

Henley Management College

**Creating the Balance between
Central Management and Local Autonomy
in a Global IT Services Company**

by

Flórián Farkas

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Abstract

Creating the Balance between Central Management and Local Autonomy in a Global IT Services Company

This dissertation evaluates the hypothesis that:

Multinational corporations need adjustments in their strategy and organisational structure in order to cope with the challenges of the 21st century because during the last two decades both the globalisation and the localisation forces increased simultaneously; transnational mentality and a network organisational structure are best suited in the new era.

The research proceeds as follows:

- Develops a theoretical framework for multinational corporations.
- Tests this theoretical framework in practice at four selected multinational corporations.
- Analyses IBM Global Services in the Netherlands in the light of this theoretical framework.

Based on literature research a theoretical framework for multinational corporations was created. It was established that the modern multinational corporation is a relatively new phenomenon and three archetypes can be distinguished based on the country of origin: international, multinational, and global. Despite their differences they all are based on the command and control management philosophy. Recent developments in the business, political, and social arena necessitate a new mentality and organisational structure, a transnational mentality and network organisation.

The validity of this theoretical framework was tested at four companies, ABB, General Electric, Siemens, and Unilever. It was concluded that all of them reformulated their strategy and realigned their organisation to move towards this kind of mentality. Their heritage fundamentally defines the way they pursue the new course.

IBM Global Services in the Netherlands was deeply examined. It was concluded that the pure international mentality pursued by the IBM Corporation was fundamentally changed in the 1990s due to a major shift in the strategy and organisational structure. The world-wide IBM Corporation repositioned herself as a total IT solution provider and reorganised herself along business lines. This had a profound impact on the IBM Global Services organisation in the Netherlands and it is taking steps to redefine her place in the new situation.

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Many people inside and outside IBM contributed a lot to this Dissertation by giving their views and insights. Through interviews, discussions they shared their thoughts with me, which was very valuable to understanding how they personally experience the topic of this study. I would like to express my deepest gratitude to them.

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Mous, Peter	Manager IBM Global Services, IBM Nederland N.V.
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1 Introduction

*“Business is simple.”
Jack Welch*

1.1 Aim and Scope of the Study

This Dissertation intends to investigate the management challenges that a multinational corporation¹ (MNC) faces in the 21st century as a result of changes that took place during the last decades in the world-wide arena. Forces for globalisation and for localisation have intensified simultaneously and exercise an ever-increasing pressure on this type of organisation. The management challenge is how to respond simultaneously to both demands. Given the overwhelming weight of multinational corporations in the world economy, their enormous influence in almost every aspect of life, and their presence in practically every country of the world, makes the management of these corporations one of the most important management topics. Nothing proves better the importance of this issue than the (over)heated debate on the role of MNCs in newspapers, TV-programmes, and academic publications.

The Dissertation focuses generally on the role that a (relatively small, i.e. the Netherlands) subsidiary of an MNC can and should play and specifically on the role of IBM Global Services in the Netherlands. The world-wide IBM Global Services organisation is the services arm of IBM Corporation, the world’s largest² and #1 IT services³ organisation. The study will be centred around the issue of how to enhance the motivation and initiative taking of management and professionals of IBM Global Services in the Netherlands in order to both better serve the local marketplace and to create added value to the world-wide organisation. A number of selected multinational corporations, namely ABB, General Electric, Siemens, and Unilever, will also be examined in order to conduct the study within a referenced framework.

¹ Throughout this Dissertation I will use the generally accepted term multinational corporation (MNC) in the broader, more generic sense in referring to all corporations whose activities extend across national boundaries. Later, where appropriate and necessary, I will use other specific terms. Definitions of key terms are listed in Appendix 1 Glossary of Terms.

² Almost 150,000 of the roughly 316,000 IBMers around the world are employed in Global Services - the consulting, outsourcing and information technology services arm of IBM Corporation. Source: Alterio, J. M. June 17, 2001. IBM builds on services. *The Journal News*.

³ Source: IDC. Document #: 24769. 2001.

My personal interest in this topic is twofold. First, I have always had an intellectual inclination towards international business management. Second, as IT Consultant and IT Architect of IBM Global Services in the Netherlands, and lead architect of a world-wide solution offering called IRM Accelerator, I am confronted on a daily base with the issues that are the subject of this Dissertation.

1.2 Personal and Organisational Objectives

I have been with IBM Nederland N.V. for more than five years, acting as IT Consultant and IT Architect in the field of Infrastructure Resource Management. In conducting this study my personal objectives are the following:

- Combine a conceptual issue of business management/organisations with a current management/organisational need of my organisation, and demonstrate thought leadership and academic creativity, an ability to pursue a future DBA study.
- Gain in-depth understanding of the complex and sensitive issues of international business management for better performance in my current position.
- Build up competence in international business management, an area that interests me most and where my future carrier ambitions are.

The sponsor of this study is Tony Marques, Operations Manager of IBM Global Services in the Netherlands. We agreed to the following organisational objectives:

- Conduct a structured theoretical analysis of the topic and investigate the possibilities of enhancing the motivation and initiative taking of managers and professionals of IBM Global Services in the Netherlands.
- Make the Dissertation available to the world-wide IBM Global Services community on the internal intellectual capital management system of IBM ('AssetWeb').
- Present the findings, conclusions, and recommendations to the management team of IBM Global Services and/or to the management team of IBM Nederland N.V.

1.3 Methodology Used

During the Dissertation engagement I used the *Issue-Based Consulting* methodology practiced by the consulting community in IBM Global Services. This methodology provides a solid structure to conduct a research on a complex problem and to develop recommendations based on clear and indisputable logic. It consists of the following steps:

a) Structure

The methodology begins with a preliminary research in order to define an issue diagram. The issue diagram relates engagement and issues in a hierarchical manner. The issue diagram serves to bound the scope of the engagement and guide the fact gathering effort as depicted in Figure 1-1.

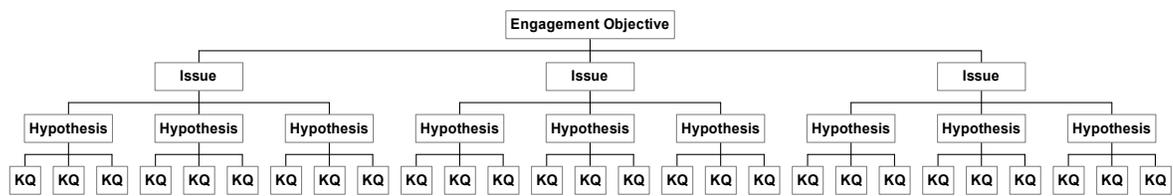


Figure 1-1 Issue Diagram

In addition to issues, the issue diagram includes hypotheses, key questions (KQ), and data specifications. Hypotheses are tentative conclusions about an issue to be resolved or an opportunity to be developed. These hypotheses are a set of provisional conjectures to shape the investigation. For each hypothesis a set of key questions is required, which when answered proves, modifies or disproves the hypothesis. In this way the data needs are immediately highlighted and a data source matrix can be constructed. The issue diagram is the basis for interview guides, too.

b) Data gathering

Based on the data source matrix data gathering is carried out, which includes literature research, search of on-line sources, and interviews.

c) Synthesis

This step is depicted in Figure 1-2, which can be seen as the opposite to the construction of the issue diagram, because we now move bottom-up on a logical ladder.

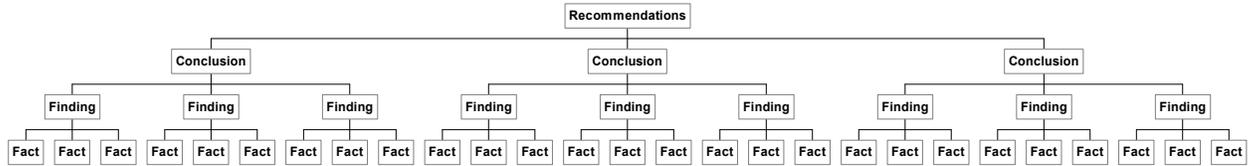


Figure 1-2 Logic Diagram

After fact gathering, each fact is sorted back to the question that triggered its collection. This stage is somewhat mechanical and simple. The next stages require the most creativity, ability to think logically, and intellectual discipline. Facts are then classified, sequenced and summarised by comparison with key questions to become findings. A finding is a pattern or aggregation of facts, which support a single point. The next step is to synthesise and integrate these findings into the issue diagram where they can be used to test hypotheses. As the hypotheses are either accepted or modified they become conclusions. Findings are obtained by math rather than judgement. Conclusions, on the contrary, are derived depending upon judgement and insights. The process of developing recommendations is the most creative phase of the process.

1.4 Structure of the Dissertation

The Dissertation is structured as follows:

- **Chapter 2** builds on literature research and shapes the theoretical framework of this study.
- **Chapter 3** comprises the analysis of the four selected multinational corporations based on the theoretical framework presented in the previous chapter.
- **Chapter 4** contains the in-depth assessment of IBM Global Services.
- **Chapter 5** pulls the results of chapter 3 and 4 together and concludes the Dissertation with conclusions and recommendations.

2 Theoretical Framework for Multinational Corporations

2.1 Introduction

Consider the following two antagonistic views regarding the role of MNCs in the world:

- Gladwin & Walter (1980) cite the World Council of Churches that declared its vehement opposition to multinationals in 1977 on the ground that they are accomplices of “repressive states, predatory local elites and racism,” and thus pillars of a system that “oppresses, excludes, and exploits.”
- Perlmutter (1969) studied the multinational mentalities of MNCs and examined the hypothesis wildly accepted by many senior executives who claimed that: “The multinational corporation is a new kind of institution – a new type of industrial social architecture particularly suitable for the latter third of the twentieth century. This type of institution could make a valuable contribution to world order and conceivably exercise a constructive impact on the nation-state”.

Today, opinions are divided as ever. One thing, however, is common: nobody questions the immense power and influence these companies exercise. Let us look at two sets of selected statistical data, see Table 2-1 and Table 2-2.

Fortune 500 Rank	Company	Revenues (\$ billions)
1	Exxon Mobil	210.3
2	Wal-Mart Stores	193.2
3	General Motors	184.6
4	Ford Motor	180.5
5	DaimlerChrysler	150.0
6	Royal Dutch/Shell Group	149.1
7	BP	148.0
8	General Electric	129.8
9	Mitsubishi	126.5
10	Toyota Motor	121.4

Table 2-1 World’s Ten Largest Corporations by Revenues in 2000. Source: Fortune, <http://fortune.com>

Rank	Country	Gross National Product (GNP) (\$ billions in 1999)
1	United States	8,351.0
2	Japan	4,078.9
3	Germany	2,079.2
5	United Kingdom	1,338.1
14	Netherlands	384.3
18	Switzerland	273.1
20	Sweden	221.8

Table 2-2 GNP of Home Countries of the Studied MNCs plus Japan. Source: World Bank, World Development Report 2000/2001, <http://www.worldbank.org>

One should note that it is dangerous to draw conclusions instantaneously based on these tables because a country's GNP is not directly comparable with a company's revenues. Nevertheless, the message conveyed by these tables is clear. The largest MNCs have the greatest influence on the global economy, employ a high percentage of business graduates, and pose the most complex strategic and organisational challenges for their managers. This is the reason why the world's attention focuses on these large corporations.

Before we begin examining this type of economical organisation let us define what an MNC is. Bartlett & Ghoshal (1992) note that the roots of international business can be traced back to the seafaring traders of ancient Greece and Egypt. The merchant traders of medieval Venice, and later the British and Dutch trading companies (Hudson's Bay, East Indies) played a very important role in its history. In order to capture the essences of today's MNCs they give the following working definition:

A company is a multinational corporation if:

1. *it has substantial direct investment in foreign countries, and*
2. *is engaged in the active management of these offshore assets rather than simply holding them in a passive financial portfolio.*

The first qualification would exclude the ancient and medieval traders, and the second qualification would exclude the British and Dutch trading companies. As we will later see, the type of organisation that complies with both qualifications is a rather new phenomenon. It emerged in the latter third part of the 19th century in Western Europe and United States, and a little later in Japan. The most important feature of an MNC is that it creates an internal organisation that carries out cross-border tasks and transactions internally rather than depending on trade through the open market.

This chapter intends to give a conceptual framework that can be used to analyse the central issue of the study. The primary perspective of this framework is managerial, i.e. encompassing the issues the key players of the firm perceive to be important. In order to build such a framework the following questions need to be answered:

1. Why and how did modern MNCs emerge? Section 2.2 deals with these issues.
2. What are the characteristics of today's competitive environment for MNCs? Section 2.3 identifies the main forces.
3. What are the strategic and organisational challenges that today's MNC managers face? Section 2.4 presents a managerial theory based on best practices.

2.2 Multinational Corporations in Historical Perspective

Chandler (1986, 1990) gives one of the best counts on the birth of the modern multinational corporation. Based on extensive empirical research he concludes that the emergence of large, integrated, and increasingly multinational enterprises dates back to the 1880s and 1890s in the United States and Europe, and a little later in Japan due to Japan's lag in industrialisation. They all appeared in only some industries and grew similarly. They not only transformed international trade fundamentally but also revolutionised the organisational structure of a business enterprise. Let us examine briefly the factors that led to the advent of this new type of economic institution.

By the mid-nineteenth century, business enterprises normally operated a single unit of production (farm, mine, mill) or a single unit of distribution (wholesaling, retailing, importing, exporting). The flow of goods between these enterprises was co-ordinated by market mechanisms. The owners managed their

enterprise personally. Technological innovation transformed these single-unit, single-function enterprises into multiunit, multifunctional ones administered through a hierarchy of salaried managers. This transformation was less the result of the first industrial revolution (i.e. new technologies that increased the output volume of a single production unit and a single distribution unit to an unprecedented level; a process that began in Britain at the end of the eighteenth century) but rather the result of the second industrial revolution i.e. the advent of modern transportation and communication. The railroad, telegraph, steamship and cable made the modern mass production and distribution possible. Not surprisingly, the first managerial hierarchies appeared during the 1850s and 1860s to co-ordinate the movements of trains and the flow of goods over the new railroad networks and messages over the new telegraph system.

Mass production is an attribute of specific technologies. In some industries the primary way to increase output is to add more workers and machines, these are 'labour-intensive' industries. In others one can increase output by improving and rearranging the inputs, by improving the machinery, by reorienting the process of production within the plant, by placing the several intermediate processes of production required for a finished product within a single plant, and by increasing the application of energy. These industries are 'capital-intensive' industries and gave birth to the integrated, multiunit, multifunctional industrial enterprise. We need to understand two factors that induced the creation of this kind of corporation. These factors are: economies of scale and economies of scope, which had a positive feedback loop effect on each other.

- Economies of scale: In capital-intensive industries new technology of production permitted much larger economies of scale than it was possible in labour-intensive industries. It permitted much greater reduction in cost per unit of output (cost advantage) as volume increased. Similarly cost per unit rose much more rapidly when volume of production fell below minimum efficient scale (of say 80 to 90 percent of rated capacity). What is of basic importance is that the cost advantage of the larger plants cannot be fully realised unless a constant flow of materials through the plant is maintained to assure effective capacity utilisation. The decisive figure is not capacity for a specified time period but rather throughput i.e. the amount actually processed in that time period. This requires careful co-ordination of flow of inputs as well as careful co-ordination of flow of

outputs. The first induced backward integration, the second forward integration that is strongly correlated to the other factor i.e. economies of scope.

- **Economies of scope:** This factor relates to the fact that an intermediary (e.g. wholesaler, retailer) can achieve cost advantage by handling the products of different producers. However, the intermediaries' cost advantage erodes when the output of a producer comes close to the volume of transactions of an intermediary. Furthermore, as products were becoming more sophisticated and proprietary, and required not only intensive training for the intermediaries' sales personnel but also the provision of more services and maintenance, intermediaries were becoming more reluctant to invest in these type of activities. As a result these modern industrial enterprises invested and built huge marketing and sales forces to cope with this challenge.

Driven by these two forces, by integrating backward and forward, huge integrated, multiunit, and multifunctional industrial enterprises emerged in capital-intensive industries. This had huge consequences on both international trade and the way industrial organisations were structured and managed.

- **International investment:** New production technologies pushed the efficient throughput volumes to such a level that even the biggest national states were not sufficient to support the required amount of raw materials (and other factors of production such as cheap labour) and absorbing consumer markets. These integrated industrial corporations were thus forced to go abroad. Bartlett & Ghoshal (1992) identify two traditional motives for these enterprises to develop international operations:
 1. **Secure key supplies:** especially minerals, energy, and scarce raw material resources. Later, as trade barriers declined, this included access to low-cost labour, too.
 2. **Market-seeking behaviour:** particularly for the European MNCs it was a necessity to go abroad because the national markets of even the biggest nations were too small for the increased output level.
- **Organisational structure:** In order to assure constant throughput for the production both the flow of inputs as well the flow of outputs required careful co-ordination. This gave birth to the hierarchy of salaried managers that managed and co-ordinated this integrated, multidivisional enterprise. Chandler (1962) studied the multidivisional organisational structure of the largest

companies in the United States that led him to develop his famous strategy/structure theory. He concluded that these companies needed to develop a new, revolutionary organisational structure – the so-called M-form⁴ – in order to execute their new strategies. He pointed out that this new structure was highly successful because it delegated power and responsibility to the operating divisions whose activities were planned, controlled and co-ordinated by the corporate headquarters that also made the decisions about resource allocation and capital investment. This M-form, developed during the 1920s was highly successful and survived till the 1980s.

MNCs in the three different regions of the industrialised world - United States, Europe, and Japan – evolved differently due to the cultural and environmental differences in their home region. A detailed analysis of the different mentalities is beyond the scope of this Dissertation. Bartlett & Ghoshal (1989) distinguish three archetypes that describe the primary operating mode of an MNC. This categorisation is on the one hand arbitrary and on the other hand the same company can operate in different modes based on industry or country of operation. Nevertheless, this classification is helpful when analysing the organisational structure and culture of an MNC. These three archetypes are the following:

⁴ The M-form (multidivisional form) was a departure from the U-form (unitary-form). The U-form or the functional structure fit well the single-business firms that were organised along functional lines. The benefits of functional structures are that they bring together similar activities within which interdependence tends to be high, and by centralising these groups of activities offer advantages in scale economies, learning and capability building, and designing and deploying standardised control systems. Since cross-functional integration occurs at the top of the organisation, functional structures are conducive to effective control by the CEO and top management team. As the size of the firm increases, the pressure on top management to achieve effective integration increases. Because the different functions of the firm tend to be tightly coupled rather than loosely coupled, to the extent that there is a continuing need for sales, distribution, manufacturing, and purchasing to closely integrate their activities, there is very limited scope for decentralisation. In particular, it is very difficult to operate individual functions as semi-autonomous profit centres. The real problems arise when the firm grows its range of products and businesses. Once the company expands into a new product area, the critical co-ordination need is between functions within each product area.

The M-form was designed in response to the co-ordination problems caused by diversification. The key advantage of divisionalised structures (whether product based or geographically based) is the potential they offer to decentralise decision-making. The multidivisional structure is the classic example of a loose-coupled, modular organisation where business-level strategies and all operating decisions can be made at the divisional level, and the relationships with the corporate headquarters are limited to corporate planning, budgeting, and the provision of common services. The ability to manage divisions with a common set of management tools permits a wide span of control. A high level of divisional autonomy is also conducive to the development of divisional heads with well-developed general management capabilities. This facilitates top management succession. The large, divisionalised corporation is typically organised into three levels: the corporate centre, the divisions, and individual business units each representing a distinct business for which financial accounts can be drawn up and strategies formulated. For further information on the different organisational structures see Grant (1998).

1. International mentality: In MNCs that pursue this mentality management regards overseas operations as appendages to a central domestic corporation. This is a *co-ordinated federation* and it fits the managerial culture of U.S.-based companies. Many assets, resources, responsibilities, and decisions are decentralised, but controlled from headquarters. The formal planning and control systems allow tighter HQ-Sub linkages. This organisational model is depicted in Figure 2-1.
2. Multinational mentality: In MNCs that pursue this mentality management regards overseas operations as a portfolio of independent businesses. This is a *decentralised federation* and it fits the management norm of European companies. Many key assets, responsibilities, and decisions are decentralised. The informal HQ-Sub relationship is overlaid with simple financial controls. This organisational model is depicted in Figure 2-2.
3. Global mentality: In MNCs that pursue this mentality management treats overseas operations as delivery pipelines to a unified global market. This is a *centralised hub* and best fits the managerial norm of Japanese companies. Most strategic assets, resources, responsibilities and decisions are centralised. There is a tight control of decisions, resources, and information. This organisational model is depicted in Figure 2-3.

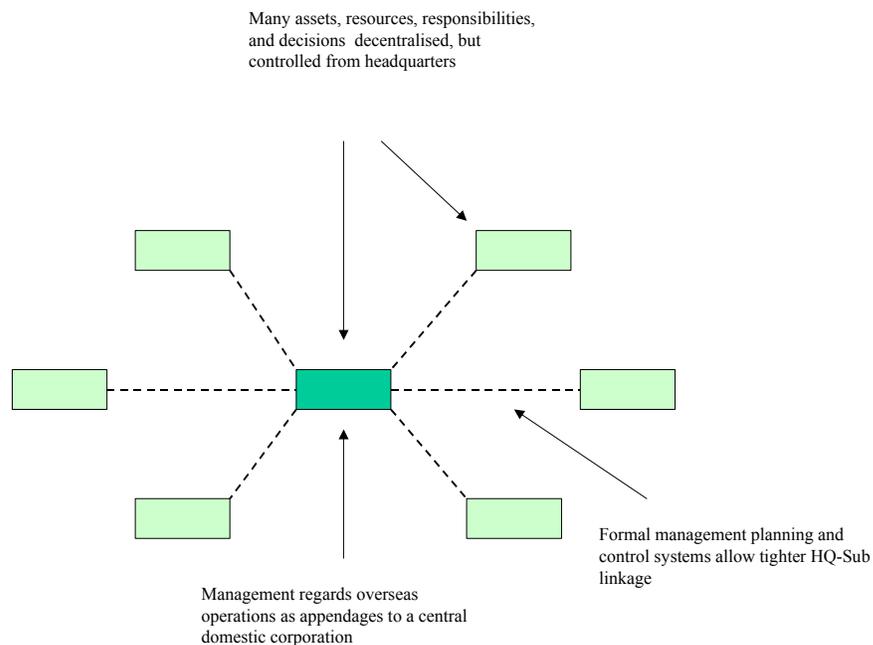


Figure 2-1 International Organisation Model: Co-ordinated Federation

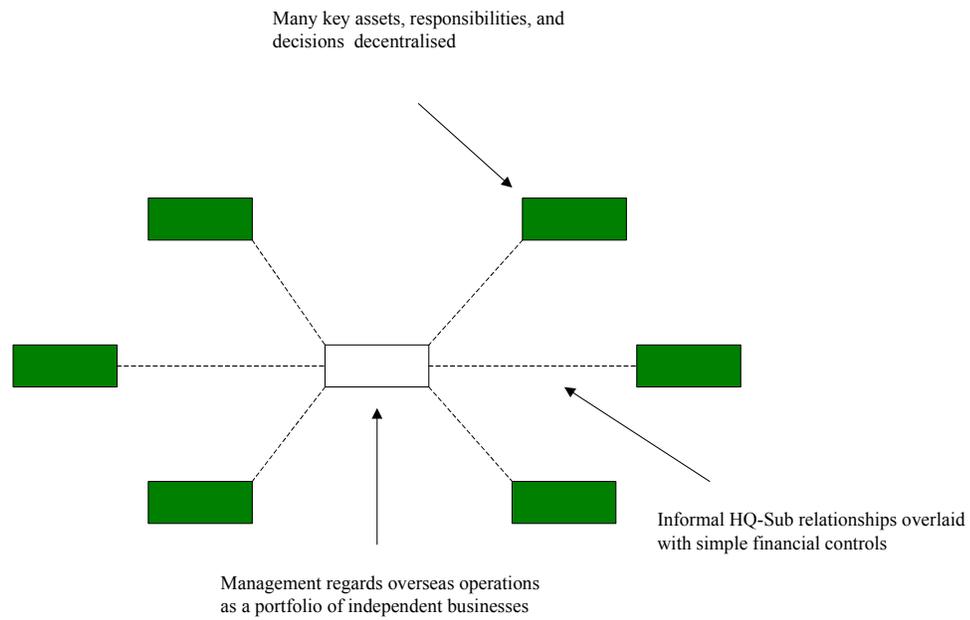


Figure 2-2 Multinational Organisation Model: Decentralised Federation

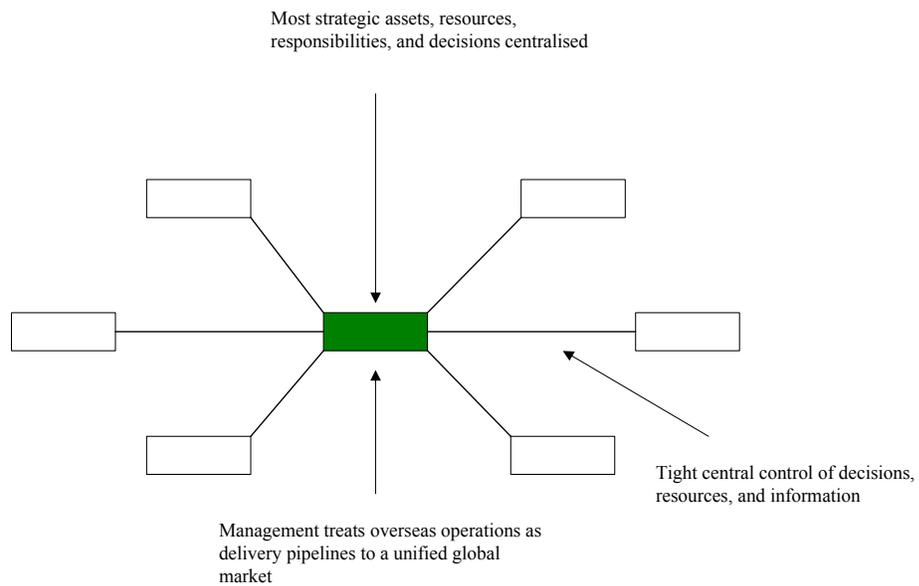


Figure 2-3 Global Organisation Model: Centralised Hub

2.3 *The Global Chess Game*

As managers of MNCs became more familiar with the management of an international business they realised that other, secondary effects of being an MNC might provide a competitive advantage over their (especially national) competitors. Bartlett & Ghoshal (1992) coined the terms *global scanning and learning capability* and the *global chess game*. The first relates to the fact that MNCs operate in a diverse environment and thus they are exposed to very different challenges and sources of information that, if captured and leveraged on a global scale, may become a valuable source of competitive advantage. The second relates to the possibility of cross-subsidising national operations that cannot be matched by purely local companies. Until the 1980s a many number of MNCs pursuing one of the before mentioned strategies were successful. The turbulent decennia of the 1980s, however, changed the competitive landscape. Let us examine why these mentalities have deficiencies in today's international business environment.

The three archetypes of MNC strategy and structure focus on one of the following factors:

1. Develop innovations and leverage them on global scale.
2. Multinational responsiveness.
3. Global-scale efficiency of operations.

MNCs pursuing an *international* mentality focus on the first factor. Their premise is that their home base is the most technologically advanced region of the world; therefore they should transfer the latest innovations to their subsidiaries to exploit a bigger market. However, their local responsiveness is much lower than of MNCs that pursue a multinational strategy and cannot achieve the global efficiency mastered by MNCs pursuing global strategy. Prahalad & Lieberthal (1998) show ample evidence that this strategy is not producing the desired results in the vast emerging markets of China, India, Indonesia, and Brazil. More importantly their core capability is coming increasingly under pressure, too. As Vernon (1980) pointed out, American MNCs cannot build on the premise that they are the only possessors of technological innovation; new ideas also emerge in the other parts of the world, therefore a two-way information flow is required between headquarters and its subsidiaries.

MNCs pursuing a *multinational* mentality focus on the second factor. They exploit the differences in the different national markets, thus they are very responsive to the local demands but in being so they suffer even more from global inefficiencies in operations (plants are duplicated in almost every country) and also from the not invented here syndrome. Every subsidiary is more or less a self-sustaining business, thus they can hardly leverage their knowledge on a global scale. In order to improve this deficiency there is an ongoing concentration of production, administrative and supply-chain activities, and increased co-ordination of marketing activities within European MNCs (Groot & Wouters, 1999; Dekker & Wouters, 1995; and Abrahamsson & Brege (1997).

MNCs pursuing a *global* mentality focus on the third factor by exploiting the cost and quality advantage of their products. They treat the world as a unified market, therefore developing, producing, and distributing universal products. Although they are very efficient, their local responsiveness is very limited and they also suffer from not exploiting the richness in knowledge present in their world-wide organisation. After the big successes in the 1960s and 1970s, Japanese MNCs began to feel increasing pressure from host governments and local consumers. In industry after industry, consumers began to reject homogenised global products and reiterated their cultural preferences, while not relaxing their desire for high quality and cost consciousness. Led by ever-increasing trade deficits and growing fear for loss of sovereignty, governments were also beginning to impose restrictions on MNCs when conflicts arose between the strategy of an MNC to operate freely across borders and the industrialisation policy of a host government, clearly analysed by Doz (1986). It should be noted that tensions between host governments and MNCs are not constrained to Japanese MNCs only, but it is also true that political forces (and cultural too) for localisation have become the primary preoccupation of top-level executives in Japan (Bartlett & Ghoshal, 1992).

Bartlett & Ghoshal (1992) correctly point out that in order to achieve sustainable competitive advantage MNCs need to develop these three capabilities - ability to develop innovations and leverage knowledge on a world-wide basis, multinational flexibility, and global-scale efficiency - at one and the same time. This is quite obvious from an abstract strategy perspective but this perspective is too much rooted in the theories that were developed for the industrial age. If we wish to understand the underlying causes of

changes that took place in the 1980s and 1990s from a managerial perspective, then we need to identify and examine those factors that shaped and continuously shape the overall economical landscape of today's business environment.

In my view the major driving force behind the changes in the global economy is the emergence of the *information economy* or *knowledge economy*. Technological advances in the post World War II era, particularly in the fields of information technology and telecommunications, cannot simply be viewed as incremental technological innovations, but rather as the agents of the third industrial revolution. They not only changed fundamentally the way economies work but also had and have a profound impact on the world's society, due to their general-purpose technology character, as Wiel (2000) clearly shows it. I agree with Shapiro & Varian (1999) that "Technology changes. Economic laws do not". Nevertheless, we need a clear analytic framework that enables us to understand the nature of today's economy. The major driving force is knowledge in general, and services in particular. Equally important and strongly related to these is the changing employer-employee relationship. Let us examine in more detail these issues.

The first aspect is **intellectual capital**. Whereas in previous ages the decisive factor of production was land, then later capital, today the decisive factor of production is knowledge, or intellectual capital. Stewart (1997) defines intellectual capital present in corporations as the sum of the following components:

1. Human knowledge: the skills and experience of employees.
2. Intellectual capital management systems: structured and codified knowledge stored in (electronic) systems that can be shared among the company's employees.
3. Customer capital: knowledge about customers that can be used to provide them superior and tailored products and/or services.

This intellectual capital is quintessential in developing, producing, and delivering products and/or services in practically all industries. The intangible nature of intellectual capital makes it difficult to capture and manage, and therefore many managers, scholars, and policy makers overlook its significance.

The second aspect is **services**. Technological advances that require and propel intellectual capital to this prominent role made possible that a decreasing percentage of the workforce can produce the tangible products; the majority of the workforce in developed economies are employed in services. In today's knowledge economy or network economy services play a dominant role in the OECD countries, accounting for over 60% of total economic activity in most OECD countries, and for more than 70% in ten countries⁵. Despite this, the role of services in national economies and international trade is largely underestimated and not properly understood. Let us cite two examples:

1. The World Trade Organization's *International Trade Statistics* of 2000⁶ and 2001⁷ dedicate some 60 pages to trade in agriculture, mining, and manufacturing but only some 5 pages to commercial services.
2. Despite the growing significance and driving role of IBM Global Services⁸, being the world's #1 IT services company, Fortune Magazine⁹ still classifies IBM Corporation as a manufacturing company.

This is only partly due to the difficulties in measuring the productivity and output of services sector quantitatively. I agree with the compelling argument of Hall (1995) that 'the enemy is the mindset'. Hall argues that two outdated assumptions lead to underestimation of services:

1. The production of manufactured goods matters more than other activities in an economy.
2. Trade in goods is a primary mechanism for enhancing a nation's standard of living.

He questions the validity of these assumptions arguing that what is the relevance of manufacturing in a world where three-quarters of the US labour force – and nearly two-thirds of Japan's – is employed in the service sector; and that the things that matter in today's global economy and trade are foreign direct

⁵ Source: OECD, 1999.

⁶ WTO (2000).

⁷ WTO (2001).

⁸ Hardware revenues accounted for 42.7%, services revenues for 37.5% of total revenues in 2000. The picture is even more striking if we look at trends (other activities like software, leasing are omitted):

Percentage of total sales	1994	1995	1996	1997	1998	1999	2000
Hardware	50.5	49.5	47.8	46.1	44.2	43.3	42.7
Services	15.2	17.7	20.9	24.6	35.4	36.7	37.5

Source: IBM Annual Report 1996, 1997, and 2000.

investment, local ownership, the ability to control, lead and manage facilities in overseas locations, and the willingness of managers who apply the best available managerial technology.

A deeper examination of the nature of services reveals why intellectual capital (i.e. humans) is so important in this type of economic transaction. Linden (2001) differentiates services from goods as follows:

A **service** is a change in the condition of an economic unit [whether a person or an organization] or of a good belonging to such an economic unit, which can be brought about as the result of the activity of some other economic unit, with the prior agreement of the former economic unit [person or organization].

A **good** is an independent object, which can be appropriated and, therefore, is transferable between economic units.

The key to distinguish between these two type of products is to define what is transacted and how. The key differentiating factor here is the absorption process. In case of services the production process is not equivalent with the actual output (i.e. the service). There is a strong temporal connection between the production process and the absorption process. The production and absorption of the change in condition constitute in themselves the transaction that can be labeled as 'joint-production'. They are perfectly complementary for a service to arise. Joint-production is the provision of a service and inter-change of the final result of joint-production is the consumption of the service.

The third aspect is **employer-employee relationship**. At Sloan School of Management there is an extensive long-running research going into thinking on new working arrangements for the 21st century. Laubacher & Malone (1997b, 1998, 2000) argue that the employer-employee relationship in the United States changed dramatically during the industrial revolution. In exchange for economic security, career development, and social connections, American workers gave up their traditional way of working i.e. exploiting their personal intuitive skills. Particularly the M-form, with its precisely defined job roles and

⁹ Source: Fortune, 1999. <http://fortune.com>

responsibilities, created the standardised ‘corporate man’. This organisational form, although successful for many decades, did not take into consideration the employees’ human aspirations. Well-suited for the industrial age, in the information age it is more a disabler than an enabler. It holds back creativity and innovation. Not surprisingly, more and more people prefer freelancing to a tightly defined ‘job’.

Laubacher & Malone (1997a) present the results of a scenario building exercise at Sloan School of Management. This exercise resulted in two possible scenarios for the future that are positioned at two extremes: the first is predicting the death of big corporations and sees the prevalence of small, temporary firms that are formed on a temporary basis (i.e. for a particular project) and consist of freelancers. The other predicts the dominance of a small number of huge corporations, extending across national boundaries that control the global economy. In my view the reality is much closer to the second scenario due to the importance of component 2 and 3 of intellectual capital, which is proprietary and cannot be resolved within the framework of a continuously changing network of freelancers. Nevertheless, the message is clear: the M-form is no longer feasible in a services-led knowledge economy where employees need to leverage their creativity every day. As Percy Barnevik¹⁰, former CEO and president of ABB expressed:

“Our organisations are constructed so that most of our employees are asked to use only 5% to 10% of their capacity¹¹ at work. It is only when those individuals go home that they can engage the other 90% to 95% - to run their households, lead a Boy Scout troop, or build a summer home. We have to be able to recognise and employ that untapped ability that each individual brings to work every day.”

¹⁰ In Bartlett & Ghoshal (1995b).

¹¹ Obviously, Barnevik refers to intellectual capabilities like creativity, innovation, not to physical presence at the workplace.

From all this we can conclude that in order to sustain and build competitive advantage over competitors, managers of today's MNCs are faced with the following challenges:

- What kind of new MNC mentality is needed for the 21st century?
- What kind of organisational structure is best suited to cope with the external environmental forces and to enable its employees to leverage their human potential to provide the required extraordinary performance.

The next section deals with these issues.

2.4 Transnational Corporations for the 21st Century

Faced with the growing complexity of the external environment, MNCs experimented in the 1970s with several new structures. Especially the matrix structure was popular. Top management hoped that balancing different perspectives, namely product, function, and geographical area, could counteract increased market complexity. As Bartlett & Ghoshal (1992) and Brouwer & Volberda (2000) point out, this organisational structure did not work, although theoretically should have worked. Dual reporting lines led to conflict and confusion, and slowed down the decision making process. The underlying cause of the failure was due more to the fact that the matrix structure or other combinations of the traditional structures did not overcome the basic deficiency of the M-form, the premise of command and control. Top management focused primarily on formal structure but left the command and control mechanism more or less intact in an era when the driving force is services, which in its turn is based on intangible assets (i.e. intellectual capital). Professionalism of employees grew significantly compared to the previous decennia, and it is exactly this professionalism that is required in the knowledge economy for more entrepreneurship and innovation. Belbin¹² calls the continuation of the command and control principle management miss number one.

Bartlett & Ghoshal (1992) coined the term transnational for the new type of corporation. In MNCs that pursue this mentality there is a complex process of co-ordination and co-operation in an environment of shared decision-making. This is an *integrated network*. Resources and capabilities are distributed and

¹² In Spaninks (1998).

specialised. There are large flows of components, products, resources, people, and information among interdependent units. This type of MNC must possess the following characteristics:

1. Multidimensional perspectives: Strong national management is needed to sense and represent the changing needs of local customers and the increasing pressure from host governments; capable global business management is required to track the strategy of global competitors and to provide the co-ordination necessary to respond appropriately; and influential functional management is needed to concentrate corporate knowledge, information, and expertise, and facilitate its transfer among organisational units.
2. Distributed, interdependent capabilities: In this configuration, management considers each of the world-wide units as a source of ideas, skills, capabilities, and knowledge that can be harnessed for the benefit of the total organisation. Efficient local plants are converted into international production centres; innovative national or regional development labs are designated the company's "centre of excellence" for a particular product or process development; and creative subsidiary marketing groups are given a lead role in developing world-wide marketing strategies for certain products or businesses.
3. Flexible integrative process: Management must be able to differentiate its operating relationships and change its decision-making roles by function, across businesses, among geographic units, and over time. The management process must be able to change from product to product, from country to country, and even from decision to decision.

This type of organisation is depicted in Figure 2-4.

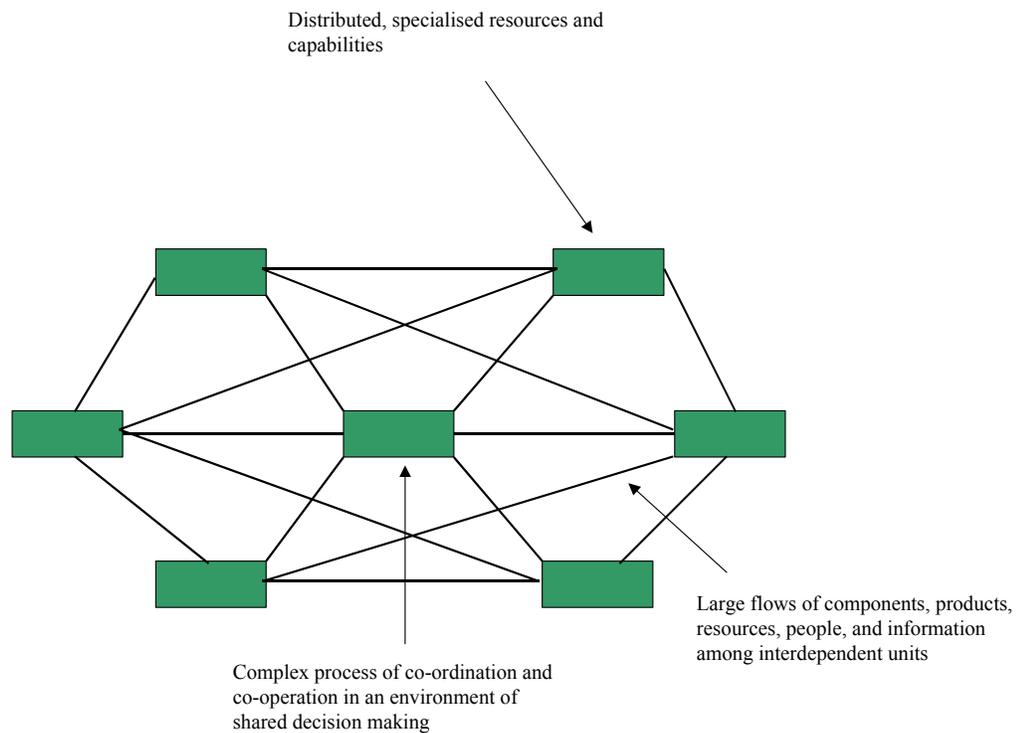


Figure 2-4 Transnational Organisation Model: Integrated Network

In practice, in the late 1980s and early 1990s a number of revolutionary companies began to experiment with a new organisational model in order to overcome the deficiencies of the M-form. Bartlett & Ghoshal (1993) studied companies that were in complex and dynamic business and were adopting radical changes, like Intel, Nike, 3M, ABB, Electrolux, and others. Examining the case of ABB they conclude that the new organisational model created by ABB's revolutionary CEO Percy Barnevik can be understood using classical theoretical models (Chandler's structural model¹³, Bower's strategic process model¹⁴, and Cyert & March's behavioural theory¹⁵) but they also emphasize that the new organisational model is a departure from the M-form model so well described by the traditional (and complementary) theories. Barnevik's intention was to broaden the three basic processes present in the M-form in order to create an organisation that would better adapt to the new business environment. Its new entrepreneurial process highlights the need to supplement top management's direction and control with front-line initiative and flexibility; the

¹³ Chandler (1962).

¹⁴ Bower (1970).

¹⁵ Cyert & March (1963).

new integration process creates a horizontal information processing capability that is superior to the previously dominant vertical mechanisms; and the new renewal process imposes a dynamic tension into the organisation that prevents it from developing strategic commitments at the cost of organisational adaptability.

Later, in an article-trilogy, Bartlett & Ghoshal (1994, 1995a, 1995b) further generalise their findings and conclusions, and argue that in order to create the new organisation for the 21st century that pursues a transnational mentality, two deeply rooted aphorisms in the Western business thinking should be reconsidered. These are: “Structure follows strategy. And systems support structure.” They advocate that purpose should be superimposed over strategy, processes over structure, and people over systems. The great power – and fatal flaw – of the strategy-structure-systems framework lay in its objective: to create a management system that could minimise the idiosyncrasies of human behaviour. In the industrial age, when the scarcest corporate resource was financial capital, it served well. In the information age, when the scarcest corporate resources are the knowledge and expertise of the people on the front lines, the purpose-process-people doctrine is required. This new approach does not mean the abolishment of the strategy-structure-systems framework, rather a deepening of it. Getting to this new doctrine requires a fundamental change in business philosophy and will serve as framework for the empirical study of the four reference companies and IBM Global Services. Therefore these three dimensions will be briefly discussed.

Purpose versus strategy

The first element of the new doctrine breaks with the assumption that strategy setting is the sanctuary of top management. In an environment where the fast-changing knowledge and experience required to shaping a company’s strategy are usually found on the front lines, this premise is untenable. This does not mean that top management should not retain control over the processes that shape the company’s strategic priorities. It requires a shift in its role: senior managers need to create an environment where the employees of the firm understand what their firm stands for and with which they can identify. The emotional linking of employees to the company requires the following steps:

- Embedding corporate ambition: Formal, contractual relationships do not inspire the extraordinary effort and sustained commitment required to deliver consistently superior performance. Next to

this, strategic visions can be so broad that they do not convey any meaning to people on the front lines. The biggest challenge top management faces is to embed a clearly articulated, well-defined ambition in the thinking of every individual while giving each person the freedom to interpret the company's broad objectives creatively. To achieve this, a company's objectives should be defined in such a way that they have personal meaning for employees. Next to this, the mission statement should be broad enough to involve the organisation in interpreting, refining, and making it operational. Last but not least, everyone needs to believe that the articulated ambition is legitimate and viable; the best way to achieve this is to make tangible commitments like conducting Strategy Discussion Forums or to make investments in those areas that support the articulated ambition.

- Instilling organisational values: Mere financial targets usually do not inspire employees. As Goran Lindahl of ABB puts it: “managers are loyal not to a particular boss or even to a company but to a set of values they believe in and find satisfying.” Changing the value system of a company is probably one of the toughest jobs because it is usually intangible and deeply rooted. If new values are necessary they should be built on the existing core values. Next to this, the new values should be translated into operational deeds and continuously communicated. This activity on the other hand has pitfalls. Because values translated into operational objectives become quantified, unavoidably the hard drives out the soft. Therefore corporate objectives should also contain targets that are qualitative, like becoming America's most admired corporation.
- Giving meaning to employees' work: Today's corporations are more than an economic entity. People do not just want to work for a company, they also want to belong to a (social) organisation. Recognising individual accomplishments is key in this process. This means that not only the star performers should be recognised and celebrated but those too, who sustain the organisation. Another important factor is to redefine employee training and development: instead of training employees for job skills, companies need to develop the capacity of their employees for personal growth. Last but not least, fostering individual initiative can contribute largely to the growth of the corporation. Creating an environment in which every employee, down to the front lines, has access to vital information, thus encouraging co-operation and initiative taking because every individual feels that its initiatives contribute to the overall corporate goals.

Process versus structure

Structures were built in the M-form in order to maintain internal order. The hierarchical structure, however, can be an impediment. As Jack Welch of General Electric puts it: “The result is an organisation with its face toward the CEO and its ass toward the customer”. Percy Barnevik of ABB knew that structure was only one instrument of organisational change. He emphasises processes. His aim was to create an organisation in which entrepreneurship could flourish in the frontline operating units, in which the competence and competitive strengths in those small units could be linked across organisational boundaries, and in which an ongoing renewal process would keep today’s best practices from becoming tomorrow’s inflexible dogma. Creating processes requires more than just developing and laying down a new organisational structure. Again, it has to do more with soft issues. Let us look at these three core processes:

- The entrepreneurial process: The most disastrous effect of a multi-layered bureaucratic structure is that it destroys managerial entrepreneurship. The intermediate management layers (usually up to 7-8-9 layers in a classical M-form) played an important role in filling the information gap between frontline managers and top management. The down side of this structure is that it distorts information, slows down the bottom-up initiative process, and degrades frontline managers to implementers. A bottom-up entrepreneurial process can occur only when frontline management’s role is transformed from implementer to initiator and when senior management’s role is to provide a context in which entrepreneurship can happen. A logical conclusion is that small, highly autonomous frontline units with profit responsibility can enhance innovative entrepreneurship complemented with a leaner and supportive middle-management layer. Therefore frontline units should be the primary locus of the organisation’s assets and the centre of management’s attention and support. Being a small unit, however, does not automatically lead to innovation. Hence one of top management’s most important tasks is to establish internal discipline and to set the performance standards that will motivate frontline managers to superior performance.
- The competence-building process: Highly autonomous units optimally sense opportunities and are best placed to develop competences in order to exploit those opportunities. Top management can help in developing and nurturing those competences. Instead of defining, controlling, or

allocating competence, senior management performs best if creates an environment that allows it to develop and diffuse deep within the organisation. The key is on the latter. If frontline units become self-sustainable, inertial forces come into action. In order to prevent this from happening, several instruments must be used. First, top management must create mutual dependency and reciprocity by creating frontline units that are viable but not self-sustainable. Second, knowledge (component 2 of intellectual capital) should be centralised, through sophisticated electronic networks. Third, it must create an environment wherein cross-unit collaboration is enabled by shared values and supporting processes.

- The renewal process: Highly successful units can become relaxed and comforted by their own success. Especially in today's rapidly changing environment this poses a paramount danger. Senior management can prevent this by disturbing the organisation's equilibrium in two ways. First, by continuously challenging frontline management's assumptions (in a coaching mode). Second, if necessary, by directly intervening to shake up operating units that have grown staid or comfortable.

People versus systems

Systems and especially formal systems ensured control and conformity in the M-form. They also inhibited creativity and initiative. This does not mean that systems can be thrown overboard. Today's challenge is to redefine them so that they support rather than subvert top management's ability to focus on the organisation's people. This can be achieved in the following ways:

- Setting direction by deploying key people: If systems are seen as only one component of an organisational infrastructure, then individual persons must take on more responsibilities. This delegation process cannot happen overnight. Careful "human engineering" is needed as Goran Lindahl of ABB puts it. Key people need to be coached and top management's challenge is not only to help them develop themselves but also to ensure that they do so in ways that support and reinforce the company's objectives. Next to this, a thought assignment system should be put in place in order to expose those key individuals to different environmental challenges and ensuring that different assignments are not experienced as banishments.

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- Achieving control through internalised behaviours: Tight and formal top-down control systems do not always achieve their goal, because of their punishment character. Well-informed, professional frontline managers can understand well the corporate objectives and are able to measure their own performance against those objectives. When companies develop open and democratic control systems, which provide every manager, regardless of its rank in the organisation, with the same accurate and timely information, a self-regulatory process starts to develop. In this case, every manager can see its peers' performance; hence it can use those as benchmarks. A healthy internal competition emerges and managers will actively seek out best practice to improve performance.
 - Managing information flows through personal relationships: In a rapidly changing and complex environment, formal systems are not well suited to capture, aggregate, and diffuse timely information. Vertical communication links short-circuit this process. The challenge most managers realise is to build a network through which all members of the organisation can exchange information, develop ideas, and support one another. Information can no longer be aggregated and stored at the corporate level only; it must be distributed and exploited at all levels as a source of competitive advantage.

3 Reference Cases

3.1 Introduction

In this chapter four outstanding MNCs are examined in the light of the previously presented framework.

These corporations were chosen on the following criteria:

- Show thought leadership that is translated into world-class performance.
- Ability and willingness to experiment with new organisational models in order to cope with the new challenges.
- Strong presence in the Netherlands through affiliate(s) that are not mere sales channels but contribute significantly to the world-wide organisation's strategy execution and results.

These MNCs, through their different history and mentality, can provide an excellent reference for IBM Global Services. ABB, a relatively new Europe-based MNC, has its roots in Sweden and Switzerland, and its first CEO Percy Barnevik had the task and possibility to shape a new organisational structure and experiment with a new model so heavily documented in the literature and business press. Unilever, the Dutch-British MNC, has a much longer history with an outstanding record of ability for change. Siemens, the Germany-based technology multinational, prevails not only with her high quality standards but also with a strong local mentality. Last but not least, General Electric, the U.S.-based high-tech MNC with a long history and today's most admired corporation. They are presented in alphabetical order.

3.2 ABB

Asea Brown Boveri (ABB) was formed in 1988 when two lacklustre giants, ASEA AB of Sweden (established in 1883) and BBC Brown Boveri of Switzerland (formed in 1891), combined their electrical engineering and equipment businesses. Percy Barnevik, head of ASEA, became CEO¹⁶. In order to build global presence, ABB acquired Combustion Engines and Westinghouse in the U.S.; more than 150 further acquisitions were made (coupled with divestures) in the following six years on a global scale. Barnevik anticipated the creation of the single European market and realised that there was an overcapacity in the fragmented European electrical engineering and equipment business. In this light, his move to form ABB can be seen as a bold strategic pre-emptive move. The strong European heritage of the parent companies and Barnevik's intuition that the M-form is no longer suitable for the vision he had in mind led him to conclude:¹⁷ "We want to be global and local, big and small, radically decentralized with centralized reporting and control".

There can be no doubt that Barnevik's personality was a driving factor behind the formation of a global electrotechnical giant in an impressively short timeframe: revenues exceeding \$22.9 billion in 2000, with more than 160,000 employees in more than 100 countries¹⁸. His talent to cope with cognitive complexity helped him to reduce complex issues to such an abstract level that the rest of the organisation could understand them. He laid down a matrix structure based on two lines: countries on the one hand for strong local presence and business areas (BAs) on the other hand to provide global strategy setting and co-ordination. The revolutionary move was in the way this matrix was constructed. The 'radical decentralisation' was philosophically a significant departure from the classical M-form because its underlying logic was to provide self contained and manageable units with overview.

This logic was translated into action along the following key decisions:

¹⁶ Source: Hoover's, Inc., 2000. <http://www.hoovers.com>

¹⁷ In Taylor (1991).

¹⁸ Source: ABB Group Annual Report 2000.

- Radical decentralisation and delegation of responsibility: ABB was organised as a federation of companies: $\pm 1,300$ legal entities and $\pm 5,000$ profit centres¹⁹. The logic behind this was that employees would lose the false sense of security of belonging to a big organisation and would develop more entrepreneurship skills. The number of management layers was lowered to 4 and bureaucracy was decimated; the headquarters in Zurich employ no more than 150 staff (ASEA had 2,000 in Västrås, Sweden and Brown Boveri 4,000 in Baden, Switzerland before the merger).
- Binding: To prevent units becoming self-sustainable²⁰ that would increase inertial forces, units were structured such that they in most cases could not expect to fully develop or control all required functional capabilities themselves. Freed up from the traditional bureaucratic burden, management could now devote much of its attention to managing the horizontal interdependencies.
- Informal communication: Central element in managing this network organisation was the development of a transparent and timely management information system (ABACUS) and the nurturing of an informal communication culture.

The critical success factors to achieving these goals were speed, communication and shared values; these are still regarded the critical success factors at ABB during the recent organisational changes. Speed is quintessential in such a diverse and multi-culture organisation in order to overcome resistance²¹. Communication plays an important role to get buy-in and support. Last but not least, the company's 'Mission, Values and Policies' document is the underpinning element in the rapid organisational change process because it establishes those objective criteria and shared values upon which the process is carried out.

From the Dutch ABB organisation's point of view it is acknowledged that the relatively strong position of countries in the early 1990s was a necessity not only from a local sales perspective but also from an

¹⁹ In Bartlett & Ghoshal (1993) and Kets de Vries & Florent-Treacy (1998).

²⁰ Self-sustainable here means capability to act independently from the rest of the corporation; these units are of course required to be profitable.

²¹ Kennedy (1998) gives another example how a former ABB top executive changed the culture at Siemens Nixdorf in a record timeframe.

identity one because at that time there was no corporate sense of belonging. During that period the country organisations provided that identity.

In recent years a shift within the matrix took place with the co-operation of countries. The growing power and needs of global customers resulted in a shift in P&L responsibility towards the business areas. During 2001 the matrix structure was abolished (geographical element) and ABB realigned herself along customer groups.

This step has major consequences for the Benelux organisation, too. Sales remain the responsibility of local companies whereas P&L responsibility is centralised and driven by business areas (headquarters). This process is again managed, keeping in mind the success factors previously mentioned: speed, communication, shared values. Despite the pressure on organisation induced by this change, the managers can rationally accept it. This change also shifts the focus and tasks of country management; its focus is therefore concentrated on market position, human resource management, competence building, and coaching.

Key findings:

- ABB's European roots and her recent formation made possible the pursuit of a transnational mentality from the onset.
- Barnevik's revolutionary network structure was a radical departure from the classical M-form that greatly influenced business thinking.
- Eliminating bureaucracy and creating a lean organisation frees up creative energy and stimulates entrepreneurship.
- The critical success factors for such a deep organisational change are speed, communication, and shared values.
- Increasing globalisation forces necessitate a sharpened market focus and a shift towards centralisation.

3.3 *General Electric*

General Electric was established in 1892 in New York, the result of a merger between Thomson-Houston and Edison General Electric²². The purpose was to establish a broad basis in electricity: power generation (turbines), electrical distribution (cables, transformers, switches) and consumption of electricity (lamps, appliances, consumer electronics, medical equipment). All this evolved further from turbines to aircraft engines and marine propulsion, from insulation to plastics, and from X-ray to CT-scanner. During the last twenty years, under the leadership of Jack Welch, who is widely viewed as one of the best corporate leaders in the U.S., General Electric has become not only a seemingly unstoppable global growth engine but also America's most admired company for the fourth consecutive year²³. What is the secret behind this undisputable success?

If one takes a look at the Annual Reports²⁴ of GE it may come closer to the answer. The focus is not on the products and services GE delivers but on soft issues, culture or "The GE Operating System" as the GE Annual Report 2000 calls it. The essence of Welch's two decades of leadership was to shape a company culture that enables GE to act as a fast, entrepreneur-like organisation (typical for small organisations) and in the same time to leverage the power of a huge corporation. According to Vaghefi & Huellmantel (1998) the Welch-era was the culmination of a process that started 50 years ago and consistently pursued by four generations of excellent top leaders, namely Cordiner, Borch (strong technological leadership), Jones (laid the foundations of a strong financial organisation), and Welch.

Despite the great achievements under earlier leaders, GE was facing a troubling future at the dawn of the 1980s because growth was mainly dependent of GNP (single-digit), revenues came from U.S and some export (endangered by increased competition due to imports from low-wage countries), and the business activity was a hodgepodge of products, divisions, and markets. Jones realised this well when he wrote a letter to stockholders in 1980²⁵:

²² Source: Hoover's, Inc., 2000. <http://www.hoovers.com>

²³ Source: Fortune, 2001. <http://fortune.com>

²⁴ GE Annual Report 1985, 1990, 1993, 1998, 1999, and 2000.

When Welch took over the leadership in 1981 he wrote²⁶ to the shareowners that “Mr. Jones left us a healthy company ... one with a strong balance sheet and a record of sustained earnings growth.” Nevertheless, he realised that in order to maintain GE’s position in the changing business environment a revived business model would be required that should rely on the following pillars:

- More focused vision that gives every division purpose. The vision should give clear guidance to create the competitive edge in technology, productivity, and market position today and in the future.
- Managers should act as entrepreneurs not bureaucrats in order to achieve excellent ‘numbers’, live up to the company values, and promote them to other divisions world-wide. They should be measured and rewarded accordingly.
- The company should nurture a learning culture in order to being able to continuously adapt to the changing global business climate. Adaptation means hiring and retaining people with the ‘right’²⁷ skills and attitude, and laying off those with the ‘wrong’ ones.

Welch’s era can be subdivided into four phases (for an overview of key facts see Appendix 2 Four Phases of Welch GE):

- **Restructuring (1981 – 1985):** The key element during this period was the conception of a new business strategy that was designed to instil clarity into an organisation that outsiders had described as a confusing conglomerate. He called it “#1, #2 ” in each part of the world. This meant that GE should be in those businesses only where it could acquire market position number one or two due to market leadership, technological supremacy, and high productivity. He divided the GE businesses into three circles²⁸: one circle contained GE’s core businesses; the second circle contained GE’s high-technology businesses; and the third circle contained GE’s service businesses. Those businesses that fell outside these circles were not automatically doomed to purgatory. The motto was “fix, close, or sell”²⁹. Pursuing this strategy meant taking tough

²⁵ In Tichy & Sherman (1993), page 28.

²⁶ In Slater (1993).

²⁷ ‘Right’ and ‘wrong’ here means: people that fit or do not fit into GE’s culture.

²⁸ In Slater (1999).

²⁹ Fix: fix the problem – workforce, investing in technology to create market leadership).
Close: if it cannot be fixed or sold.

decisions like massive layoffs (the workforce was shrunk from 404,000 to 304,000) and divestiture of some 125 businesses. Despite these results the strategy had a built-in flaw: over time, the strategy tended to be limited because the natural tendency of GE managers was to define markets in a too narrow way in order to virtually guarantee position number one or two. The next phase was launched to cope with this deficiency.

- **Work-Out (1988 – 1992):** Work-Out began in October 1988. Its intellectual underpinnings from worker involvement to continuous improvement were not revolutionary ideas on their own. The uniqueness of the programme was its vast scale; by mid-1992, over 200,000 GEers had experienced Work-Out³⁰. It had four major goals to introduce speed, simplicity, and self-confidence on all levels (by setting up new appraisal techniques, among others), building trust, empowering employees, eliminating unnecessary work, and nurturing a boundary-less organisation. In order to break the “not invented here” syndrome, a related programme called Best Practices was started. In 1988 nine multinationals including Ford, Hewlett-Packard and two of Japan’s best-known multinationals were selected and studied to reveal their success in some aspects of their business such as: introduction of new products, quick market intelligence, and solving technological defects.
- **Change Acceleration Process (1992 – 1995):** The Change Acceleration Process attempted to systematically breed a new type of GE manager, i.e. that GE’s leaders become professional change agents rather than mere managers. Its aim was to nurture a company culture where competence becomes more important than position, where nobody can hide behind a title or a desk. During this period significant investments were made in digitisation of processes to accelerate information exchange, to support decision-making, and reduce costs.
- **Six Sigma (1995 – 2000):** This initiative has been started to dramatically improve all processes. It focused again on carefully selected and trained employees, who executed it continuously in countless projects.

Sell: if it has no strategic fit: e.g. selling the TV-business to Thompson in exchange for its medical equipment business.

³⁰ In Tichy & Sherman (1993).

GE is present in the Benelux region through highly autonomous companies that are run through the global divisions. They are headed by (globally selected) managers that act as entrepreneurs and share the common company values.

Key findings:

- In 50 years, under the leadership of four outstanding top leaders a consistent strategy has been carried out in order to maintain GE's visionary focus, increase its entrepreneurship and making it a learning company.
- Defining a vision and goals, and well communicated to the whole organisation can keep a very diversified corporation like GE focused.
- Eliminating bureaucracy enables a giant corporation to act as a small entrepreneur-like firm that can be managed through processes not structure. Key to this is to let managers own their business as long as they bring the numbers (financial results) and live up to the company values.
- Key to this process is a total commitment to people's personal aspirations. Therefore a company culture is needed that can be described as boundary less around the globe by means of management training and appraisal system.
- GE values organisational culture as her most valuable asset. It not only produces outstanding financial results but also makes the execution of 21st century strategies possible. Due to this cultural shift GE was able to become a truly transnational corporation (moving from a U.S. focus to a world-wide one).
- The selection process of leaders in all echelons is straightforward. At every level, first a strategy is selected and then, and only then the right person to execute that strategy is selected (based on its capabilities and attitude; availability is never an obstacle to job rotation). There are ample examples that people of different nationalities can obtain positions at every GE affiliate.
- GE moved from a producer of capital goods and products towards a service oriented company by providing services.

3.4 Siemens

In 1847 electrical engineer Werner von Siemens and craftsman Johann Halske formed Siemens & Halske to make telegraphs in Germany³¹. In the last one-and-a-half century Siemens played an important role in the high-technology sectors ranging from the energy equipment through industrial systems, healthcare, household appliance to information and communication. Mainly a European player in the pre WWII-era, in the 1950s it established a presence in the U.S. and Japan, too, through acquisitions and strategic alliances. Under the stewardship of her current CEO, Dr. Heinrich von Pierer, it is undergoing a major restructuring in order to get more focus in her business activities. The goal is to be or to become #1 or #2 in each of the business areas. Within this context Siemens in the recent years has made a number of great acquisitions:

- Acquisition of Landys and Steaefa, and its integration with the existing activities leading to the creation of Siemens Building Technologies AG (located in Zurich).
- Acquisition of Westinghouse and its integration into the Power Generation division.
- Acquisition of Atecs Mannesmann; its automotive activities were integrated into Siemens VDO Automotive AG, Dematic into Siemens Dematic AG and Demag Delaval into the Power Generation division of Siemens AG. Other parts of Atecs Mannesmann were sold.

Next to this, Siemens brought the semiconductor division into a standalone company called Infineon. It reduced her share in Infineon to $\pm 47\%$ by making the company public. The PC-activities were brought into a joint venture with Fujitsu.

Siemens' European heritage puts a strong stamp on her organisational structure and culture. It has a strong country focus that is combined with divisions that together form a matrix. The headquarters exercise strong financial control (in 2000 Siemens went public in the U.S. therefore introduced a strict EVA system) but the individual countries enjoy much freedom as long as they meet the financial targets. Recently acquired companies are kept apart in subsidiaries and there is a tendency towards a holding-structure.

³¹ Source: Hoover's, Inc., 2000. <http://www.hoovers.com>

The basic philosophy is that Siemens should leverage her global knowledge and expertise and in order to stay close to customers a strong local image is needed. It is this strategy that helped Siemens Nederland to be seen as a national high-tech company in the eyes of many governmental decision makers and assures her excellent market position in several sectors.

The Dutch Managing Board is responsible for the co-ordination at country level. One of its main tasks is to sort out conflicts that arise from the dual reporting structure. This is of utmost importance because customers request from Siemens end-to-end solutions regarding her broad-based portfolio and her global expertise. To make this possible the Managing Board has chosen a market-oriented organisation instead of an organisation based upon the world-wide divisions of Siemens.

The company structure and culture is shaped such that it can achieve her mission: “to increase the added value in the Netherlands”. Recent restructurings led to a leaner, more flexible and learning organisation (less management layers, increased job rotation). The vision, summarised as “Excellent Entrepreneurship”, goes beyond business goals, it focuses on employees and on the broader society, too. In order to achieve this, a continuous quality improvement programme has been started in the recent years. In full compliance with the European mentality of Siemens, the broad-base EFQM³² Excellence Model has been chosen; the programme is operational for three years. Improvements are not only reflected in better financial results³³ but also in winning the Dutch Quality Award in 2000 and becoming Finalist European Quality Award in 2001, the first Dutch company to achieve this.

Siemens Nederland is of course not a mere local company. R&D is centralised in Germany and U.S. (the top 20% echelon is internationally hired) but services make knowledge sharing a must. Especially for a relatively small subsidiary with limited resources like the Netherlands ($\pm 1.7\%$ from revenue perspective

³² EFQM: European Foundation for Quality Management.

³³ All amounts € x 1.000.000. Source: Siemens Nederland N.V. Jaarverslag 2001.

	1998/1999	1999/2000	2000/2001
Sales	1,272	1,317	1,451
Net profit after taxes	42.4	45.8	66.0

and $\pm 0.7\%$ from workforce³⁴ perspective) is knowledge management an absolute necessity. Due to the European mentality the internationalisation of services evolves in an evolutionary manner, bottom-up. The relative freedom given by headquarters makes possible for the Regional Companies to build up competence in special areas. When competence centres in other parts of the organisation were performing poorly (e.g. harbour infrastructure) or new market areas evolved like wind energy, the headquarters approached the Dutch organisation to take over these responsibilities. They took the initiative and several competence centres are now located here. In order to inform the rest of the Siemens organisation about the activities and experiences of these competence centres, an informative and professionally designed journal - *The Competence Journal* – has been created.

Key findings:

- The European roots and mentality of Siemens provides the Regional Companies enough freedom to develop a strong local identity and presence.
- The strategy of Siemens is to sharpen her focus within her product/services-portfolio.
- There is a clear shift toward services. It is Siemens' unique competitive advantage to offer end-to-end solutions by leveraging her global knowledge and expertise.
- In order to achieve this, Siemens Nederland became leaner and more flexible, where “we do not draw organisation charts any more”.
- In order to increase the added value in the Netherlands, Siemens Nederland embarked on a continuous quality improvement programme that already produced positive results.
- According to the initiative taking mentality of the Dutch, Siemens Nederland plays an important role in several areas as generator of intellectual capital through her competence centres.

³⁴ Calculated from Siemens Annual Report 2001 and Siemens Nederland N.V. Jaarverslag 2001.

3.5 Unilever

After sharpening his sales skills in the family wholesale grocery business, Englishman William Lever formed a new company with his brother, called Lever brothers. Rival Dutch butter makers Jurgens and Van den Berghs were pioneers in margarine production. In 1927 they created the Margarine Unie, a cartel that owned the European market. The Margarine Unie and Lever Brothers merged in 1930, but for tax reasons formed two separate entities: Unilever PLC in London and Unilever N.V. in Rotterdam³⁵. This Europe-based giant down-to-earth joint venture owns her success to a consistent multinational mentality, clearly stated by her own definition: “*a truly multi-local multinational*” (see Appendix 3 Unilever’s Corporate Purpose). Through the years Unilever evolved into a transnational corporation in an evolutionary manner, by trial and error. Maljers (1994), former co-chairman and CEO, underlies that the company has always focused on two consistent and related practices when conducting structural changes:

1. Recruitment and training of high-quality managers.
2. Realisation of the importance of linking decentralised units through a common corporate culture.

This practice has been sharpened in the recent years with a shift in the appraisal and reward system of management towards variable pay (options, bonuses, etc).

In order to sharpen the focus of her broad product-portfolio, Unilever announced in August 2000 an evolution of her top management structure, creating two global divisions – one for Foods and one for Home & Personal Care (HPC), with effect from 1 January 2001. According to this structure, these global divisions’ operations are organised into Business Groups on a regional basis (with a few exceptions). This move has been accompanied by a divestment and acquisition programme (e.g. acquisition of Bestfoods in the U.S., and selling a number of European food brands and the Bestfoods Baking Company). The number of products will also be lowered from about 1,600 to 400.

The new strategy intends to put more emphasis on global efficiency, induced by globalisation forces. Because of falling trade barriers and political integration, large regional trading blocs are emerging, e.g.

³⁵ Source: Hoover’s, Inc., 2000. <http://www.hoovers.com>

U.S., EU, China. Coupled with a ‘harmonisation’ in consumer taste and habits, larger regions can be targeted with a narrower product-portfolio, which enables greater economies of scale. Global efficiency has become a necessity due to the increased power of wholesalers. Unilever has in the EU only four major wholesalers as customers. In order to cope with the new reality, the whole production system has been reorganised. The supply chain has been decoupled from the marketing and sales organisation; factories were consolidated (e.g. the number of ice-cream factories in Europe has been brought down from 36 to 6) and operate now as cost-centres. Inbound and outbound logistics are also centralised and happen on global (or regional) level. Branding has become global and the globalisation of marketing reflects this.

This reorganisation thus leads to a decreased autonomy of local operating companies. Reinforcing strong local management compensates this because being close to local consumers is the cornerstone of Unilever’s *raison d’être*. In India for instance, where Unilever is the biggest non-governmental employer, top management consists exclusively of local people. In China, 90% of top management is made up of ex-pats but a new generation of Chinese managers is trained in the Netherlands in order to lower the number of ex-pats in China.

The glue for this locally oriented and decentralised organisation is finance (stability, reserves, etc), recruitment (strong image that attracts the best people), and global learning capability (e.g. using process technology developed for a specific product line for other product lines). In order to achieve this, Unilever nurtures a networked corporate culture based on top local people who share the common corporate culture. Four processes contribute to this goal:

1. Recruitment: Advanced managerial selection methods are used (pioneered since the 1950s) to recruit the best university graduates. Examples include teams of Unilever managers who spot talent in local universities at an early stage, prizes given to young scientists, sponsoring business courses for university students in many countries.
2. Training: Unilever’s international management training college in Four Acres near London (opened in 1955) and other training facilities are not only hotbeds for training young managers but also a first step in creating their informal network. Every year 300 to 400 managers attend

classes and this shared experience creates an informal network of equals who know one another well and usually continue to meet and exchange experiences.

3. Assignments: There is a new trend in international career paths in recent years. People who want to achieve international career are more frequently sent to shorter assignments (e.g. 6 months) to headquarters or to subsidiaries. The idea is to expose key people to different cultural environments in order to pollinate the overall organisation with their diverse experiences.
4. Community building: Much attention is given to the social factors like ergonomical work environment, the 'coffee-corner', shopping service at discount rates.

The renewal process is carefully monitored and managed by the corporation's top management. When a subsidiary of a division becomes complacent, top management steps in directly..

Key findings:

- Unilever's strategy evolution from multinational mentality to transnational mentality involved an evolutionary process.
- One of the key elements of the new strategy is to get a sharpened focus on the product-portfolio.
- Responding to the globalisation forces, Unilever emphasises more the regions versus national states, and concentrated and centralised the production facilities.
- Strong local presence is preserved, underlined by support for local management.
- The binding elements of this diverse and multi-local MNC are: common corporate culture, and networking. The pillars of the common corporate culture are the shared mission, the same systems and policies that are known by everyone. Careful recruitment, training, assignment, and community-building processes underpin this.

4 IBM Global Services

4.1 Introduction

In 1914 National Cash Register's star salesman, Thomas Watson, left to rescue the flagging Computing-Tabulating-Recording (C-T-R) Company, the pioneer in U.S. punch card processing that had been incorporated in 1911. Watson turned the fortunes of C-T-R around and the company became International Business Machines (IBM) in 1924³⁶. The company unveiled its first computer in 1952. With its superior research and development and marketing, IBM built a market share near 80% in the 1960s and 1970s. The PC revolution in the 1980s, coupled with an IBM organisation grown distant and unresponsive, sent the IBM stock into freefall in the early 1990s. Plans were made to split the company into 13 parts. Then on April 1, 1993, Louis V. Gerstner Jr., became IBM's CEO, the first outsider in the company's history.

There can be no doubt that hiring Gerstner was the biggest move in IBM's recent history. He stabilised, and then revived IBM within an impressive short timeframe. Only three years after he became CEO, IBM was back on track again, re-gaining the respect of many customers, the stock market and the business press, e.g. Sager (1996), Morris (1997). Nothing proves better he was right when betting on services than IBM's main competitors' wish to emulate this strategy. One of the most highly publicised cases is of Hewlett-Packard's; its CEO's desire to acquire the consulting arm of PricewaterhouseCoopers, then when that attempt failed, Compaq³⁷. This year's January 14th edition of BusinessWeek puts Gerstner on the top of its "The top 25 managers of the year" list quoting his two key accomplishments:

1. Services should bring in \$5.3 billion profit on \$35.7 billion in revenue.
2. The stock was up 45% as of Dec. 28, vs. an 8% loss for the S&P 500.

What kind of IBM do we have now, when the Gerstner-era has reached its end?³⁸

³⁶ Source: Hoover's, Inc., 2000. <http://www.hoovers.com>

³⁷ In Burrows (2001).

³⁸ International Business Machines Corp. made it official on 29 January by naming President and Chief Operating Officer Samuel Palmisano to succeed Louis Gerstner as chief executive. Source: The Wall Street Journal Europe, 30 January 2002.

4.2 *From Big Iron to Integrated Services*

Soon after becoming CEO, Gerstner took a strategic decision, namely he reversed the plans to split up IBM into “Baby Blues”. According to him taking this decision was not difficult. As a long-time IBM customer at American Express and RJR Nabisco he then trusted IBM because it was IBM that solved his technological problems. He realised that IBM’s strength lies in its totality. It is interesting to note that he probably based his decision less on technological insight rather on a fundamental business intuition: IBM could again lead the IT industry if it would return to the core values Watson built upon, namely customer intimacy. Treacy & Wiersema (1997) argue that market leaders make tough choices in deciding their operating mode; when they choose between operational excellence, product leadership, and customer intimacy. The latter companies offer the best total solution by understanding their clients’ business needs and help them become more successful. IT became extremely complex during the 1980s and 1990s, with lots of hardware suppliers, software vendors, network solutions, etc. Customers were increasingly looking for a partner who can put all the pieces together in order to help them focus on their core business processes. And no other company was better positioned than IBM to glue all the pieces together.

Gerstner also acknowledged that making IBM capable for this role was the real job. First, he had to lead IBM through a rightsizing phase in order to stabilise it: he had to deal with massive workforce reduction (IBM had 406,000 employees in 1986, 219,999 in 1994), slashed long-term debt from \$14.6 billion to \$9.9 billion, and divested non-core businesses³⁹. More importantly, a traumatised workforce had to be re-energised, internal politics stopped and self-confidence regained. In this period he claimed that “the last thing IBM needs right now is a vision” that became so famous and often cited.

When the dust settled down and the position of IBM stabilised, Gerstner came up with a vision: to lead big companies into the new, networked world. As Gerstner told in his address to security analysts on May 19, 2001, the underpinning of this strategy was the realisation that the customer buying decision would increasingly going to be a services-led decision – not a hardware decision, not a software decision.

³⁹ In Morris (1997).

This decision is driven by three factors:

1. Skills: The industry-wide shortage is reaching epidemic levels. Customers cannot find the skills to do what they want.
2. Speed: Speed drives every CEO, and every business manager today. When you couple this with the skills shortage, you see the explosive demand for services. There is no time for companies to write their own software.
3. Imperative for integration: The e-business world creates a new dimension around integration, because now customers have to integrate technologies with their core business processes as well as integrate processes themselves that traditionally have been standalone operations: pricing, logistics, fulfilment, manufacturing.

This vision gives a lot of purpose for the new IBM. It funnels all IBM resources and attention towards one goal: being the world's number one IT integrator. It requires a renewed and sharpened focus on customer intimacy and less on a heavy technological one (especially beefed up with the not invented here syndrome, i.e. the exclusive reliance on IBM's proprietary solutions). Declaring the new vision was the easy step. The hard work just began because when IBM declared that it would be the integrator of the technological solutions, it did not have the ability to do that. A key element in the restructuring effort was the creation of a new division in 1996, called IBM Global Services, and adjustments were made to build up competences, shape a new culture and organisational structure. IBM Global Service grew exponentially, from 109,000 employees in 1997 to 149,000 in 2000⁴⁰. In 2000 alone, IBM Global Services hired more than 19,000 people. In order to capture the market possibilities, driven by the shareholders' and customers' requirements, IBM Global Services was organised along the following Lines of Businesses (LoB):

- Business Innovation Services (BIS) is a line of business that aims to help IBM's clients transform their core business processes and IT business systems and infrastructure that they fundamentally improve their competitiveness in the fast changing e-business economy.
- Integrated Technology Services (ITS) is a line of business that focuses on services associated with enabling e-business applications and the increasing spending on infrastructure services.

⁴⁰ Source: IBM Annual Report 2000.

- Strategic Outsourcing Services (SO) is a line of business that focuses on pro-actively engaging in closing strategic outsourcing deals and developing long term customer relationship in this area.

This structure is depicted in Figure 4-1.

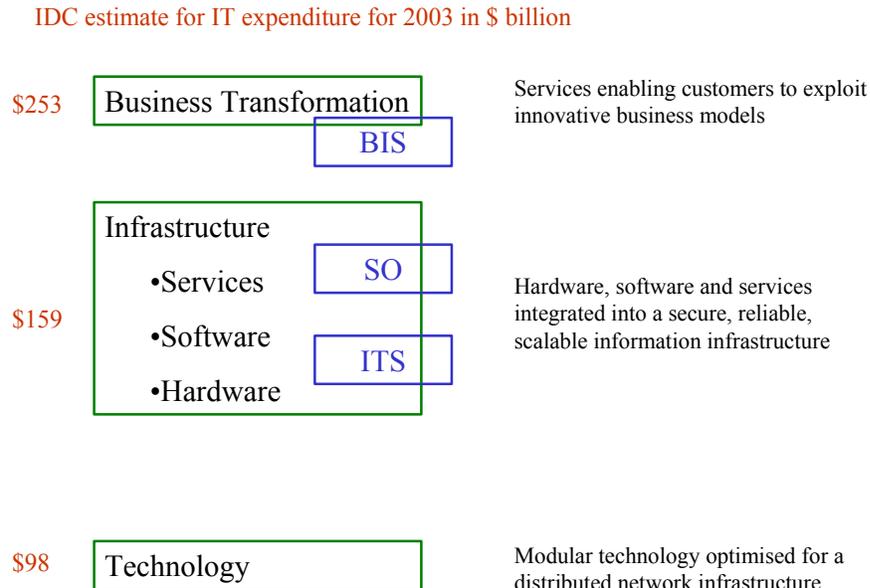


Figure 4-1 IBM's Business Model. Source: Fall Security Analyst Meeting, 2001.

Gerstner introduced within a relatively short timeframe lots of changes in the business conduct of IBM. He championed a high-performance business culture, required immediate results, and instilled the 'nothing is impossible' mentality. His successor faces the following challenges according to the Business Week's cover story on IBM⁴¹:

- Goose growth.
- Smooth execution.
- Cut costs.
- Re-ignite services.
- Pick hardware hot spots.
- Boost software.

⁴¹ IBM's New Boss; Business Week, 11 February 2002.

These challenges translate for IBM Global Services as follows:

- There is a need for a new equilibrium between central management and local autonomy. The IBM organisation necessitates strong central management, according to the international mentality due to the fact that the matrix is very complex, five dimensional; the goal is to optimise the results along the following lines: geography, brands, customer set, functions, and processes, although the priority is different based on the business model (i.e. hardware, software, services). The financial crisis in the early 1990s, however, led to an even greater centralisation because financial stability had to be regained and internal politics stopped.
- Co-ordination across Lines of Businesses is quite challenging. This needs to be streamlined because customers are interested in the overlapping, 'grey areas'.
- The almost exponential influx of people is stretching the organisation's absorbing capability to the limits. There is a need to allocate time and resources to create a stable environment where people can be properly engrained with organisational values.
- The increased amount of business information changes the essence of management, it becomes unsure. IBM breeds people who are outstanding experts in products, markets, and channels. Coupled with life-long employment it led to an organisation wherein people know very well their current situation. Today's more rapid market changes, however, necessitate faster response.

4.3 IBM Global Services in the Netherlands

The mentality pursued by IBM until the conception of IBM Global Services in 1996, was essentially international. The Dutch subsidiary was led by the Country General Manager who had overall P&L responsibility. This structure, coupled with the Dutch consensus-mentality and life-long employment contract gave the organisation not only purpose but also a sense of belonging. This situation changed dramatically with the massive restructuring. Some 3,200 of the roughly 4,500 employees of IBM Nederland N.V. work within IBM Global Services. In the recent years Lines of Businesses were established along with geographies. IBMers in the Netherlands fall under the EMEA (Europe, Middle-East, and Africa) geography and within that they belong to the region North (together with U.K., Ireland, and South-Africa). They are now exposed to an organisational structure wherein the country's meaning has changed, further accentuated by the fact that the market share of the Netherlands has a relatively small

percentage in the overall IBM business ($\pm 3\%$ of EMEA and $\pm 1\%$ world-wide). P&L responsibility lies essentially within the LoBs as IBM tries to leverage her world-wide competencies (skills transfer and sharing). The situation is further complicated by the fact that every LoB has a different business model (due to the different nature of their business).

The key findings for IBM global Services can be grouped according to the previously presented purpose-process-people framework. It should be noted, however, that this classification is on the one hand arbitrary and on the other hand the issues are interrelated. Nevertheless, for simplicity, I will present them in this way:

Purpose

- Identity: After the heavy layoffs following the financial crisis in 1993 and the decreased influence of countries, the traditional employer-employee relationship became loosened. IBM had a 'social contract' with her employees. There is a need to provide employees a new identity and a sense of belonging.
- Leadership: The world-wide IBM organisation has very strong top leaders. They request on their term strong leadership from their subordinates. This fact on the other hand does not mean that there is no space for local management.
- Professional career paths: Four professions are defined (next to management): IT Consultant, IT Architect, IT Specialist, and Project Manager. Clear career paths are defined complemented with a high performance reward system. This mechanism provides the organisation and the employees with clear guidance for performance measurement, and career selection and development.

Process

- Reporting lines: The dual reporting structure induces conflicts. Responsibility is not crystal clear, and co-operation and co-ordination is quite challenging. The customer is especially interested in the 'grey areas'. High quality, individual managers are essential in running a complex matrix organisation, however, there is too much emphasis on the attitude of the person in question. On

the other hand not everyone realises that the limitations of the matrix structure are not its main feature.

- Competence building: The workforce of IBM Global Services in the Netherlands (±3,200 employees) has not enough mass-scale to carry out the whole range of IBM's portfolio; therefore teaming with other countries is quintessential. In some areas the Dutch organisation has leading-edge competence (see section 4.4 The Making of IRM Accelerator) that can be deployed not only locally but globally, too. The organisation is supported by a state-of-the-art intellectual capital management system ('AssetWeb') that is developed and maintained globally.
- Go-to-market model: Currently the model is still product oriented. In this model the market comes at a later stage. In the services business this should work the other way round. Efforts are under way to change this. The best example can be found within the BIS Financial Services community where a virtual organisation structure has been created. This team focuses on the big accounts (traditional customers of IBM) and consists of Account Teams, BIS solution categories, ITS, plus the software and hardware sales. Next to this there is a Financial Services Leadership Team that bi-weekly discusses the plans, agrees on next steps, resolves conflicts. Plans are under way to clone this structure to other industries, too. Another issue is the traditional customer contacts of IBM, namely the IT centres. These centres are still considered as cost centres with 80% of their budgets allocated for maintenance and support, and only the remaining 20% for development. E-business on the other hand offers for the first time the real possibility for business process reengineering that is supported by technology. There is still space for improvement to better engage our clients through new, creative ways, leaving our comfort zone, too, in this endeavour.

People

- Human engineering: The senior management in the Netherlands has great stability and continuity. On the other hand the major re-orientation and massive influx of new hires influences the stability of middle management. There is a constant need for systematic development of (middle) managers in order to better engage emotionally the clients. The letter 'e' in e-business

stands also for emotional⁴². Given that the small-to-medium size business segment is the fastest growing segment, strong local managers are needed that can cope not only with technological issues but also with the broader business problems of clients.

- Cultural differences: There are sensible cultural differences between the Netherlands and UK IBM organisation. Hofstede (1984, 1991) published extensively on national cultural issues. He developed a framework⁴³ that assesses the expected cultural response of individuals along five dimensions: power distance, uncertainty avoidance, individualism, masculinity, and long-term focus. The Netherlands and UK differ only on one dimension: masculinity; the Dutch society is feminine while the British is masculine. This translates for the Netherlands-UK relationship as the Dutch being more assertive but less adaptive while the British are more adaptive but less assertive. Given that UK is the region's 'leading' country (it provides ±80% of the region's revenues) it poses several challenges well reflected in the way managers from these countries work together.
- Communication: During the Gerstner-era a new type of communication was introduced. Gerstner himself, followed by other senior managers, sent regularly (mostly quarterly) mass employee-emails commenting the financial results and the strategy IBM pursuits. This had a very positive emotional effect, on the other hand, given their motivating goal, they did not give employees in some cases the feel for need of urgency. IBM has not completed yet the transformation set in the mid 1990s and therefore a wakeup call is required.

⁴² Empirical studies revealed that people base their decisions 13% on rational factors and 87% on emotional factors.

⁴³ It is interesting to note that the empirical research was carried out on IBM. The main premise of the study was that IBM people in several countries have more or less the same background thus the differences in their 'cultural programming' can be attributed to their national heritage.

4.4 The Making of IRM Accelerator

The development process of a services offering, called IRM Accelerator, highlights many of the issues presented for IBM. IRM stands for Infrastructure Resource Management. IRM Accelerator is a rapid deployment solution for IT Service Management (e.g. Helpdesk, Change Management) and encompasses process descriptions, organisational design and customised code (based on Peregrine System's ServiceCenter 4 software). It is built on three premises:

1. It is process-led, and the process and organisational design is reflected in the customised code.
2. Fully ITIL-based (the de facto non proprietary industry standard for IT Service Management developed by a U.K. government agency in the early 1980s).
3. It covers at least 80% of most customers' needs; only the remaining $\pm 20\%$ has to be customised, hence much shorter (and less costly) deployment is possible (1-4 months instead of ± 1 year).

The development process is testimony of how two overseas subsidiaries of IBM can develop solutions on their own and by combining their efforts they created a unique world-wide offering. Bartlett & Ghoshal (1992) describe the first type *locally leveraged* (i.e. a solution developed in a particular subsidiary, then based on local initiative the solution is marketed in other countries) and the second one *globally linked* (i.e. several subsidiaries work together to develop a solution, which is then marketed on a global scale).

Brief history

It is not surprising that people in two, relatively small subsidiaries like the Netherlands and Canada, have arrived to the conclusion that a rapid deployment service offering has to be developed for IT Service Management. Both subsidiaries have limited resources; hence they cannot afford to invent the wheel every time. And as Gerstner said, speed is a decisive factor nowadays. Last but not least, both subsidiaries are strongly exposed to the ITIL-phenomenon: the Netherlands is the second home base for this standard (next to U.K.) and the decision of the Canadian federal government to embrace ITIL for the government sector gave an enormous push towards the adoption of it in Canada. In both subsidiaries offerings were developed (Operational Model in the Netherlands and ESM Accelerator in Canada) that were marketed locally and abroad (e.g. Operational Model in Belgium, ESM Accelerator in Denmark).

The business problem

IBM did not have a global service offering for IT Service Management. There were many local solutions, different methodologies, but they lacked consistency and global reach.

The process

In the making of the IRM Accelerator solution four distinct stakeholder groups can be identified:

1. *IRM Global Team*: For each solution category there is a Global Team that makes part of an organisation that fall outside of the Lines of Businesses. Their role is to be the champions of transnational offering development. Based on market research they define services strategy, co-ordinate services development, out-roll, marketing, education, etc. In a yearly process they define the priorities for service offering development and provide funds from a central R&D budget.
2. *Region Solution Managers (RSMs)*: Organised geographically, these people provide input for service offering development and are responsible for rollout of these offerings. They report within the Lines of Businesses structure.
3. *Competence Centres*: These are the groups where the content expertise resides; they are responsible for content development. In the case of IRM Accelerator the Dutch team is located within the Technical Development Center, and in Canada within the IT Consulting practice. These groups are located in the ITS organisation.
4. *World-wide IRM community of practitioners*: This is the larger circle, professionals (consultants, architects, specialists) who deploy the solution on a global scale.

Having identified the need for a world-wide IRM offering, the IRM Global Team allocated budget for the development, spotted the loci of expertise, then negotiated the internal contracts with these competence centres. After this initial process a step-by-step approach has been taken to co-ordinate the development, buy-in, internal marketing, and education for the solution. The key to success was to create a balance between the development teams and RSMs on the one hand, and to facilitate the creation of the virtual development team. Attention had to be given that both teams (Dutch and Canadian) got excited and that both teams had the assurance that they were not set aside (the existing solutions were more or less complementary). The inner circle (or core team) was gradually enlarged, and with diplomacy and

professionalism was achieved that the core team worked towards a combined solution. This could be achieved with three things: communication, communication, and communication. Having resolved the initial frictions, a climate has been created wherein every team member got excited and delivered extraordinary performance to meet the stretched deadline.

Parallel with the development process another communication offensive was started to get buy-in from RSMs and the world-wide IRM community. The key to success was to give the right information to the right people at the right time. As a result, the IRM Accelerator solution was developed on time, within the budget, and ahead of competition.

Key findings

- IBM has now a world-wide IRM service offering. It is a major success and gives an enormous kick to the whole IBM IRM community.
- Leveraging local initiatives can provide IBM with a leading edge in the world-wide competition.
- Key to success was communication, professionalism, and goodwill.
- If entrepreneurship is nurtured, people can deliver extraordinary performance.
- For these kinds of developments strong sponsorship is needed from the higher ranks of the Global Team, i.e. vision and funding.
- Therefore stability in the management is required. There is still too much turnover in management, which disrupts continuity and breaks the informal contacts off.
- There is strain between earning “green dollars” (on a quarterly base) and service offering development, which puts an extra burden on resource allocation.

5 Conclusions and Recommendations

5.1 Conclusions

General conclusions

- The central issue of this Dissertation plays a key role in every corporation examined. Their top management is actively looking for ways to move the organisation towards transnational mentality. There is ample evidence that all of them carried out major organisational changes in order to cope with the challenges of the 21st century.
- The increased complexity of the new business environment led all of them to pursue a more focused strategy, concentrating on the core business. A major element of their recent strategies was the establishment of a well-balanced global presence.
- These corporations' heritage and the business they are in fundamentally determine the way they pursue this new strategy.
 - The U.S.-based GE and IBM emphasise their (centralised) strong innovative competence that try to leverage on global scale. The centrally driven business lines exercise most power that intends to increase global efficiency of operations. Local companies add extra value through their specialised competences that broadens their innovative capability. Multinational responsiveness is assured by local sales forces.
 - Siemens' and Unilever' European heritage underlies their core local focus. Regional companies are still influential and provide a strong local image. In order to increase global efficiency of operations they centralised certain parts of their functions (e.g. production facilities, supply-chain). Local companies provide more innovative extensively expertise that can be leveraged on global scale.
 - ABB's relatively short history (compared with the other ones) puts the corporation in a unique position. When created in the late 1980s it was more structured as a European-based decentralised federation. Due to this fact, her first CEO could focus on all the three elements of a transnational corporation. Since then, due to the growing power of

global customers the balance of power is moving towards the business lines thus showing more resemblance with a U.S.-based transnational.

- These corporations' heritage also determines the speed and ways organisational change is carried out in order to develop a transnational organisation. Within the American MNCs and ABB the process is more centrally driven and speedy. At Siemens and Unilever the process is more evolutionary and consensus-driven
- Within all corporations there is a clear shift towards end-to-end services (except Unilever due to her basically different product-portfolio). This makes co-ordination and co-operation more challenging. Intellectual capital generation and sharing is thus becoming quintessential.
- The classical M-form with its command and control philosophy is nearing its end. The growing (international) complexity of the business, the increasing professionalism of employees, and the growing significance of information systems lead to a new management philosophy and practice. In order to foster entrepreneurship every MNC is moving towards a leaner organisational structure, lesser management layers and more employee empowerment. 'Soft' issues of management are becoming even more important because binding a networked organisation is the cornerstone of success.
- The role of the Dutch affiliate(s) of these MNCs is fundamentally defined by the heritage of their parent company. The affiliate(s) of Siemens and Unilever enjoy relative freedom from the headquarters while the Dutch affiliate(s) of GE, ABB, and IBM contribute to their parent's operations within the business lines. This poses different challenges to their management as well as to their structure.

IBM Global Services related conclusions

- The IBM organisation that the new CEO, Sam Palmisano, inherited is in a sound financial condition. It is best placed to maintain and improve her position as the world's leading IT integrator. The real challenge is to re-integrate and reshape the organisation in order to unleash the extraordinary potential that is inherently existent in it.
- The events that took place after 1993 had a fundamental impact on the Dutch IBM organisation. Until 1996 the organisation was run as a coherent entity, since then it is run along business

divisions. Given the latest developments in the business climate and the world-wide IBM strategy there is no reason to believe that this will go away.

- IBM operated mainly as a hardware manufacturing company until the 1990s. The overseas subsidiaries, the Netherlands included, served as additional marketing and sales organisations. This led to a nationally oriented organisational culture wherein the Dutch organisation was not really exposed to an international environment. Shifting towards services (that requires closer co-operation with other subsidiaries) and running the services organisation along business lines through geographies creates strain in dealing with other people originating from different cultures. Especially with the 'regional power' U.K. there are cultural differences.
- The coherently run Dutch organisation coupled with an employer-employee relationship based on a social contract philosophy ensured a strong identity and a sense of belonging. The new business model based on Lines of Businesses and a high performance reward system pose tough organisational challenges.
- Customers increasingly require end-to-end solutions. In many areas the Dutch organisation can deliver this (especially when teaming with other subsidiaries). A new, virtual organisational structure is needed that crosses organisational lines. Next to this, marketing needs a different focus, based on services and aligned with the delivery part of the organisation.
- The Dutch organisation has in several areas key competence. Clear choices are needed to select those ones that are viable and can create added value for the whole IBM corporation. Next to this, in several areas there is a clear customer need for end-to-end services offerings. Leveraging the knowledge present in these competence centres for development of these offerings is key to providing competitive advantage. This can only happen in international context (co-ordination, funding) that again stresses the need for more outward looking practice.

5.2 Recommendations

In order to improve the operations and results of IBM Global Services in the Netherlands I recommend a three-phase change process that would result in an organisation that is capable of continuous learning:

1. In my judgement the first phase has a time span of maximum half year and comprises the following activities:
 - Based on the expertise present in the Account Teams and business intelligence define those segments of the market where IBM Global Services in the Netherlands already has or can achieve #1 or #2 position. Co-ordinate this with the senior management team of IBM Nederland N.V. and the regional management of IBM Global Services. Key factors in this consideration should be: desirability of these segments/customers, availability of expertise and people in the Dutch organisation together with the possibility to get help from the region if necessary.
 - Create virtual teams based on these segments that comprise members of the particular Account Team, dedicated members from the different LoBs, dedicated members from the hardware sales and software sales teams. Install a virtual Executive Team that meets regularly in order to create business development plans, perform evaluation, and sort out conflicts. Include in these Executive Teams the Regional Solution Managers.
 - Let these Executive Teams co-ordinate with the marketing organisation the creation of a new, services-oriented marketing strategy and plans.
 - Let these Executive Teams define service offering needs where appropriate. They should inventory whether these offerings already exist and if not how they can be developed. A good way to better align the development of these offerings to market needs is to sponsor partially these developments together with the solution Global Teams. In this way an internal market is created. The ultimate goal should be to let partially sponsor these developments on a global level but begin at regional level in the first instance.
 - In order to facilitate an organisational culture that is suited for a network organisation, nurture a climate that enables the formation of cross-functional teams. The best starting points are the above-mentioned virtual teams.

-
- Put more emphasis on international informal networking that enables skills building and skills-sharing pro-actively engineer two-ways assignment programmes. Begin with shorter assignment (3 to 6 months) and within the region.
 - Realign aggressively the HRM-function. Focus on the formation of stable management teams with emphasis on coaching and longevity.
2. The second phase has a time span of maximum half year and should be commenced in parallel with phase one and comprises the following activities:
- Form a multi-functional team that selects a number of MNCs with a strong presence in the Netherlands and the countries of Region North; these MNCs should not be direct competitors of IBM.
 - Let this team with the support of top executives from the Netherlands and the region get buy-in from these MNCs.
 - Perform an in-depth analysis of the strengths of these MNCs in order to produce a detailed documentation of their best practices.
3. The third phase has a time span of maximum one year; it should commence after the completion of phase one and two, and comprises the following activities:
- Using the results of phase one and two organise facilitated, broad-based, and outdoor organisational improvement sessions. Base these sessions on the already existing virtual teams complemented with professionals from functional areas. Put the emphasis on immediate improvement recommendations and let them implemented speedily.
 - Continuously monitor improvements and adjust the programme accordingly.

5.3 *Personal Achievements*

Conducting this Dissertation project let me combine a conceptual business management issue with a current management need of my organisation. The actuality and importance of the selected topic has been acknowledged not only by my own organisation but also by the management of the selected companies. Their warm welcome and willingness to help the investigation is a testimony of this.

The extensive literature research I conducted provided me with a solid theoretical foundation. Testing the findings in practice at both IBM Global Services and the reference corporations improved my understanding of the complex issues that are in action in international business management. The competence I built in this area enables me to better perform in my current position and is of great help for my future career orientation.

5.4 *Sponsor's Evaluation*

See Appendix 4 Sponsor's Evaluation.

Appendix 1 Glossary of Terms

<i>Customer intimacy</i>	Companies pursuing this strategy deliver the best total solution. A natural organisational structure for the customer-intimate company is to move more of the decision-making responsibility out to the boundaries of the organisation, closer to the customer.
<i>EFQM</i>	The European Foundation for Quality Management (EFQM [®]) is a membership based, not for profit organisation, created in 1988 by fourteen leading European businesses, with a Mission to be the Driving Force for Sustainable Excellence in Europe and a Vision of a world in which European organisations excel. By January 2000, membership had grown to over 800 members from most European countries and most sectors of activity. It is among others the owner of The EFQM Excellence Model (EFQM Model) and manager of The European Quality Award process.
<i>EFQM Excellence Model</i>	The EFQM Excellence Model, a non-prescriptive framework based on nine criteria, can be used to assess an organisation's progress towards excellence. The Model recognises there are many approaches to achieving sustainable excellence in all aspects of performance. It is based on the premise that: Excellent results with respect to Performance, Customers, People and Society are achieved through Leadership driving Policy and Strategy, People, Partnerships and Resources and Processes.
<i>General-purpose technology</i>	A technology is a general-purpose technology if it has a large variety of applications, a wide range in the economy, and is complementary with existing or potentially new technologies.
<i>Global mentality</i>	In MNCs that pursue this mentality management treats overseas operations as delivery pipelines to a unified global market. This is a centralised hub and best fits the managerial norm of Japanese

	companies. Most strategic assets, resources, responsibilities and decisions are centralised. There is a tight control of decisions, resources, and information.
<i>Globally linked</i>	This way of developing a product or a solution in an MNC means that two or more subsidiaries work together to develop it then it is marketed on global scale.
<i>Good</i>	A good is an independent object, which can be appropriated and, therefore, transferable between economic units.
<i>Intellectual capital</i>	Intellectual capital is the decisive factor of production in the information economy. It consists of the following: <ol style="list-style-type: none">1. <u>Human knowledge</u>: the skills and experience of employees.2. <u>Intellectual capital management systems</u>: structured and codified knowledge stored in (electronic) systems that can be shared among the company's employees.3. <u>Customer capital</u>: knowledge about customers that can be used to provide them superior and tailored products and/or services.
<i>International mentality</i>	In MNCs that pursue this mentality management regards overseas operations as appendages to a central domestic corporation. This is a co-ordinated federation and it fits the managerial culture of U.S.-based companies. Many assets, resources, responsibilities, and decisions are decentralised, but controlled from headquarters. The formal planning and control systems allow tighter HQ-Sub linkages.
<i>Locally leveraged</i>	This way of developing a product or a solution in an MNC means that a particular subsidiary develops it then it is marketed in other subsidiaries, too.

<i>Multinational corporation (MNC)</i>	A company is a multinational corporation if it has substantial direct investment in foreign countries and is engaged in the active management of these offshore assets rather than simply holding them in a passive financial portfolio.
<i>Multinational mentality</i>	In MNCs that pursue this mentality management regards overseas operations as a portfolio of independent businesses. This is a decentralised federation and it fits the management norm of European companies. Many key assets, responsibilities, and decisions are decentralised. The informal HQ-Sub relationship is overlaid with simple financial controls.
<i>Operational excellence</i>	Companies pursuing this strategy focus on the best total cost. They do best with the major brain trust at central locations where standard operating procedures get refined and decisions are made about acquiring and using capital-intensive assets.
<i>Product leadership</i>	Companies pursuing this strategy deliver the best product. The product leader thrives on ad hoc and fluid structure to foster invention and allow resources to be redeployed quickly.
<i>Services</i>	A service is a change in the condition of an economic unit [whether a person or an organization] or of a good belonging to such an economic unit, which can be brought about as the result of the activity of some other economic unit, with the prior agreement of the former economic unit [person or organization].
<i>Transnational mentality</i>	In MNCs that pursue this mentality there is a complex process of co-ordination and co-operation in an environment of shared decision-making. This is an integrated network. Resources and capabilities are distributed and specialised. There are large flows of components, products, resources, people, and information among interdependent units.

Appendix 2 Four Phases of Welch GE⁴⁴

Phase	Restructuring (1981-1985)	Work-Out (1988-1992)	CAP (1992-1995)	Six Sigma (1995-2000)
Workforce	404,000 -> 304,000			275,000 -> 290,000
Strategy	#1 or #2 in global market fix, close, sell	Best practices Speed Simplicity Self confidence Integrity	<u>Values</u> Boundary less Stretch Zero defect Vision Continuous improvement Leaders not managers	Measure Analyse Implement Control <u>Leadership skills</u> Energy Energise Edge for tough decision Execution
Divested	125 business			
Acquisition	\$19 Billion	\$30 Billion	\$40 Billion	\$60 Billion
Growth	± 5%	± 5 – 10 %	± 8 – 12%	± 10 – 15%
Earnings	\$1.7 -> \$2.38 Billion	\$3.4 -> \$4.7 Billion	\$4.7 -> \$6.68 Billion	\$6.6 -> \$7.3 Billion
Stock buy back		\$2 Billion	\$4-5 Billion	\$13.7 Billion

⁴⁴ Data compiled by Donald Beck.

*Appendix 3 Unilever's Corporate Purpose***a truly multi-local multinational**

Unilever is dedicated to meeting the everyday needs of people everywhere. Around the world our Foods and Home & Personal Care brands are chosen by many millions of individual consumers each day. Earning their trust, anticipating their aspirations and meeting their daily needs are the tasks of our local companies. They bring to the services of their consumers the best in brands and both our international and local expertise.

Unilever's Corporate Purpose

Our purpose in Unilever is to meet the everyday needs of people everywhere – to anticipate the aspirations of our consumers and customers and to respond creatively and competitively with branded products and services which raise the quality of life.

Our deep roots in local cultures and markets around the world are our unparalleled inheritance and the foundation for our future growth. We will bring our wealth of knowledge and international expertise to the service of local consumers – a truly multi-local multinational.

Our long-term success requires a total commitment to exceptional standards of performance and productivity, to working together effectively and to a willingness to embrace new ideas and learn continuously.

We believe that to succeed requires the highest standards of corporate behaviour towards our employees, consumers and the societies and world in which we live.

This is Unilever's road to sustainable, profitable growth for our business and long-term value creation for our shareholders and employees.

Appendix 4 Sponsor's Evaluation

IBM Nederland N.V.
Johan Huizingalaan 765
Postbus 9999
1006 CE Amsterdam
Verkoopafdelingen & Informatie (020) 513 51 51
Overige afdelingen (079) 322 31 11
Internet <http://www.nl.ibm.com>

Subject: Sponsor Evaluation of Mr. Farkas' dissertation

Below you'll find my Sponsor Evaluation of Mr. Farkas' dissertation:

- The structured theoretical analysis forms a good base for common understanding of this complex topic.
- The conclusions are valid and touch the essence of the issue. The recommendations are a good starting point for discussions within the Management Team. The Dissertation forms a solid base to use it for preparing a workshop for the Management Team of IBM Global Services in the Netherlands and the of IBM Nederland N.V.
- The Dissertation contains findings, conclusions and recommendations that can be used for discussions at regional level and EMEA level, too.
- The Dissertation is valuable and generic enough to make it available to the world-wide IBM Global Services community on the internal intellectual capital management system of IBM.

Regards,

Tony Marques
IBM Netherlands
Global Services

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