# CHEMICALS - *GRAPPLING WITH GLOBALISATION*

Globalisation has been at or near the top of the agenda for most large chemical companies for over a decade. This applies across the spectrum of companies, from bulk/commodity to speciality chemicals producers. That it remains there is testimony to its relevance to the sector and also to the high level of complexity involved.

### Global Lip-service

When buzz words become over-worked, their definitions become blurred, and they are then misused and misunderstood. Business writers exacerbate this by inventing competing definitions - what one calls a 'global' company, another insists is a 'transnational', yet another dreams up 'glocal' - and so on.

Many of the problems encountered in globalising businesses stem from the fact that, whilst top management resolutely state their commitment to become global, they fail to adequately explain to the rest of the organisation precisely what this means - indeed with hindsight they often find they were never in complete agreement themselves as to what it meant.

The result is that managers throughout the company do not buy into the strategies emanating from the centre, and either fail to understand the changes they need to make or resist making them because they perceive a threat to their own positions.

"Think global, act local" is a maxim widely adopted. Unfortunately, divisional, business unit and subsidiary managers often do exactly that: occasionally think about the wider corporate scenario, but then revert back to their own relatively parochial perspective, 'acting locally' with scant regard to the rest of the organisation. One of our clients coined a very apt phrase - "Global lip-service"

### The Essence of 'Going Global'

Implicit in most definitions is that 'being global' is primarily about possessing a particular arrangement of international assets and/or having some minimum level of participation in markets worldwide. Whilst we cannot disagree with the latter - a company with interests in just one continent hardly deserves a 'global' tag - we believe the essence of globalisation is more subtle than this.

Some executives still interpret 'global' as simply meaning 'operating in all major markets worldwide'. Globalisation for many companies does necessitate this; but surely a large conglomerate, with disparate and unconnected operations in all corners of the globe, is not really what we mean by 'global'?

Conversely, imagine a major company, with a broad view of its industry worldwide, making a strategic decision to exit one of the major geographic markets - perhaps a mature market with excessive competitive intensity: does it suddenly cease to be 'global'?

We have concluded that being global is really about basing strategy formulation on a holistic/integrated view of the company's business and markets worldwide, and choosing strategies which maximise the competitive advantage which the company achieves as a result of its size. *The essence of globalisation is in the way the company approaches international business rather than any particular configuration of international assets*.

### What Drives Globalisation?

Let's step back and consider *why* companies wish to become global. The starting point is often that the Chief Executive or a group of senior executives recognise becoming a leading worldwide player in their particular business is either an imperative for long term survival, or offers significant competitive or strategic opportunities.

The former is usually driven by scale economies. Only by participating in many geographic markets can the company win sufficient volume to achieve the economies necessary to compete head-on with key rivals. In some cases - e.g. bulk chemicals and petrochemicals - being cost-competitive means operating 'world scale' plant, and of course doing so at a high level of utilisation.

However achieving scale economies in other areas may be vital, e.g. maximising leverage over a critical raw material, or, in higher value-added products, in R&D and marketing.

The latter is driven by the need to take a strategic (which really means 'long term') approach to exploiting worldwide market opportunities. For example, the long-term returns of staking an early claim to an emerging market - perhaps India or China, maybe even a Vietnam - may easily outweigh the short-term benefits of temporarily gaining a few market share points in Germany or US. Or it may be critical to focus resources on a particular international market niche in order to achieve a position of world technical leadership - and this takes precedence over exploiting the array of localised opportunities which nevertheless appear very attractive.

But even speciality chemicals companies cannot today ignore economies of scale - local/regional market demand for product variations and consequent large product ranges may not suit single-plant, world scale manufacturing, but rapidly growing appreciation of supply chain economics is driving many to adopt at least a regionally integrated approach to manufacturing, optimising the number and scale of production units.

And at the commodity extreme, whilst achieving world scale keeps the company 'in the game', developing a sustainable position in a few, carefully-selected, high value-added segments in parallel provides access to better margins. Apart from exploiting technical competencies more fully, this may be crucial in a recession when world over-capacity can depress prices in the core business.

## Three Key Problems

To recap: *the essence of a truly global company is in the way it approaches international business; it will formulate strategy based on an integrated/holistic view of its markets and business worldwide, making decisions which maximise the competitive advantage of the company as a whole; and will be structured in a way which supports implementation of the chosen strategy.* Unfortunately, achieving this is far from easy; there are 3 basic problem areas.

### 1. Developing Global Strategy and Structure

Developing a sound, practical global strategy and supporting structures is extremely complex.

It might appear simple in commodity products - one massive plant, a limited product range, a common sales and marketing approach. The danger is this can be production-dominated, with the domestic issue of 'feeding the machine' taking priority over all else, and with worldwide customers viewed simply as 'export markets'. All the company's eggs are in one basket, and it is exposed to a multitude of economic, political, technical and competitive risks. We would argue that such a company is far from being global because it is highly unresponsive to worldwide opportunities and threats.

At the other extreme, many speciality chemicals companies grow entrepreneurially, by responding to local market opportunities worldwide. Although 'market led', if the company is really no more than a string of loosely-related country businesses, we would argue again that it is not 'global', because it achieves little competitive benefit from its overall size. Recent times have seen some huge reshufflings by firms trying to rectify this.

Simply, maximising economies of scale by being as big as possible on the world stage does not make a company global; equally, responding to a myriad of worldwide market opportunities in a semi-random fashion also does not make a company global.

*Maximising the competitive advantage of the company worldwide means striking a delicate balance between achieving economies of scale and systematically exploiting market opportunities.*

### 2. *Who* Formulates Strategy?

Objectivity is a prerequisite in formulating strategy.

In many major organisations, strategy was the preserve of a strategic planning function - the classic corporate 'centre'. Such centres have been drastically reduced in recent years - they were under constant attack for being ivory towers, too distant 'from the coal face', developing grandiose plans with little real understanding of the realities of the business, and for contributing little in return for a perceived massive overhead.

This was often quite true. Partly due to the belief promoted by major strategy consultancies that solving business problems simply demands people with exceptionally high IQ's, corporate centres had built up plenty of mental horsepower, but rarely balanced this with commercial understanding and empathy with the rest of the employees. However it would be equally fair to say that many good strategies ran aground because powerful business units heads did not or did not choose to fully understand them.

Today, the pendulum has swung the other way. The centre has been emasculated, and strategy typically falls to some form of executive working group, drawn from the main operational areas. These individuals may have the experience and breadth of vision to take a global perspective (although they may struggle with *why* the company wishes to be global and its full implications), but their operational hats can preclude them from being totally objective. The outcome can be stalemate, or worse, unproductive internal competition - for example, we have seen such groups agree:

- manufacturing of a range should be rationalised from 3 sites to 1; but they could not agree which plants to close. A year later, the 3 subsidiaries had each invested heavily in their plants in order to strengthen their individual case to be the sole producer.
- a strategy to move into higher added-value products; but group members were individually responsible for high-volume focused plants, and, outside of the strategy group, continued to put geographic sales operations under pressure to deliver volume sales - and not to seek low volume/added value business.
- a global strategy demanding sharper focus of corporate R&D; but this caused conflict as divisions attempted to influence its work to ensure products developed would meet their own interests. It was then decided to divide the R&D function between the units; but, within weeks, all projects with long projected pay backs had been mothballed.

*Problems seem inevitable if global strategy is formulated either by executives with geographic or business unit responsibilities, or by a corporate 'centre'. We conclude both the centre and operations should be involved; and that careful balancing, management and facilitation of the group is necessary to ensure it is productive.*

### 3. Implementing Global Strategy

Globalisation may be a top-level strategy, but it is implemented by people company-wide.

Pursuing a global strategy will mean that some individual managers will be precluded from courses of action which, in isolation, would appear to be in the best interests of the company. Even more awkward, there will be times when a course of action in line with global strategy will conflict with the parameters on which local managers are measured and rewarded.

Making global strategy work is a huge, often greatly underestimated task. It is vital to ensure everyone understands what is required of them, and to back this up with modified measurement systems reflecting changed priorities. Of course, processes and structures must also be consistent with the overall direction, and may require considerable modification.

*The key to successful globalisation is internal communication - not just an intensive one-shot exercise, but an ongoing programme of education and reinforcement.*

## Conclusions

Top management must be certain and in unison as to what it means by globalisation. This must be communicated downline with clarity, and reinforced by consistency of actions. The development of global strategy and structures should be by a carefully chosen group, representing both the 'centre' and key operations; and managing, facilitating and generally keeping this group on track is a key task in its own right. The complexities of implementation must be recognised, and appropriate structures put in place to assist and support (and, in some cases, police) the changes necessary; and, most important of all, a comprehensive internal communication programme should be developed.

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