

Case Study on Organizing for International Growth—Taking Kent Chemical as an Example

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Abstract: *Kent Chemical Products (Kent) is a leading global specialty-chemical company that operates internationally. It is a technology-driven company that gains a competitive advantage through its scientific expertise and product development. Kent has followed an expansion strategy by mainly acquiring or venturing with other companies. Kent has grown fast but has not been able to adapt its internal operations in order to appropriately manage the growth. Hence, the company's main challenge is to manage this transition successfully. Due to a potential economic downturn as well as internal problems, Luis Morales, president of Kent Chemical International (KCI) aims to find a solution to create a unified global company.*

Keywords: *Problem Statement, Situation Analysis, Change Management, Implementation/Action/Project Plan, Risks and Challenges*

1. Introduction

Kent is currently a “U.S. company dabbling into international markets”.^[1] In July 2008, Luis Morales, president of Kent Chemical International, is proposing a third reorganization effort after two failed attempts to better align his business with its U.S.-based parent company. With a global expansion strategy placing increasing demands on his organization, a divide forming between Kent's core business and its growth markets, and a global recession looming, Morales knows this time his plan has no room for error.

2. Problem Statement

Kent currently faces internal and external challenges.

2.1 Internal challenges

An unsuccessful implementation of the global integration strategy has resulted in the following internal problems:

2.1.1 Financial

Although Kent's sales increased steadily over the last years, profitability decreased significantly between 2006 and 2007 (See financial analysis in Figure 1).

2.1.2 Operational

We suspect that the decreasing profitability is mainly caused by cost inefficiencies resulting from an organizational structure and processes that do not reflect the needs of the rapidly growing company. As an example, the U.S. and international divisions are not linked and do not share the same corporate services. A lack of communication and coordination causes double work. Additionally, GBDs and regional directors are confused about their roles and responsibilities, which creates overlap and conflict.

2.1.3 Cultural

The KCI executive team has been confronted with resistance and demotivation from regional directors and GBDs in response to the previous structural changes. Decision-making processes are different in each area of the organization, resulting in instances of competition within the same corporation. Regional offices work as independent silos and there is no company spirit.

Kent Financial Performance

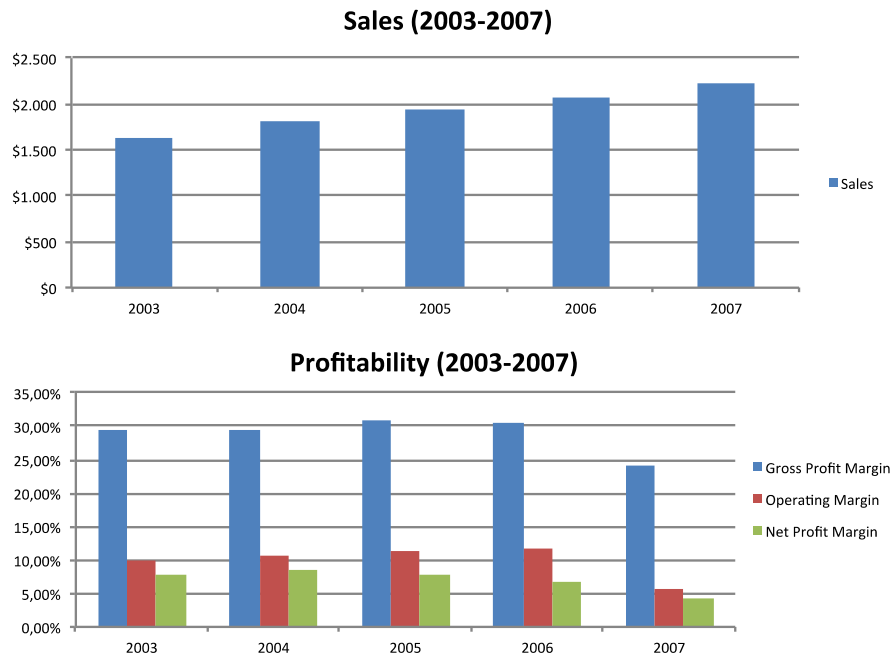


Figure 1: Summary of Financial Analysis

2.2 External risks

Besides internal problems, the economic downturn signifies a threat to the company that requires Kent to become quicker to adapt market opportunities across the globe. In order to pre-empt a global downturn, Kent must also find ways to reduce its costs.

3. Situation Analysis

3.1 We identified the following 5 key issues that underlie the above-mentioned problems

3.1.1 Control of HQ is lacking (no horizontal alignment)

Regional offices currently act independently. Moreover, there are no appropriate control systems such as corporate reporting systems, incentive and compensation structures, capital allocation systems, etc. in place that facilitate the governance through the headquarters.

3.1.2 Incentives of local office are not aligned with that of the HQ (no vertical alignment)

Kent currently does not have a company strategy or processes that enable the regional office prioritize activities according to the corporate rather than individual goals. Thus, Kent currently does not bridge the tradeoff between acting as a global corporation and adaptations to regional conditions and needs. It lacks an appropriate decision, reporting and incentive structure.

3.1.3 Job roles, responsibilities and decision-making processes are not clearly defined

Due to structural as well as process-related inconsistencies, activities between the GDBs and regional directors are overlapping. There is no connection and no shared services and for the U.S. and international markets, and hence opportunities such as joint idea generation, cross-selling and cost efficiencies are not exploited.

3.1.4 R&D efforts do not respond to international opportunities

Kent operates in a technology-based industry and relies on its R&D department to maintain competitive advantage. Currently, R&D efforts are rarely focused on the needs of international market.^[1] Additionally, there are no incentives for joint idea generation between U.S. and international

markets.

3.1.5 Kent does not have the buy-in for new organizational structure and initiatives

Previous changes to the decentralized structure have been decided by the management and communicated top-down. Lower management and employee levels have not been integrated in the idea generation, design and implementation process (bottom-up approach). The implementation of new ideas was rather unsuccessful because management did not use proper change-management tools and, as a result, management did not get buy-in from regional managers, GBDs or other employees.

3.2 Pros and Cons of past, current and proposed alternatives

We analyzed the past, current and proposed future organizational structure and processes (see analysis in Figure 2). We believe that understanding the key benefits and disadvantages to previous situations is the prerequisite to define a new corporate structure as it determines which elements should be kept or changed.

Pros and Cons of past, current and proposed alternatives

Pros	Cons
Old structure (decentralized/geographic structure in 2000)	
<ul style="list-style-type: none"> Regional managers empowered to take decisions with local knowledge Higher flexibility, quicker decisions due to flatter organizational structure Better local market adaptation 	<ul style="list-style-type: none"> Limited control by HQ Competing interests in different regional offices Cost inefficiencies, i.e. no use of Economies of Scale Regional managers need to
Current situation (in 2006 + 2007 adaptations)	
<ul style="list-style-type: none"> Local offices empowered to adapt to geographic demand Potential for more communication between the different regions including the U.S. due to World Boards 	<ul style="list-style-type: none"> No connection between R&D and KCI No coordination of price, product, sourcing decisions globally Differences of the 3 divisions are not considered Incentives do not facilitate the coordination required for the World Boards to succeed
Tailored Approach (Consultants' Proposal)	
<ul style="list-style-type: none"> Clearly defined specific roles and responsibilities Differences of the 3 divisions are reflected Attempts to keep the balance between local and global needs 	<ul style="list-style-type: none"> Hard to implement due to complexity of decision process Overlapping responsibilities and decision-power

Figure 2: Analysis of previous and current situation / organizational structure

3.2.1 2000 Organizational Structure

The main problem of the decentralized geographic structure was that the headquarters did not have enough control over the operations of regional offices. Since regional directors could decide autonomously, almost as separate companies, interests were not aligned which lead to competing regional offices and cost inefficiencies. However, the geographic-based structure was beneficial in terms of a better market adaptation mainly due to the regional expertise as well as a higher flexibility and quicker decisions.

3.2.2 Current situation

2006 Organizational structure and 2007 adaptations: The key problems in the current structure and processes is that there is no centralized coordination of price, product and sourcing decisions due to missing global standards. The implemented world boards that aims to address these issues have not

been successful because compensation and incentive structures do not foster coordination between the members and job roles and responsibilities within the boards are not clear. Furthermore, the R&D department does not have the coordination with KCI to meet product development needs. However, if processes and incentive structures were aligned, the concept of the boards has potential to provide better integration between KCI and Kent US operations as well as a better communication between different regions.

3.2.3 Tailored Approach / Consultant's proposal

The consultant's proposal aims to address the differences of the three divisions (consumer, fire protection and medical products) and clarify management structure and decision process accordingly. However, the proposed matrix is very complex and hence hard to implement. The roles, responsibilities and decision processes are clearly defined, however, in some parts decision power is still shared and overlapping. Consequently, we evaluate the proposal as not ideal mainly due to its complexity and also due to the fact that it addresses process-related problems, but does not really solve structural problems such as the missing link between U.S. and international operations, and the non-alignment of R&D with international markets.

To conclude, our analysis found that the Kent organizational structure is not aligned with their corporate strategy of operating as a global company. Besides the structural problems, there are neither management processes, nor an organizational culture to support headquarters in overseeing a coordinated company. Lastly, previous attempts at organizational change within KCI did not have supporting change management mechanisms necessary to succeed.

The comparison of the past, current and proposed organizational structures and processes shows that change is needed in order to meet the objective of becoming a global company. However, all three have beneficial elements that we aim to include in our final solution.

4. Recommendations

Our recommendation has three goals that we believe will address the critical problems defined above: to create a more unified company structure, a well defined and understood culture of decision making, and a more innovative company that supports product development needs of all regions.

4.1 Organizational Structure

In order to have a more unified company, Kent needs to have an organizational structure that reflects a unified company. We recommend changes to both the overall structure of Kent as well as the structure within KCI as we think we can only solve the company's problems by undertaking fundamental changes (see proposed organizational structure in Figure 3). We suggest that KCI reports directly to the CEO and that corporate services such as legal, accounting, HR, treasurer and government and public relations are centralized under Peter Fisher. The company's competitive advantage is dependent on R&D but the current organizational structure places an extra reporting layer between Morales and the R&D department. This reporting structure places communication barriers between the international markets and the scientific resources. By placing Morales at the same level as Perri, he will have more direct access to communicate international needs and opportunities to the R&D department. In addition, centralizing corporate service functions can help cut costs and improve profitability. Finally, a more unified organizational structure will help create a more unified culture and decision-making processes.

The second organizational change within the KCI is to have the GBDs report directly to Morales and have regional managers for each of the three divisions. The proposed structure will help create functional expertise and a more unified structure for selling internationally. The GBD's main function will be to create more worldwide business coordination but will not be responsible for local strategy. It is important that the local managers, who have the most knowledge of their markets are driving their strategy. However, it is important to have someone overseeing that the strategies of local companies are not in conflict. Having regional managers report to the GBDs will give the GBDs authority to resolve conflicts between overseas companies. The new organizational structure will be supported by new compensation systems aiming to encourage cooperation within the KCI. Additionally, a portion of the compensation will be group-based to provide motivation for cooperation between countries and regions. Group targets should be developed jointly by GBDs and Luis Morales.

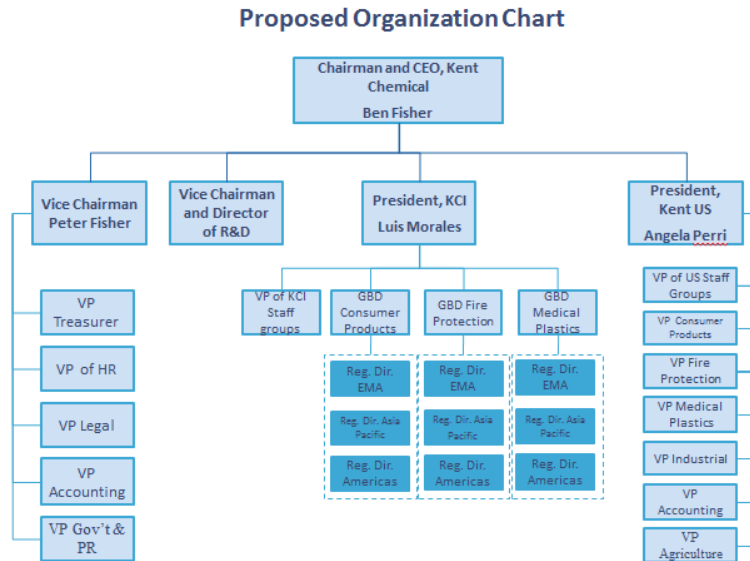


Figure 3: Proposed Organizational Structure for Kent Chemical Products

4.2 Culture

We suggest developing a company charter that reinforces a unified company. A unifying philosophy guiding all decisions will ensure that the goals of the corporation are well defined and understood and that decisions are made in the interest of the corporation and not the individual companies. According to Govindarajan and Gupta, subsidiaries of global companies often compete for resources and have a low level of cooperation. Thus, it is important to frame the charter based on the external marketplace rather than internal dynamics.^[2] It is useful to keep this in mind when creating a corporate charter in order to ensure the culture created encourages consideration of the broader company goals instead of local interests. Similar to that of the Johnson and Johnson Credo, we recommend developing a corporate charter that will help define the corporation's identity and goals and provide a framework for making decisions.^[3]

It will be important for local managers to be empowered to make decisions so that they continue to be able to respond quickly to changes in the marketplace. Inspired by the decision-making processes at Johnson and Johnson, strategic planning and financial forecasting will be bottom-up and be based on facts. As suggested by Govindarajan and Gupta, opinions that are accompanied by factual data lead to better discussion among team members and resolution of conflicting ideas.^[2] Fact-based strategies will ensure that the GBDs are equipped to resolve conflicts between businesses. It will also create a solid foundation to build trust and cooperative discussion between the geographic areas. With bottom-up decision-making, those working in consumer products continue are empowered to respond to local preferences and those working in fire protection products are able to adapt to the regulations of the country in which it operates.

4.3 Creating an Innovative Environment

In order to turn Kent Chemical Products into a truly innovative company that is able to quickly respond to the needs of customer worldwide, research and development needs to be a focus of all areas of the corporation. We recommend Kent develop executive and divisional R&D committees to improve coordination between areas of the corporation and to better identify product development opportunities (see proposed structure of R&D committees in Figure 4). The Executive R&D Committee will be responsible for developing the overall research and development strategy for Kent. We also recommend each product-based division in KCI have a Divisional Research and Development Committee. Divisional committees will be responsible for meeting quarterly and discussing innovation opportunities and identifying joint activities. The goal of the four committees is to ensure R&D needs of all areas of the corporation are well understood and to identify priority areas for innovation based on facts.

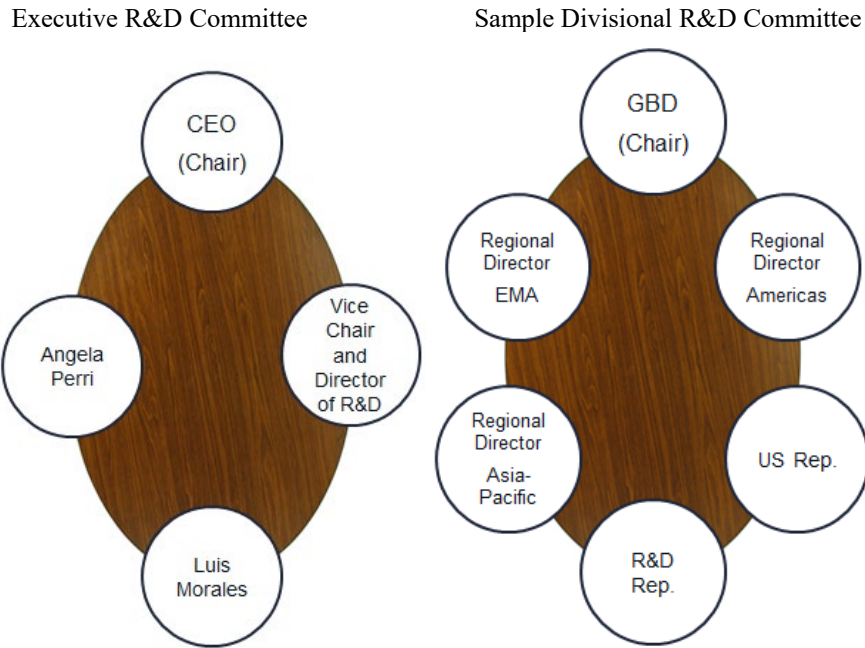


Figure 4 Proposed Structure for Kent R&D Committees

In addition, to create a truly united organization, talent management will have the goal of developing leaders that are creative, that are adaptive and that understand the vision of the corporation. We recommend a rotational program that allows employees to do a secondment in another area of the company. This will help create leaders with corporate, rather than local visions. In addition, leadership development in an innovative company should encourage an entrepreneurial spirit. An entrepreneurship program will allow employees to develop ideas for projects of interest. Projects that align with the goals of the company and have profitability potential should be approved for development and capital resources. Those that develop project ideas and employees identified as future leaders within the company will be given opportunity to do secondments to work on the entrepreneurial project teams.

5. Implementation/Action/Project Plan

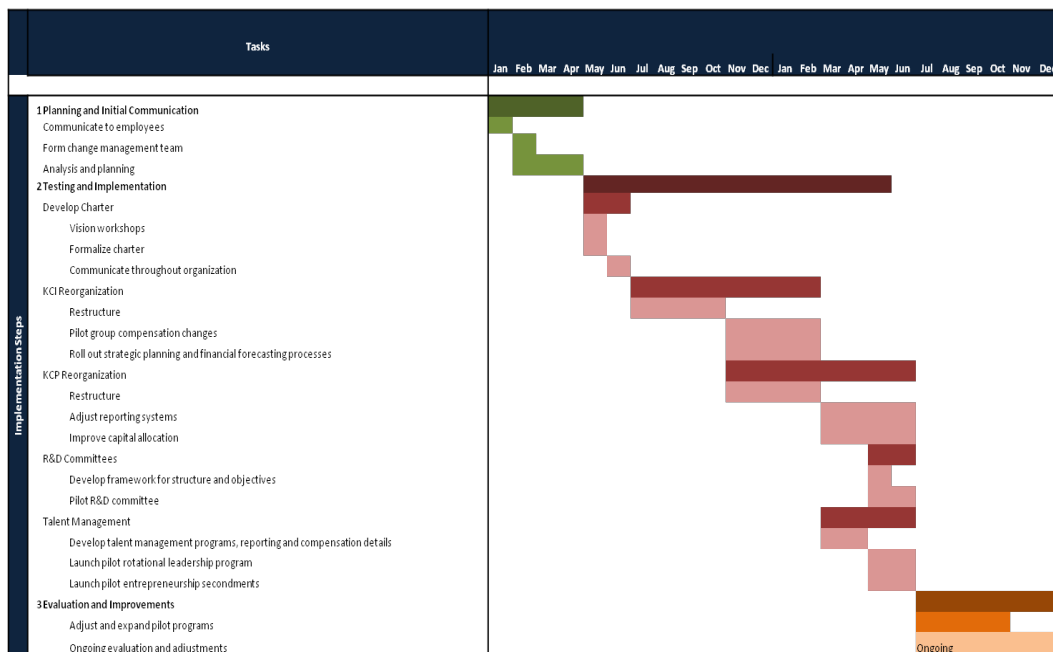


Figure 5 Implementation Timelines

The recommendations involve major changes both to KCI and Kent and will require high investment an implementation time of about 1.5 years to give enough time for employees to adjust to changes. However, it is important that the implementation does not take too long to keep the momentum and motivation going. Evaluation and adjustment need to remain an ongoing process to ensure continuous improvement (see project timeline in Figure 5).

5.1 Planning and Communication

The first stage of implementation will include 3-4 months of project planning and analysis. Initially the change leader will be responsible for communicating the need for change to the rest of the company and then selecting members for his change team. In this stage, short-term milestones will be defined to evaluate progress of the organizational changes.

5.2 Testing and Implementation

The testing and implementation of the recommendations will take a year

5.2.1 Corporate Charter

The corporate charter should be developed and implemented first because it will create an initial communication piece to create a unified corporate identity, laying a foundation for subsequent changes.

5.2.2 Organizational Restructure and Decision-Making Support

Organizational restructuring will be completed in two stages. The first stage will include the KCI restructure. In parallel, a pilot group compensation project will be launched to help develop the motivation for team work. In addition, bottom-up decision-making strategic planning and financial reporting will be implemented. It is important this also occurs in parallel to ensure local managers, country managers and regional directors continue to feel autonomous over the activities of their businesses. Once the KCI restructure has been completed, the Kent restructure will be implemented. The final restructure should be supported by an appropriate reporting and capital allocation system.

5.2.3 Long-term Support Programs

The support R&D committees and talent management programs should be implemented in order to provide long-term success. A pilot program for the Executive R&D committee will initially be rolled out. In addition, the change team in partnership with the senior executives will develop the details of both the rotational leadership program and the entrepreneurship projects components. Following development, a pilot will be launched for both talent management programs.

5.3 Evaluation and Improvement

Following the initial implementation of organizational changes, the change team should continue to be active in monitoring the success of the initiatives, incorporating lessons learned and making adjustments as necessary. The previously launched pilot programs will then be adjusted and rolled out in stages.

5.4 Change Management

Due to the size of the project and the scale of change required of Kent Chemical Products employees, change management is crucial. (see Figure 6)^[4].

A strong change management team that understands and communicates the vision of a united corporation will be required to gain buy-in from the organization. The team will oversee the change management as well as project implementation. The team make up should not necessarily include top managers in the organizational structure but include the employees that believe in the importance of change. Representatives of the team should come from every functional area and region of the organization and be selected based on interest in the project and manage revaluations. A diverse change team is important so that the vision takes into account the corporation as a whole and implementation addresses the diverse needs of the organization. Train-the-trainer activities will also be coordinated by the change management team to prepare all employees for changes to processes.

Change Management- Kottler's 8 steps



Source: "Leading Change-Why transformation efforts fail", John P. Kotter, HBR, January 2007

Figure 6 Kotter's 8-Step Change Management Framework

6. Risks & Challenges

6.1 Business disruptions

Changing the nature of the corporate service for the US operations could create business disruptions. Employees and managers should understand that there will be an adjustment period where there are delays in operations. Clear communication of new reporting structures as well as clear processes should be put in place and communicated across the organization.

6.2 Resistance from Peter Fisher

There may be resistance from Peter Fisher, since he will no longer oversee international operations. Initial communication must focus on gaining buy-in from Peter Fisher and Ben Fisher. They must also be involved in the planning stage of the project.

6.3 Employees will resist change

There is a risk that employees will resist change. In mitigating this risk, change management will be a priority. In particular, country managers and regional directors need to understand that they will continue to have autonomy over their strategic planning.

6.4 Require coordination

The project will be large in size and require coordination across over 100 countries. It is important that the change management team is made up of employees from all areas of the organization, that project planning includes clearly defined milestones and employees receive support to adapt to changes.

6.5 A global economic downturn

A global economic downturn could hinder Kent's ability to see the change project to completion. However, we consider it necessary for Kent to take proactive measures to build the strength of the company in order to minimize damages of an economic downturn. If needed, KCP can delay implementation of the R&D Committees and the talent management programs as these are longer-term strategies.

7. Conclusion

We have been handed a dossier of the company with all the relevant information we need (see HBS Case Ref. 4409, dated February 23, 2012). Based on this dossier only, Luis is curious to hear how you could add value by applying your cumulative general management knowledge to Kent Chemical's particular challenges and context. Yet we have identified and prioritized the issues we deem critical ourselves and carefully exercise our managerial judgment in analyzing the situation of Kent Chemical. The ultimate goal we believe we achieved was to deliver sound analysis and actionable advice to Luis and Kent Chemical's senior management. The argument sweraise dup with the conceptual frameworks and tools we deem appropriate and that we have acquired during our study. The entire MBA tool-kit is now at our disposal, and we were encouraged us to take an integrative, multi-disciplinary view of management. We were concise but also comprehensive and always be sure to explain our rationales.

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