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SPECIALITY CHEMICALS - BALANCING THE ROLE OF THE CENTRE

'The Centre' in a conglomerate dictates financial targets to divisions and subsidiaries and gives unit managers much autonomy in how they meet these. In large single-product companies, the Centre prescribes and controls most activities of its operating units - each of which is effectively a clone of the others. For speciality chemicals companies, neither extreme is appropriate: but defining a balanced role for the Centre is not easy - and even when the role is clearly defined, there can be resistance from around the organisation which inhibits it from carrying out its function effectively.

Many speciality chemicals companies fail to resolve this, and so:

- waste significant sums, either on an overweight, bureaucratic centre or on duplication on a worldwide scale
- do not exploit the competitive advantages which should accrue from their size and market presence
- experience incessant skirmishes between the Centre and operations, which can intensify to a point where they assume more importance than meeting external competitive threats.

VITAL CO-ORDINATION OR UNNECESSARY OVERHEAD?

The broad issue of the role of the Centre - the debate between central control and operational autonomy - is never far from the surface in speciality chemicals companies. Is there a vital co-ordinating role for the Centre to play, or does every additional activity just add bureaucracy and unnecessary overhead?

Two factors contribute to the polarisation of views. Firstly, there are good arguments supporting both extremes; secondly, most staff support one or other extreme depending on where they sit in the organisation - those at the Centre tend to view the value of the Centre's work very differently to those in operating companies!

The case for local autonomy typically goes:

Local market conditions are so disparate that increased uniformity would greatly reduce Op Cos' ability to compete: *"...global co-ordination and consistency is great in theory, but it won't work here. The XYZ business is different!"*

"We should prune back the Centre to the bare minimum and give the resources to the people who really understand the business and bring in the profits - the Operating Companies".

- Chemical companies following a differentiated strategy sell on product quality, the appropriateness of products to *individual* customers' situations, and on-site technical support; they may even offer packages including sub-contracting the product's application. To pursue this strategy, it is essential that Op Cos have total freedom to develop customised products or 'tailored solutions'.

  The alternative strategy is to sell mature, often commoditised products at cheapest prices - but even the most cost-efficient multinationals can struggle to compete with local producers.

- Methods and techniques in many customer industries vary from country to country - so to meet customers' differing requirements, Op Cos often have no option but to customise products to meet local requirements.

- Op Cos respond entrepreneurially to market opportunities, so over time develop quite different business profiles to their sister Op Cos - they often can be in completely different businesses to each other. Subsidiaries of speciality chemical companies can rarely be accused of being clones!

- Manufacturing is often neither particularly complex nor demands major capital investment, so local production is common. This also drives development of unique products and, coupled with usage of local raw materials, further adds to the differences between the profiles of sibling Op Cos.

The case for central co-ordination goes:

"If Op Cos are allowed to do as they please, the company is no more than a string of unrelated, small businesses - with no competitive advantage gained from being a major supplier to the industry."

- If there are genuinely global customers, they will receive mixed messages: *"..we risk not being seen as a serious global business partner, and at the extreme, of alienating key customers through poor co-ordination - eg if prices for similar products in adjacent territories vary widely."*

- Customers look to chemicals suppliers for a technical lead; one reason local markets are different is that Op Cos have developed them differently. *"As a major international supplier, we should gradually draw disparate markets closer, so we can use our knowledge of global best practice to differentiate ourselves from small, local competitors."*

- *"There are many potential economies of scale - eg in manufacturing, raw materials and packaging sourcing, in marketing and in new product development - but we can only achieve these with strong central co-ordination."*

- The company can appear fragmented - and arguably, poorly managed - to investors and potential alliance partners.

ACCEPTING & ACCOMMODATING COMPLEXITY

Of course, there is truth in both the above arguments, and so the role of the Centre must be some form of compromise. Unlike conglomerates or single-product multinationals, chemical companies are complex, and defining the role of the Centre is more than just deciding between central control or local autonomy.

A key reason many companies struggle with the Centre's role is that they apply overly simplistic 'solutions' to a very complex issue.

An approach repeatedly found to be totally inadequate is that of simply allocating functional responsibilities between the Centre and Op Cos - eg R&D controlled by the Centre, Manufacturing (and Logistics) by Regional Directorates and Marketing by individual companies.

Firstly, making such a division must extend right down to *tasks within functions* - eg not just whether R & D will be centrally directed, but *which aspects* of *which types* of development will be co-ordinated locally, regionally or centrally. Defining this split is definitely not a back-of-envelope exercise!

Secondly, a speciality chemicals company may supply multiple product-markets with widely-varying structures - from the genuinely global (products for marine, aerospace or automotive applications) to the parochial (eg pest control, some textiles applications). The Centre's 'ideal' role will vary depending on the product-market in question - so there may have to be several *different* divisions of responsibility in the same company.

Apart from being extremely analytically challenging, we believe that defining the role of the Centre is a classic example of an exercise where a facilitated team approach has great benefits in terms of developing consensus and gaining commitment - indeed the solution cooked up behind locked doors by a couple of strategists seems almost certain to fail.

ELIMINATING DIVISIVE STRUCTURES

More mature companies usually understand this complexity, and defining the appropriate role is within their capabilities; yet they still often struggle with implementation - with getting a perfectly logical division of responsibility accepted throughout the company and operating effectively.

The second major problem is that the traditional structural relationship of the 'Centre' with operations is inherently divisive.

The result: whilst it may be widely agreed that different decisions *should* be made at different levels of geographic agglomeration, part of the organisation will be aggrieved *whatever* division of responsibilities is adopted.

Simply, with a traditional corporate 'Centre', whatever control is given to the Centre is a 'win' for that department, a 'loss' for Op Cos - and vice versa.

The symptoms are passive non co-operation or even active conflict between the Centre and Operations, accompanied by cyclical swings of dominance. On-going petty squabbles over minor issues plus the constant threat of power shifts make staff uneasy and ferment internal politics; and the issue can easily become a corporate preoccupation.

Clearly some decisions *should* be globally consistent, so must be taken 'centrally'. But for 'centrally', we advise companies read 'with a global perspective' - which does *not* mean by a staff department at corporate HQ, perceived as remote from the coal-face, with no direct responsibility or authority, relying on lobbying and political pressure to get anything done.

In our work with chemicals companies in improving decision-making processes and integrating worldwide operations, we have learned that many of the conflicts surrounding the role of the Centre are not really about the defined role of the Centre - what the Centre *does* - but are actually problems with structure and linkages with Operations - *who* 'the Centre' is and *how* it works with the rest of the organisation.

We believe the solution, in very general terms, lies in the development of integrated teams, involving and representing Operations but still using the overview and skills of the corporate Centre. Setting up such a structure can be quite complex, is likely to be fraught with many minor problems, and may appear costly - but ultimately no other form of arrangement seems sustainable.

CONCLUSION

There must be a degree of global co-ordination in chemicals companies, and the corporate Centre has a vital role in this. However there are two discrete and complex issues to be resolved if this co-ordination is to permit the company to realise the potential competitive advantages which result from its size: these are:

i) adequately defining *what* should be co-ordinated at each level of geographic agglomeration

ii) forming an appropriate 'central' body to take responsibility for those tasks which should be co-ordinated globally - which means a body with both the analytical skills and global perspective of the traditional 'Centre', and also the authority and company-wide respect and credibility to make decisions stick.

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