart starts with a bottom section that represents a single-country responsibility level, moves to representing the area or international level, and finally moves to representing global responsibility from the product divisions to the corporate staff, to the chief executive at the top of the structure.

At Whirlpool, North American operations are organized in matrix form. While serving as CEO, David Whitwam expected to extend this structure into Europe and other regional markets. Whirlpool managers from traditional functions such as operations, marketing, and finance also work in teams devoted to specific products, such as dishwashers or ovens. To encourage interdependence

STRATEGIC DECISION-MAKING *in global marketing*

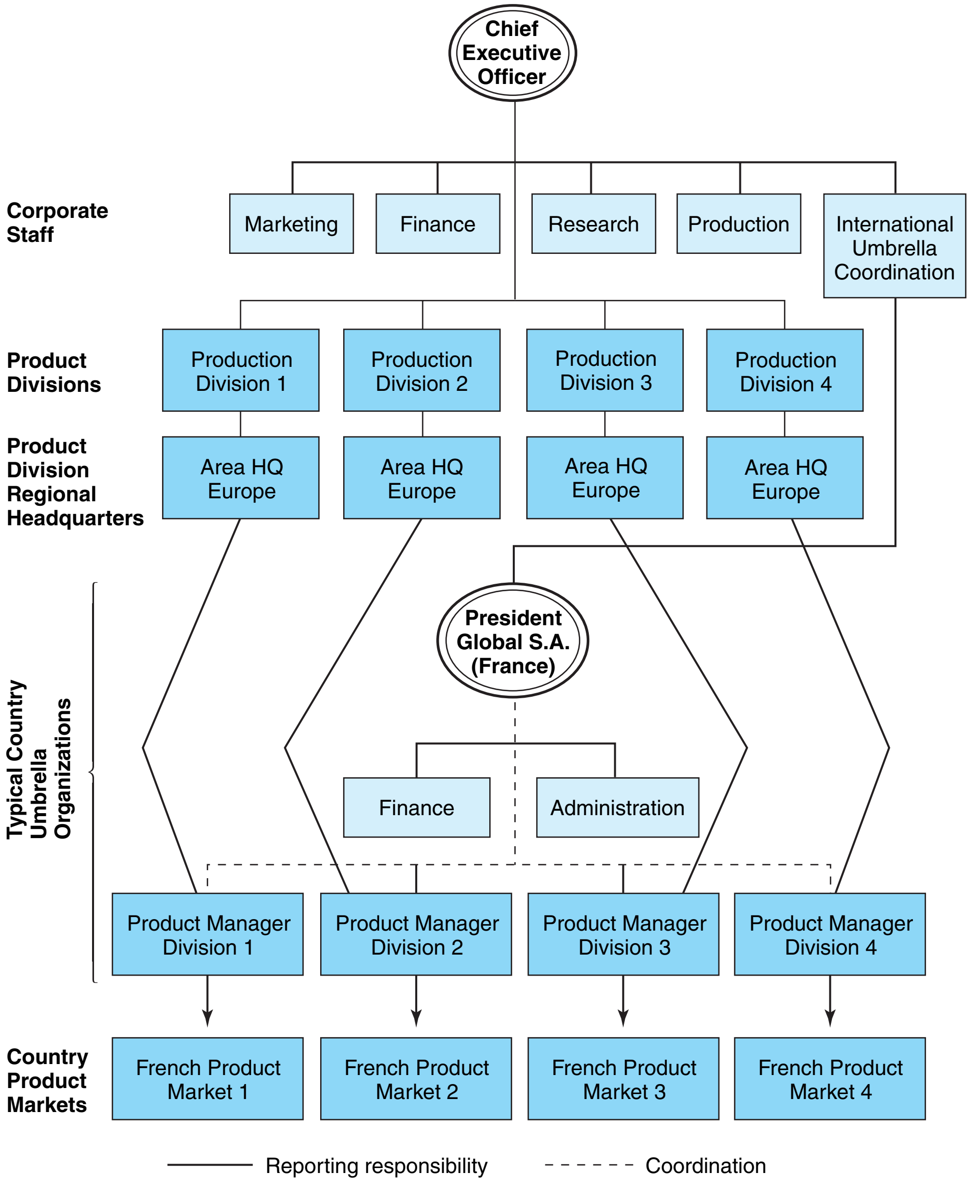
ABB Experiments with the Matrix Design

Some companies are moving away from the matrix in response to changing competitive conditions. Heineken is one example; ABB is another. For nearly a decade, ABB was a matrix organized along regional lines. Local business units—factories that make motors or power generators, for example—reported both to a country manager and to a business area manager who set strategy for the whole world. This structure allowed ABB to execute global strategies while still thriving in local markets. However, in 1998, new chairman Göran Lindahl dissolved the matrix. As the chairman explained in a press release, "This is an aggressive move aimed at greater speed and efficiency by further focusing and flattening the organization. This step is possible now thanks to our strong, decentralized presence in all local and global markets around the world." In January 2001, Lindahl stepped down and his successor, Jorgen Centerman, revamped the organizational structure yet again. The new design was intended to improve the focus on industries and large corporate customers; Centerman wanted to ensure that all of ABB's products were designed to the same systems standards. However, in 2002, with the chief executive under pressure to sell assets, ABB's board replaced Centerman with Jürgen Dorman.

Sources: David Woodruff, "New ABB Chairman Unveils Overhaul, Reacting to Rival GE," The Wall Street Journal *(January 12, 2001), p. A16. A detailed discussion of ABB's matrix structure is found in Ghoshal and Bartlett (1999), pp. 183–190.*

Figure 16-4

The Matrix Structure



and integration, the cross-functional teams are headed by "brand czars" such as the brand chief for Whirlpool or Kenmore. As Whitwam explains, "The Whirlpool-brand czar still worries about the Whirlpool name. But he also worries about all the refrigerator brands that we make because he heads that product team. It takes a different mind-set."[30]

The key to successful matrix management is ensuring that managers are able to resolve conflicts and achieve integration of organization programs and plans. The mere adoption of a matrix design or structure does not create a matrix organization. The matrix organization requires a fundamental change in management behavior, organizational culture, and technical systems. In a matrix, influence is based on technical competence and interpersonal sensitivity, not on formal authority. In a matrix culture, managers recognize the absolute

[30] William C. Taylor and Alan M. Webber, *Going Global: Four Entrepreneurs Map the New World Marketplace* (New York: Penguin USA, 1996), p. 25.

global MARKETING Q&A

Wall Street Journal: "The Sony BMG merger reduced the number of major record labels to four from five. How many majors does the industry need?"

Gunter Thielen, Chief Executive Officer, Bertelsmann AG: "I think the four majors that now exist can survive quite well. The independents as well, as long as they find good niches. Maybe there will be three at some point. In the music industry, size is really an asset because you can run your national affiliates more efficiently. At Sony BMG, we're combining operations in every country and are going to save a lot of money."

Wall Street Journal: "If you look beyond music at the rest of the media industry, what do you think the dominant trend in the media world in the coming years will be?"

Gunter Thielen: "The entire business is becoming more international. Up until now, the big U.S. majors—the world's three biggest media companies—have concentrated their business in the U.S. I think the process of globalization will mean that these companies will become much more active abroad."

Wall Street Journal: "What about Bertelsmann?"

Gunter Thielen: "For us, this is nothing new. We've been operating outside of Germany for 40 years because Germany is much smaller than the U.S. We reached the limits of our home market decades ago. That led us first into other European markets and then to the U.S. Now, we're in the midst of expanding into the third major global region—Asia. I think the big American companies are also doing this. In any case, I always run into people from Viacom, TimeWarner and so forth on my trips to Asia. They're exploring just like we are."

Wall Street Journal: "Thomas Middelhoff, your predecessor, once described himself as an American with a German passport. What are you?"

Gunter Thielen: "I feel more European. Not as much German as European."

2006 was a turbulent year for Bernd Pischetsrieder. After five years as the chief executive of Volkswagen, he lost a boardroom battle with Chairman Ferdinand Piech concerning the German automaker's ongoing efforts to cut costs and remain competitive in the face of increased competition from Asian nameplates. At the beginning of 2007, another Volkswagen executive resigned. Wolfgang Bernhard, chairman of the Volkswagen brand group, had focused on cost cutting; both Germany's powerful labor union and Chairman Piech were opposed to some of his actions.

need to resolve issues and choices at the lowest possible level and do not rely on higher authority.

In the twenty-first century, an important task of top management is to eliminate a one-dimensional approach to decisions and encourage the development of multiple management perspectives and an organization that will sense and respond to a complex and fast-changing world. By thinking in terms of changing behavior rather than changing structural design, company management can free itself from the limitations of the structural chart and focus instead on achieving the best possible results with available resources.

LEAN PRODUCTION: ORGANIZING THE JAPANESE WAY

In the automobile industry, a comparison of early craft production processes, mass production, and modern "lean" production provides an interesting case study of the effectiveness of new organizational structures in the twentieth century.[31] Dramatic productivity differences existed between craft and mass producers in the first part of the twentieth century. The mass producers—most notably Ford Motor Company—gained their substantial advantage by changing their value chains so that each worker was able to do far more work each day than the craft producers. The innovation that made this possible was the moving assembly line, which required the originators to conceptualize the production process in a totally new way. The assembly line also required a new approach to organizing people, production machinery, and supplies. By rearranging their value chain activities, the mass producers were able to achieve reductions in effort ranging from 62 percent to 88 percent over the craft producers. These productivity improvements provided an obvious competitive advantage.

The advantage of the mass producers lasted until the Japanese auto companies further revised the value chain and created **lean production**, thereby gaining for themselves the kinds of dramatic competitive advantages that mass producers had previously gained over craft producers. For example, the Toyota Production System (TPS), as the Japanese company's manufacturing methods are known, achieves efficiencies of about 50 percent over typical mass production systems. Even with the reduced assembly time, the lean producer's vehicles have significantly fewer defects than the mass-produced vehicles. The lean producer is also using about 40 percent less factory space and maintaining only a fraction of the inventory stored by the mass producer. Again, the competitive advantages are obvious. Whether the strategy is based on differentiation or low cost, the lean producer has the advantage.

To achieve these gains at Toyota, production gurus Taiichi Ohno and Shigeo Shingo challenged several assumptions traditionally associated with automobile manufacturing. They made changes to operations within the auto company itself such as reducing setup times for machinery. The changes also applied to operations within supplier firms and the interfaces between Toyota and its suppliers and to the interfaces with distributors and dealers. Ohno and Shingo's innovations have been widely embraced in the industry; as a result, individual producers' value chains have been modified, and interfaces between producers and suppliers have been optimized to create more effective and efficient value systems (see Table 16-3).

[31] This section is adapted from the following sources: James P. Womack, Daniel T. Jones, and Daniel Roos, *The Machine that Changed the World: The Story of Lean Production* (New York: HarperCollins, 1990); Ranganath Nayak and John M. Ketteringham, *Breakthroughs!* (San Diego, CA: Pfeiffer, 1994), Chapter 9; and Michael Williams, "Back to the Past: Some Plants Tear Out Long Assembly Lines, Switch to Craft Work," *The Wall Street Journal* (October 24, 1994), pp. A1, A4.

Table 16-3

Five Assumptions About Mass Production Versus Toyota Production System

Traditional Assumptions	Ohno and Shingo's Insights
1. Maximize machine utilization	Labor is more costly than machines
2. Fixed setup times	Can reduce setup time
3. Build to inventory to reduce unit cost	Minimize inventory to cut costs, waste
4. Inspect at end of process	Inspect to prevent defective production
5. Maximize backwards integration	Outsource from supplier specialists

Source: Adapted from Adrian Slywotzky, *Value Migration* (Cambridge, MA: Harvard Business School Press, 1996), pp. 31–33.

Assembler Value Chains

Employee ability is emphasized in a lean production environment. Before being hired, people seeking jobs with Toyota participate in the Day of Work, a 12-hour assessment test to determine who has the right mix of physical dexterity, team attitudes, and problem-solving ability. Once hired, workers receive considerable training to enable them to perform any job in their section of the assembly line or area of the plant, and they are assigned to teams in which all members must be able to perform the functions of all other team members. Workers are also empowered to make suggestions and to take actions aimed at improving quality and productivity. Quality control is achieved through *kaizen*, a devotion to continuous improvement that ensures that every flaw is isolated, examined in detail to determine the ultimate cause, and then corrected. Mechanization, and particularly flexible mechanization, is increased within the lean production firm. For example, the same assembly line in Georgetown, Kentucky, that produces Toyota's Camry models also produces the Sienna minivan. The Sienna and Camry share the same basic chassis and 50 percent of their parts. There are 300 different stations on the assembly line, and Sienna models require different parts at only 26 stations. Toyota expects to build one Sienna for every three Camrys that come off the assembly line.[32]

In contrast to the lean producers, U.S. mass producers typically maintain operations with greater direct labor content, less mechanization, and much less flexible mechanization. They also divide their employees into a large number of discrete specialties with no overlap. Employee initiative and teamwork are not encouraged. Quality control is expressed as an acceptable number of defects per vehicle.

Even when the comparisons are based on industry averages, the Japanese lean producers continue to enjoy substantial productivity and quality advantages. Again, these advantages put the lean producers in a better position to exploit low cost or differentiation strategies. They are getting better productivity out of their workers and machines, and they are making better use of their factory floor space. The relatively small size of the repair area reflects the higher quality of their products. A high number of "suggestions per employee" provides some insight into why lean producers outperform mass producers. First, they invest a great deal more in the training of their workers. They also rotate all workers through all jobs for which their teams are responsible. Finally, all workers are encouraged to make suggestions, and management acts on those suggestions. These changes to the value chain translate into major improvements in the value of their products.

It should come as no surprise that many of the world's automakers are studying lean production methods and introducing them in both existing and new plants throughout the world. In 1999, for example, GM announced plans to spend nearly $500 million to overhaul its Adam Opel plant in Germany. Pressure for change came from several sources, including increasing intense rivalry in

32 Micheline Maynard, "Camry Assembly Line Delivers New Minivan," *USA Today* (August 11, 1997), p. 3B.

The Toyota Production System (TPS) is based on two concepts. First is jidoka, *which involves visualizing potential problems.* Jidoka *also means that quality is built into the company's vehicles during the manufacturing process. "Just-in-time," the second pillar of the TPS, means that Toyota only produces what is needed, when it is needed, in the amount that is needed. Toyota's training programs ensure that all employees understand the Toyota Way. Future factory workers attend the Toyota Technical Skills Academy in Toyota City, Japan. Executive training takes place at the Toyota Institute.*

Source: Ko Sasaki/The New York Times.

Europe's car market, worldwide overcapacity, and a realization that price transparency in the euro zone will exert downward pressure on prices. GM's goal was to transform the plant into a state-of-the-art lean production facility with a 40 percent workforce reduction. As GM Europe President Michael J. Burns said, "Pricing is more difficult today. . . . You have to work on product costs, structural costs. . . . everything."[33]

Downstream Value Chains

The differences between lean producers and U.S. mass producers in the way they deal with their respective dealers, distributors, and customers are as dramatic as the differences in the way they deal with their suppliers. U.S. mass producers follow the basic industry model and maintain an "arm's-length" relationship with dealers that is often characterized by a lack of cooperation and even open hostility. There is often no sharing of information because there is no incentive to do so. The manufacturer is often trying to force on the dealer models the dealer knows will not sell. The dealer, in turn, is often trying to pressure the customer into buying models he or she does not want. All parties are trying to keep information about what they really want from the others. This does little to ensure that the industry is responsive to market needs.

The problem starts with the market research, which is often in error. It is compounded by a lack of feedback from dealers regarding real customer desires. It continues to worsen when the product planning divisions make changes to the models without consulting the marketing divisions or the dealers. This process invariably results in the production of models that are unpopular and almost impossible to sell. The manufacturer uses incentives and other schemes to persuade the dealers to accept the unpopular models, such as making a dealer accept one unpopular model for every five hot-selling models it orders. The dealer then has the problem of persuading customers to buy the unpopular models.

Within the mass assembler's value chain, the linkage between the marketing elements and the product planners is broken. The external linkage between

[33] Joseph B. White, "GM Plans to Invest $445 Million, Cut Staff," *The Wall Street Journal* (May 27, 1999), p. A23.

the sales divisions and the dealers is also broken. The production process portion of the value chain is also broken in that it relies on the production of thousands of unsold models that then sit on dealer lots, at enormous cost, while the dealer works to find customers. Within the dealerships, there are even more problems. The relationship between the salesperson and the customer is based on sparring and trying to outsmart each other on price. When the salesperson gets the upper hand, the customer gets stung. It is very much like the relationship between the dealer and the manufacturer. Each is withholding information from the other in the hope of outsmarting the other. Too often, salespeople do not investigate customers' real needs and try to find the best product to satisfy those needs. Rather, they provide only as much information as is needed to close the deal. Once the deal is closed, the salesperson has virtually no further contact with the customer. No attempt is made to optimize the linkage between dealers and manufacturers or the linkage between dealers and customers.

The contrast with the lean producer is again striking. In Japan, the dealer's employees are true product specialists. They know their products and deal with all aspects of the product, including financing, service, maintenance, insurance, registration and inspection, and delivery. A customer deals with one person in the dealership, and that person takes care of everything from the initial contact through eventual trade-in and replacement and all the problems in between. Dealer representatives are included on the manufacturer's product development teams and provide continuous input regarding customer desires. The linkages between dealers, marketing divisions, and product development teams are totally optimized.

The stress caused by large inventories of finished cars is also absent. A car is not built until there is a customer order for it. Each dealer has only a stock of models for the customer to view. Once the customer has decided on the car he or she wants, the order is sent to the factory and in a matter of a couple of weeks the salesperson delivers the car to the customer's house.

Once a Japanese dealership gets a customer, it is absolutely determined to hang on to that customer for life. It is also determined to acquire all the customer's family members as customers. A joke among the Japanese says that the only way to escape from the salesperson who sold a person a car is to leave the country. Japanese dealers maintain extensive databases on actual and potential customers. These databases deal with demographic data and preference data. Customers are encouraged to help keep the information in the database current, and they cooperate in this. This elaborate store of data becomes an integral part of the market research effort and helps ensure that products match customer desires. The fact that there are no inventories of unpopular models because every car is custom ordered for each customer and the fact that the dealer has elaborate data on the needs and desires of its customers change the whole nature of the interaction between the customer and the dealer. The customer literally builds the car she or he wants and can afford. There is no need to try to outsmart each other.

The differences between U.S. mass producers and the Japanese lean producers reflect their fundamental differences in business objectives. The U.S. producers focus on short-term income and return on investment. Today's sale is a discrete event that is not connected to upstream activities in the value chain and has no value in tomorrow's activities. Efforts are made to reduce the cost of the sales activities. The Japanese see the process in terms of the long-term perspective. There are two major goals of the sales process. The first is to maximize the income stream from each customer over time. The second is to use the linkage with the production processes to reduce production and inventory costs and to maximize quality and therefore differentiation.

U2 singer Bono and Bobby Shriver are co-founders of Product (RED)™, a partnership with several well-known global companies to raise money to fight disease in Africa. Apple, American Express, Emporio Armani, Converse, Gap, and Motorola are all offering (RED)-themed merchandise and services to their customers. The partners are demonstrating their commitment to corporate social responsibility by pledging to donate a percentage of the profits generated to the Global Fund to Fight AIDS, Tuberculosis, and Malaria. To launch its (RED) line, Gap's advertising campaign used celebrities and one-word headlines consisting of verbs that end in "-red." For example, one ad featured the word "INSPI(RED)" superimposed over a photo of director Steven Spielberg wearing a Product (RED) leather jacket.

*Source: Tony Cenicola/*The New York Times.

ETHICS, CORPORATE SOCIAL RESPONSIBILITY, AND SOCIAL RESPONSIVENESS IN THE GLOBALIZATION ERA

Today's chief executive must be a proactive steward of the reputation of the company he or she is leading. This entails, in part, understanding and responding to the concerns and interests of a variety of stakeholders. A **stakeholder** is any group or individual that is affected by, or takes an interest in, the policies and practices adopted by an organization.[34] Top management, employees, customers, persons or institutions that own the company's stock, and suppliers constitute a company's primary shareholders. *Secondary shareholders* include the media, the general business community, local community groups, and **nongovernmental organizations (NGOs)**. The latter include Oxfam, Greenpeace, and Amnesty International. **Stakeholder analysis** is the process of formulating a "win-win" outcome for all stakeholders.[35]

As noted in Chapter 1, one of the forces restraining the growth of global business and global marketing is resistance to globalization. The antiglobalization movement takes a variety of forms and finds expression in various ways. In developed countries, the movement's concerns and agenda include cultural imperialism (e.g., the French backlash against McDonald's), the loss of jobs due to offshoring and outsourcing (e.g., the furniture industry in the United States), and a distrust of global institutions (e.g., anti-WTO protesters in Hong Kong). In developing countries, globalization's opponents accuse companies of undermining local cultures, placing intellectual property rights ahead of human rights, promoting unhealthy diets and unsafe food technologies, and pursuing unsustainable consumption.[36] Environmental degradation and labor exploitation are also key issues.

[34] The English term *stakeholder* is sometimes hard to convey in different languages, especially in developing countries. See Neil King Jr. and Jason Dean, "Untranslatable Word in U.S. Aide's Speech Leaves Beijing Baffled," *The Wall Street Journal* (December 7, 2005), pp. A1, A8.

[35] Archie B. Carroll and Ann K. Buchholtz, *Business and Society: Ethics and Stakeholder Management 5/e* (Cincinnati: Southwester, 2003).

[36] Terrence H. Witkowski, "Antiglobal Challenges to Marketing in Developing Countries: Exploring the Ideological Divide," *Journal of Public Policy and Marketing* 24, no. 1 (Spring 2005), pp. 7–23.

In a wired world, a company's reputation can quickly be tarnished if activists target its policies and practices. Thus, the leaders of global companies must practice **corporate social responsibility (CSR)**, which can be defined as a company's obligation to pursue goals and policies that are in society's best interests. In a socially responsible firm, employees conduct business in an ethical manner. In other words, they are guided by moral principles that enable them to distinguish between right and wrong. At many companies, a formal statement or **code of ethics** summarizes core ideologies, corporate values, and expectations. GE, Boeing, and United Technologies Corporation are some of the American companies offering training programs that specifically address ethics issues. For many years, Jack Welch, the legendary former CEO of GE, challenged his employees to take an informal "mirror test." The challenge: "Can you look in the mirror every day and feel proud of what you're doing?"[37] Today, GE uses more formal approaches to ethics and compliance; it has produced training videos, instituted an online training program, and provides employees with a guide to ethical conduct titled *Spirit and Letter* (see Table 16-4).

"Perhaps we have the opportunity to be a different type of global company, a global brand that can build a different model, a company that is a global business, that makes a profit, but at the same time demonstrates a social conscience and gives back to the local market."[38]

Howard Schultz, CEO, Starbucks, in response to a question about the likelihood of antiglobalization activists targeting the company as it expands globally.

"Mr. Schultz recognized ahead of most executives that customers today vote with their dollars and will spend more money at companies with values they admire."[39]

Nancy Koehn, Professor, Harvard Business School

At Johnson & Johnson, the ethics statement is known as *Our Credo*; first introduced in 1945, the credo has been translated into dozens of languages for J&J employees around the world. Starbucks founder and CEO Howard Schultz's enlightened human resources policies have played a key part in the company's success. Partners, as the company's employees are known, who work 20 hours or more per week are offered health benefits; partners can also take advantage of an employee stock option plan known as Bean Stock. As noted on the company's Web site:

> Consumers are demanding more than "'product" from their favorite brands. Employees are choosing to work for companies with strong values. Shareholders are more inclined to invest in businesses with outstanding corporate reputations. Quite simply, being socially responsible is not only the right thing to do; it can distinguish a company from its industry peers.

For the global company with operations in multiple markets, the issue of corporate social responsibility becomes complicated. When the chief executive of a global firm in a developed country or government policy makers attempt to act in

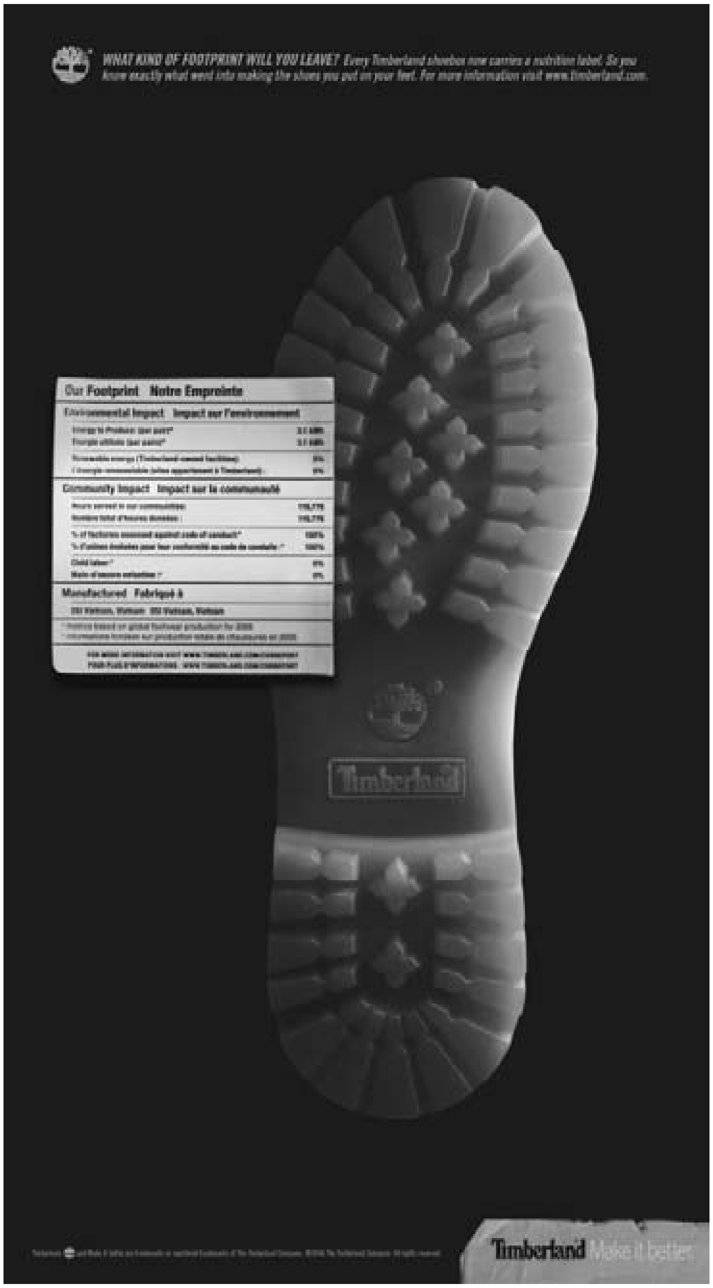
Table 16-4

Ethics Questions from GE

Q: A new customer wants to place a big order with GE, provided the equipment can be shipped to them overnight. That doesn't give us enough time for the terrorist watchlist screening required of GE customers. Can I ship the equipment and check the watchlists tomorrow?	Q: An overseas customer has been invited to travel to our training facility at GE's expense. The customer wants to add a weekend side trip to Universal Studios. Can we fund the whole trip?
A: No, don't ship the equipment until the screening is done. GE cannot agree to do business with a customer until the required watchlist screening has been completed.	A: It depends on many factors including whether the customer is a government official, local law, the customer's policies, and your business' guidelines. Consult with GE general counsel and your manager.

Source: The Wall Street Journal (Eastern Edition) by Kathyrn Kranhold. Copyright 2005 by Dow Jones & Company, Inc. Reproduced with permission of Dow Jones & Company, Inc. in the format Textbook via Copyright Clearance Center.

[37] Stratford Sherman and Noel Tichy, *Control Your Destiny or Someone Else Will* (New York: HarperBusiness, 2001), Chapter 9 "The Mirror Test."
[38] John Murray Brown and Jenny Wiggins, "Coffee Empire Expands Reach by Pressing Its Luck in Ireland," *Financial Times* (December 15, 2005), p. 21.
[39] Carol Hymowitz, "Big Companies Become Big Targets Unless They Guard Images Carefully," *The Wall Street Journal* (December 12, 2005), p. B1.



The Timberland Company, based in Stratham, New Hampshire, is best known for its popular hiking boots and work boots. Timberland is a truly global brand; each year, the company sells $1.5 billion in outdoor gear, accessories, and apparel through a network of 250 franchised and company-owned stores as well as department and sporting goods stores.

However, the company stands for more than just rugged authenticity; Timberland is a mission-centered company as well. CEO Jeff Swartz, the grandson of Timberland's founder, is deeply concerned with social justice issues. In 2006, Timberland unveiled a "nutritional label" on its footwear boxes as a means of communicating its CSR commitment to consumers.

"society's best interests," the question arises: Which society? That of the home-country market? Other developed countries? Developing countries? For example, in the late 1990s, in an effort to address the issue of child labor, the U.S. government threatened trade sanctions against the garment industry in Bangladesh. After thousands of child workers lost their jobs, their plight worsened. Whose interests were served by this turn of events? In addition, as noted in Chapter 1, companies that do business around the globe may be in different stages of evolution. Thus, a multinational firm may rely on individual country managers to address CSR issues on an ad hoc basis, while a global or transnational may create a policy at headquarters.

Consider the following:

- Nike came under fire from critics who alleged poor working conditions in the factories that make the company's athletic shoes.

"Companies should be addressing some of the problems facing the world, not in a philanthropic way but in a core, strategic way. But we seem to be among the least-trusted institutions, so there's a dilemma."[41]

John Manzoni, Head of Refining and Marketing, BP

"Coke has become a whipping boy for globalization, just as Nike and McDonald's have been for years."[42]

Tom Pirko, President, BevMark

- In 2005, Wal-Mart became the target of criticism for a variety of reasons. Well-publicized lawsuits put the company's compensation policies in the public spotlight. A documentary film titled *The High Cost of Low Prices* examined the social repercussions of the retailer's presence in American communities. Two separate Web sites—WakeUpWalMart.com and WalMartWatch.com—were established by organizations representing U.S. labor unions.
- As retail gasoline prices soared in the United States following the devastation of Hurricane Katrina, BP, Royal Dutch Shell, and other companies were accused of gouging. The American Petroleum Institute, the industry's trade group, launched a national TV advertising campaign aimed at explaining its business and urging conservation.[40]
- CEO pay in the United States is rising faster than average salaries and much faster than inflation. One study found that in 2004, CEOs were paid 431 times more than the average worker.

In an article in *Business Ethics Quarterly*, Arthaud-Day proposed a three-dimensional framework for analyzing the social behavior of international,

As management guru Jim Collins notes in his book Built to Last, *Johnson & Johnson's credo is a "codified ideology" that guides managerial action. J&J operationalizes the credo in various ways, including its organizational structure and its planning and strategic decision processes. The credo also serves as a crisis management guide. For example, during the Tylenol crisis of the early 1980s, J&J's adherence to the credo enabled the company to mount a swift, decisive, and transparent response.*

Our Credo

We believe our first responsibility is to the doctors, nurses and patients,
to mothers and fathers and all others who use our products and services.
In meeting their needs everything we do must be of high quality.
We must constantly strive to reduce our costs
in order to maintain reasonable prices.
Customers' orders must be serviced promptly and accurately.
Our suppliers and distributors must have an opportunity
to make a fair profit.

We are responsible to our employees,
the men and women who work with us throughout the world.
Everyone must be considered as an individual.
We must respect their dignity and recognize their merit.
They must have a sense of security in their jobs.
Compensation must be fair and adequate,
and working conditions clean, orderly and safe.
We must be mindful of ways to help our employees fulfill
their family responsibilities.
Employees must feel free to make suggestions and complaints.
There must be equal opportunity for employment, development
and advancement for those qualified.
We must provide competent management,
and their actions must be just and ethical.

We are responsible to the communities in which we live and work
and to the world community as well.
We must be good citizens – support good works and charities
and bear our fair share of taxes.
We must encourage civic improvements and better health and education.
We must maintain in good order
the property we are privileged to use,
protecting the environment and natural resources.

Our final responsibility is to our stockholders.
Business must make a sound profit.
We must experiment with new ideas.
Research must be carried on, innovative programs developed
and mistakes paid for.
New equipment must be purchased, new facilities provided
and new products launched.
Reserves must be created to provide for adverse times.
When we operate according to these principles,
the stockholders should realize a fair return.

Johnson & Johnson

40 Jean Halliday, "Slick: Big Oil Tries Image Makeover," *Advertising Age* (November 7, 2005), pp. 1, 56.

41 Alison Maitland, "Four Questions for Tomorrow's Leviathans," *Financial Times* (July 25, 2006), p. 7.

42 Andrew Ward, "Coke Struggles to Defend Positive Reputation," *Financial Times* (January 6, 2006), p. 15.

Company/Headquarters Country	Nature of CSR Initiative
IKEA/Sweden	IKEA's primary carpet supplier in India monitors subcontractors to ensure they do not employ children. IKEA also helps lower-caste Indian women reduce their indebtedness to moneylenders. In an effort to create a more child-friendly environment in Indian villages, IKEA sponsors "bridge schools" to increase literacy so young people—including girls and untouchables—can enroll in regular schools.*
Avon/United States	The company's Breast Cancer Awareness Crusade raised more than $250 million for cancer research. The money funds research in 50 countries.

*Edward Luce, "Ikea's Grown-Up Plan to Tackle Child Labor," *Financial Times* (September 15, 2004), p. 7.

Table 16-5

Global Marketing and Corporate Social Responsibility

"Every day, we strive to understand how we can best serve our community. Through our unique and diverse staff we offer excellent service and quality products while maintaining our commitment to the environment."

Patagonia Retail Mission Statement

"Our definition of quality includes a mandate for building products and working with processes that cause the least harm to the environment. We evaluate raw materials, invest in innovative technologies, rigorously police our waste and use a portion of our profits to support groups working to make a real difference. We acknowledge that the wild world we love best is disappearing. That is why those of us who work here share a strong commitment to protecting undomesticated lands and waters. We believe in using business to inspire solutions to the environmental crisis."

Patagonia Environmental Action Statement

multinational, global, and transnational firms.[43] The second dimension of the model includes CSR's three "content domains": human rights, labor, and the environment. These are the universal concerns for global companies established by the United Nations Global Compact. The third dimension in Arthaud-Day's framework consists of three perspectives. The *ideological dimension* of CSR pertains to the things a firm's management believes it should be doing. The *societal dimension* consists of the expectations held by the firm's external stakeholders. The *operational dimension* includes the actions and activities actually taken by the firm. As illustrated in Figure 16-5, the interaction between the dimensions can result in several conflict scenarios. Conflict may arise if there is an incongruity between those things a company's leadership believes it should be doing and the expectations of stakeholders. Conflict can also arise when there is an incongruity between those things a company's leadership believes it should be doing and the things it actually is doing. A third scenario is conflict that arises from an incongruity between society's expectations and actual corporate practices and activities.

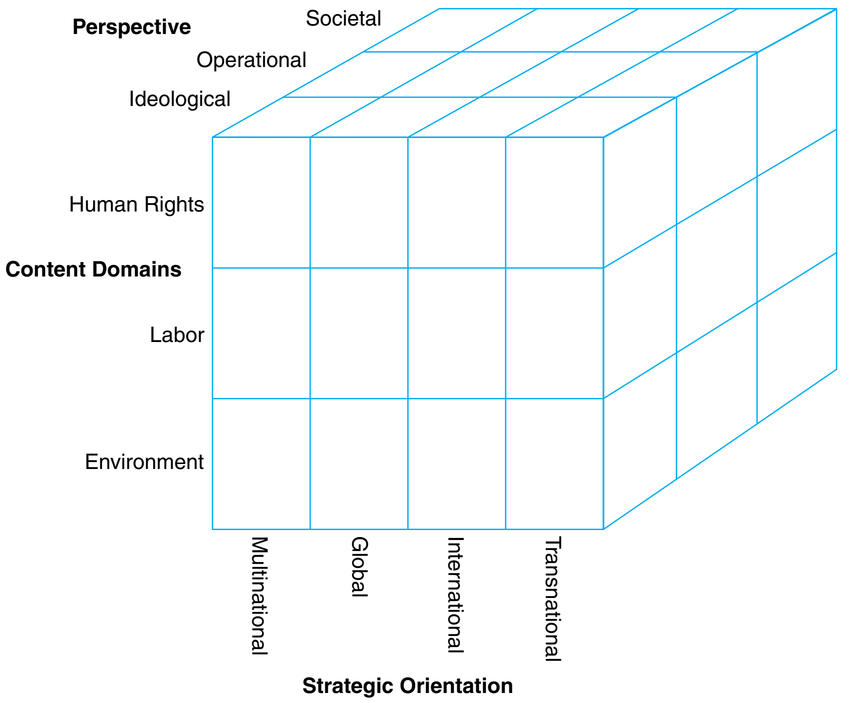
In India's carpet belt, IKEA operationalizes the concept of corporate global responsibility by sponsoring bridge schools. The school programs are intended to reduce child labor in India's carpet industry by preparing village children to enroll in mainstream schools. To date, the bridge school program has helped an estimated 21,000 children learn to read and write.

[43] Marne Arthaud-Day, "Transnational Corporate Social Responsibility: A Tri-Dimensional Approach to International CSR Research," *Business Ethics Quarterly* 15, no. 1 (January 2005), pp. 1–22.

Figure 16-5

Sources of Conflict in Global CSR

Source: Business Ethics Quarterly 15 (No 1), 2005. Used with permission of Business Ethics Quarterly.



summary

To respond to the opportunities and threats in the global marketing environment, organizational **leaders** must develop a global vision and strategy. Leaders must also be able to communicate that vision throughout the organization and build global competencies. Global companies are increasingly realizing that the "right" person for top jobs is not necessarily a home-country national.

In **organizing** for the global marketing effort, the goal is to create a structure that enables the company to respond to significant differences in international market environments and to extend valuable corporate knowledge. Alternatives include an **international division structure**, **regional management centers**, **geographical structure**, **regional** or **worldwide product division structure**, and the **matrix** design. Whichever form of organization is chosen, balance between autonomy and integration must be established. Many companies are adopting the organizational principle of **lean production** that was pioneered by Japanese automakers.

Many global companies are paying attention to the issue of **corporate social responsibility (CSR)**. Consumers throughout the world expect that the brands and products they buy and use are marketed by companies that conduct business in an ethical, socially responsible way. Societally conscious companies should include human rights, labor, and environmental issues in their agendas. Ideological, societal, and organizational perspectives can all be brought to bear on CSR.

discussion questions

1. Are top executives of global companies likely to be home-country nationals?

2. In a company involved in global marketing, which activities should be centralized at headquarters and which should be delegated to national or regional subsidiaries?

3. Identify some of the factors that lead to the establishment of an international division as an organization increases its global business activities.

4. "A matrix structure integrates four competencies on a worldwide scale." Explain.

5. In the automobile industry, how does "lean production" differ from the traditional assembly line approach?

6. Identify some of the ways the global companies discussed in this text demonstrate their commitment to CSR.

7. Identify and explain the three dimensions that provide different perspectives on CSR.

integrate your global marketing skills

1. Several of the companies, topics, and issues discussed in this book can be assessed in terms of CSR. Examples include:

- Fair Trade Coffee (Case 4-1)[44]
- Worker exploitation (Case 8-1)
- Pricing AIDs drugs in developing countries (Chapter 11)[45]
- The Future of RFID (Case 12-2)[46]
- Porno-chic advertising in Europe (Chapter 13)
- IKEA (Chapter 15)

2. European Aeronautic Defence and Space Company (EADS), which is profiled in Case 16-1, is one of a handful of global companies with a dual management structure. As noted in the case, EADS has been forced to reevaluate the effectiveness of that structure. The same thing is happening at other companies. For example, until recently, Unilever had a tradition of two co-chairmen, one in Great Britain and one in the Netherlands. In 2005, Unilever named a single chief executive; the company still maintains separate headquarters in the two countries. Also in 2005, Royal Dutch/Shell Group abolished its dual management structure. Conduct some exploratory research to learn more about the management changes at Unilever and Shell. Should similar changes be made at EADS?

Assess each of these companies or topics in terms of corporate social responsibility.

[44] Marion Kane, "It's Time to Wake Up to Fair Trade Coffee," *Toronto Star* (December 3, 2005).
[45] For an excellent discussion, see N. Craig Smith, "Corporate Social Responsibility: 'Whether' or 'How'?" *California Management Review* 45, no. 4 (Summer 2003), pp. 52–77.
[46] Andrew Bibby, "Invasion of the Privacy Snatchers," *Financial Times* (January 9, 2006), p. 7.

Case 16-1

Boeing Versus Airbus: A Battle for the Skies

What a difference a year makes! At the end of 2005, Airbus, the European aircraft manufacturer, reported that it had booked 1,055 orders for new airplanes in the preceding 12 months. By contrast, archrival Boeing Company had recorded only 1,002 orders. Moreover, for the third year in a row, Airbus delivered more airplanes to customers than Boeing. Airbus had also stolen a step in the PR arena in April with the maiden flight of its new double-decker super-jumbo jet, the 555-passenger A-380. The new jet, which was scheduled to go into service in 2006, had taken 10 years to develop at a cost of $12 billion.

The strategic decision to develop the A-380 was based on projections of large increases in air passenger traffic but a limited amount of new airport construction. The conclusion: Airlines—the industry's main customers—would need a new super jumbo to carry more passengers while reducing the number of flights between key city hubs. Airbus executives believed the A-380 would revolutionize air travel in the twenty-first century.

By mid-2006, however, production of the A-380 was running six months behind schedule and $2.5 billion over budget. Then came an announcement of an additional six months' delay due to unanticipated difficulties in wiring the giant airliner. Airbus was facing trouble on another front as well: a second new plane in the design phase, the A-350, was being criticized by Singapore Airlines and other potential customers for offering less comfort, less speed, and less operating efficiency than a rival Boeing plane, the 787 Dreamliner. As originally designed, the A-350 was essentially an upgrade of an existing model, the A-330, outfitted with new engines.

Executives at Boeing, the world's largest manufacturer of commercial aircraft, might have been forgiven if they took time to savor the reversal of fortune at Airbus. However, they were busy booking orders for the new Dreamliner. Boeing has a stellar track record with "bet the company"-type product decisions. In the 1950s, when the company was best known for military aircraft such as the B-52 bomber, Boeing single-handedly created the commercial market for jet aircraft with the introduction of the 707. In the mid-1960s, Boeing gambled that the world's airlines would be enthusiastic about a new wide-body aircraft. The gamble paid off handsomely: Since its first passenger flight in 1970, the Boeing 747 jumbo jet has generated more than $130 billion in sales. In 2001, Boeing made headlines again when it announced plans for a revolutionary new delta-wing aircraft called the Sonic Cruiser. The new jet would carry between 100 and 300 passengers and fly just below the speed of sound (Mach 1) with a range of up to 10,000 miles.

"We spent a great deal of time on product strategy and trying to come up with airplanes that were pleasant for customers and profitable for the airlines."

Larry Dickenson, Senior Vice President, Boeing

By 2002, Boeing was backpedaling on the Sonic Cruiser plan. The airline industry was retrenching in the wake of the September 11 terror attacks; United Airlines, a key Boeing customer, was in bankruptcy. Moreover, airline passengers appeared to be more concerned with ticket prices than with travel time. Accordingly, Boeing began assessing customer reaction to an alternative design for a more conventional aircraft. As one airline executive said in mid-2002, "The folks over at Boeing are sort of pulling their hair out right now trying to figure out which is the right avenue to take." In the past, Boeing had canceled new-product development programs such as a proposed fuel-efficient model 7J7. Alan Mulally, Boeing's top executive at its commercial airplane division, defended that record, saying that Boeing is a nimble, customer-driven company. "What a neat thing it is to look at your customers and the market and make your investments accordingly. The fact that Boeing is listening and flexible is a great thing," he said.

By the fall of 2003, the suspense was over: As some industry observers had predicted, Boeing announced it was scrapping plans for the Sonic Cruiser. Instead the company would develop a new 200-seat model, the 7E7 Dreamliner, that would offer passengers improved comfort in the air. The new aircraft features arched ceilings and "mood-enhancing lighting"; larger windows than those on the 777; and seats in economy class will be arranged 3-2-3 across rather than 2-4-2. This configuration will make it less likely that passengers will be stuck in a "bad" seat. Boeing's new baby would also represent a powerful value proposition for the airlines: The "E" stands for "efficiency." With new engines and a body comprised of carbon-enhanced plastic, the new aircraft will cost airlines 20 percent less to operate than existing aircraft.

In mid-2004, All Nippon Airlines ordered 50 7E7s valued at $6 billion; the order represented the largest product launch in Boeing's history. In January 2005, with the announcement that China had placed an order for 60 planes, Boeing officials gave the new plane the official model designation 787. The designation brought the new plane into line with Boeing's tradition of using a succession of 7–7 numberings such as 747, 767, and 777. Moreover, as Mulally noted in a press release, "Incorporating the '8' at the time of the China order is also significant because in many Asian cultures the number 8 represents good luck and prosperity." In April, Air Canada announced it would replace its entire fleet of Airbus models with the Dreamliner; in the following months, more orders poured in.

The first 787s are scheduled to go into service in 2008. Boeing's production strategy for the 787 includes dispersing design work to Russia, China, and Japan. Thanks to the Internet, engineers in these nations can collaborate in real time. Moreover, by tapping talent resources in key countries, Boeing hopes to increase the likelihood of booking orders from airlines and governments in those nations. Composite materials will not only lower the 787's operating costs, but it will also enable Boeing to reconfigure its supply chain. For

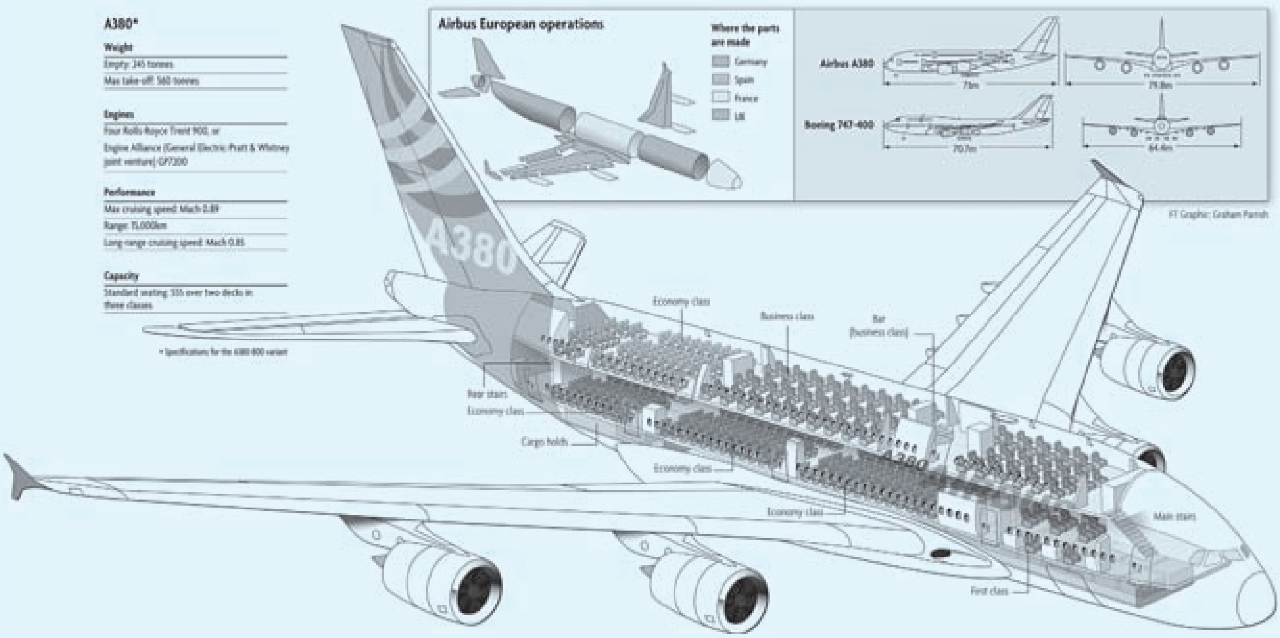
Table 16-1 *787 Suppliers*

Supplier	Percent of Project
Boeing	35
Mitsubishi Heavy Industries/Fuji Heavy Industries/Kawasaki Heavy Industries	35
Vought Aircraft Industries (Dallas, Texas)/Alenia Aeronautica (Rome)	26
Others	4

example, the wings and most of the fuselage will be manufactured in Japan and transported to Seattle in specially modified 747–400 freightliners. Previously, parts from Japan had been transported by water, rail, and, finally, truck, a journey that could take one month. Boeing expects that, by cutting transport time to one day, it can save 40 percent in shipping and inventory expenses. Companies that wish to bid on parts of the 787 will not communicate directly with Boeing headquarters. Instead, they have to deal with Boeing's new 787 Council, a group made up of top executives from several outside suppliers.

Boeing's strategy for the 787 has created some controversy. In the two years leading up to the 787 announcement, Boeing had already cut 35,000 jobs in the United States. The company had previously outsourced some aircraft production to other countries; for example, Japanese companies supply about one-fifth of the 777. One reason for outsourcing was that airlines would be more likely to buy an aircraft that had some local content. However, that strategy had not always paid off. For example, Boeing has a design center in Russia that employs more than 700 engineers. In 2002, however, Russia's largest airline, AeroFlot, ordered twice as many aircraft from Airbus than it did from Boeing. Similarly, Boeing helped establish a small plant in South Africa to perform work that had previously been done in Seattle. In 2002, South African Airways ordered 41 jets from Airbus.

In the eyes of some critics, there is more at stake than just orders for new airplanes: The 787 project marks the first time that Being is sharing its proprietary technology for wing design and manufacture. Jennifer MacKay is president of the Society of Professional Engineering Employees in Aerospace, a union that represents Boeing engineers and other technical workers. She is deeply concerned about the long-term consequences of sharing technology with other countries. "In the end, if we teach everybody how to make the major parts, why is Boeing even needed?" she asks. Mike Blair, senior vice president of the 787, has an answer. "Figuring out what the wings look like, figuring out how to put them on the airplane, understanding whether that's something our customers will buy, understanding how to integrate that stuff, that's the magic Boeing brings to this process," he said.



Production Delays and Management Restructuring at Airbus

Meanwhile, at Airbus, the management team that had previously dismissed Boeing's claims about the 787's efficiency and downplayed customer concerns was in turmoil. In part, the problems could be traced to the complicated corporate structure of European Aeronautic Defence and Space Company (EADS), the corporate parent of Airbus. Germany's DaimlerChrysler owns 22.5 percent, Sogeade (a corporate entity owned by the French government and the Lagardère Group), holds a 30 percent stake, and Spain owns 5.4 percent through a holding company known as Sepi. (The remaining shares are listed on major European stock exchanges.) EADS, in turn, owns an 80 percent share in Airbus; BAE Systems, a British company, controls the remaining 20 percent.

Tensions were growing because of attempts by DaimlerChrysler to maintain control over the chief executive of Airbus, Noël Forgeard, who happened to be French. Observers also noted that the crisis stemmed partly from political infighting and power struggles between the French executives at EADS and their compatriots at the Airbus unit. The interpersonal dynamics had been stabilized by Jean-Luc Lagardère, the chief executive of the French company that was a key shareholder in EADS. After Lagardère died suddenly in 2003, however, the rivalries got out of hand.

The crisis was also rooted in the autonomy granted to the manufacturing locations, particularly those in France and Germany; lack of integration between those locations resulted in delays. Moreover, in an attempt to raise his profile with the EADS board, Forgeard had driven his team to deliver on-time results in the face of tight development windows. Unfortunately, this resulted in a "green-light" corporate culture that downplayed potential problems or delays. For example, the German team I Hamburg was using different computer design software than the French team in Toulouse; this led to delays in installing the complex cable system in the cabin of the A-380. In the opinion of some observers, the lack of investment in new software was the result of top management's desire to boost profits. In interviews, Forgeard asserted that he had not been alerted to the seriousness of the mounting problems. Meanwhile, Forgeard used his political connections to win a promotion to the position of co-chief executive of EADS. In June 2005, Gustav Humbert was named to replace Forgeard as Airbus CEO.

In addition to headaches with the A380 program, the Airbus management team was facing another issue: customer complaints about the new A-350. A crisis management team was assembled and given a mandate to redesign the A-350. The jet's top speed was increased slightly to .85 mach to match the 787, and the cabin was widened to allow seating nine passengers in each row instead of eight as originally planned. The redesign means that the new model will not be introduced until 2012.

In July 2006, after barely a year on the job, Humbert resigned as CEO of Airbus. Almost simultaneously, Noël Forgeard resigned as well. Christian Streiff, a Frenchman, was named as Humbert's replacement. One of Streiff's first acts was to fire Charles Champion, the head of the A380 program. He also launched a restructuring program dubbed Power8. However, Streiff himself resigned after only 100 days on the job. Louis Gallois was named chief executive of Airbus and co-CEO of EADS; a German, Thomas Enders, will share the top job at EADS.

As he settled into the job, Gallois faced a number of challenges and questions stemming from the crisis at Airbus. Would the French and German investors and management be able to set aside their differences? Should he close some of Airbus' 16 assembly plants—spread across the United Kingdom, Spain, France and Germany—and transfer production out of Europe? Would key customers such as Virgin Atlantic Airways cancel orders for the A380? Would the euro's strength relative to the dollar translate into a significant cost advantage for Boeing?

Discussion Questions

1. What key mistakes did Airbus make with its A-350 and A-380 product programs?
2. What are some of the factors contributing to the success of Boeing's 787 Dreamliner?
3. Assess Boeing's plans to subcontract out significant portions of the Dreamliner's manufacture.

Sources: J. Lynn Lunsford and Daniel Michaels, "New Course: Under Pressure, Airbus Redesigns a Troubled Plane" *The Wall Street Journal* (July 14, 2006), pp. A1, A7; Lunsford and Michaels "Rapid Descent: Bet on Huge Plane Trips up Airbus," *The Wall Street Journal* (June 15, 2006), pp. A1, A11; Roger Yu, "Airbus Sneaks Past Boeing in 11th Hour," *USA Today* (January 18, 2006), p. 6B; Lunsford, "Boeing's New Baby," *The Wall Street Journal* (November 18, 2003), pp. B1, B8; Caroline Daniel, "Airbus Takes on Boeing with More Than Banter," *Financial Times* (November 14, 2003), p. 23; Byron Acohido, "Boeing Rips a Page out of Airbus' Book," *USA Today* (October 22, 2003), p. 3B; Lunsford, "Boeing Explores Plan 'B'," *The Wall Street Journal* (June 11, 2002), p. D5; Lunsford, "Lean Times: With Airbus on Its Tail, Boeing Is Rethinking How It Builds Planes," *The Wall Street Journal* (September 5, 2001), pp. A1, A16; Lunsford, "Navigating Change: Boeing, Losing Ground to Airbus, Faces Key Choice," *The Wall Street Journal* Alan Levin, "Boeing's Sonic Cruiser: Gambling on Speed," *USA Today* (June 18, 2001), pp. 1A, 2A; Laurence Zuckerman, "Boeing Plays an Aerial Wild Card," *The New York Times* (June 17, 2001), sec. 3, pp. 1, 11; Daniel Michaels, "New Approach: Airbus Revamp Brings Sense to Consortium, Fuels Boeing Rivalry," *The Wall Street Journal* (April 3, 2001), pp. A1, A8; Jeff Cole, "Wing Commander: At Boeing, an Old Hand Provides New Tricks in Battle with Airbus," *The Wall Street Journal* (January 10, 2001), pp. A1, A12.

Appendix

Johnson & Johnson Credos: Brazil, Russia, India, and China