CASE Carrefour: Finding Retail Space in All the Right Places

Carrefour, which opened its first store in 1960, is now the largest retailer in Europe and Latin America and the second largest worldwide.[1] By 2009, it had more than 15,000 stores and about 495,000 employees, selling a combination of food and nonfood items. In 2008, Carrefour derived 54 percent of its sales and 58 percent of its profits outside its home country of France. The Institute of Grocery Distribution ranks Carrefour as the world's most global retailer, based on foreign sales, number of countries with operations, and ratio of foreign sales to total sales. As of 2009, it had a presence in 33 countries.

Carrefour must continue to decide which countries to emphasize in its expansion and where in each country to locate the new stores. In 2009, Carrefour announced its future priorities in choice of country. Its first priority is leadership in France. The second is to maintain growth or improve performance in three other European countries—Belgium, Italy, and Spain. And its third priority is to establish operations in countries with strong growth potential—mainly BRIC countries (Brazil, Russia, India, and China). Of these four, Carrefour entered Russia in 2009 and plans to begin operating in India by the end of 2010. Finally, the lowest priority is made up of other countries. Map 12.1 shows those countries.

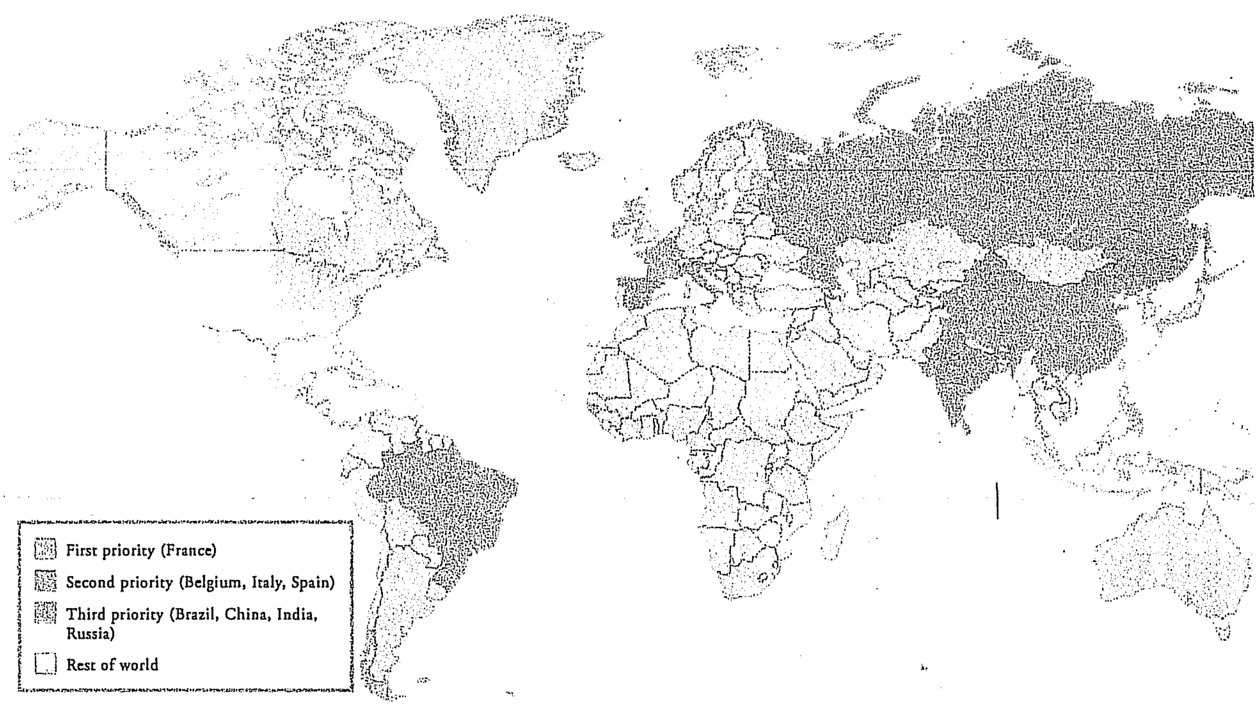
Concomitantly, Carrefour must decide what to do with underperforming stores and countries. It sells stores and moves from countries that offer less potential profits than if capital is placed elsewhere. For instance, in 2006, it sold its operations in South Korea and Slovakia while expanding heavily in Poland.

Carrefour sells in five types of stores: hypermarkets, supermarkets, hard discount stores, cash-and-carry stores, and convenience stores. Its hypermarkets account for the largest portion of its sales, retail space, and number of countries with retail operations. Carrefour invented and opened the first hypermarket—an enormous store combining a department store and a supermarket. Whereas a typical supermarket might have 40,000 square feet, a hypermarket might have 330,000.

MAP 12.1 Carrefour's Priority among Countries

In 2009, Carrefour published its priority among countries. Note that defense of present positions is most important; large growth markets are next in importance.

Source: The order of countries was taken from "Strategic Orientations March 2009," http//www.carrefour.com/cdc/group/our-strategy (accessed July 20, 2009).



As a rule of thumb, a hypermarket requires 500,000 households within a 20-minute drive to derive sufficient business. Carrefour's supermarkets carry less variety than its hypermarkets, and its hard discount stores and cash-and-carry stores carry even less. The cash-and-carry stores cater strictly to the trade, such as to restaurant owners and hoteliers. Its convenience stores (more than 95 percent are franchise operations) are still smaller and carry fewer items. One of Carrefour's key contributions to franchisees is helping to select locations for their stores.

Carrefour's French hypermarket operation was a success from the beginning, due largely to the timing for introducing the concept. French supermarket operations were not yet well developed; consumers generally shopped for foods in different outlets—such as bread, meat, fish, cheese, and fresh vegetables in different specialty stores or markets. Moreover, few retailers had convenient or free parking, so customers had to make frequent and time-consuming trips to numerous stores. Carrefour came along when more French families had cars, refrigerators large enough to store a week's supply of fresh products, and higher disposable incomes to spend on nonfood items. Further, more women were working, and they wanted one-stop shopping. Thus French consumers flocked to Carrefour's suburban hypermarkets, which offered free parking and discounted prices on a very wide selection of merchandise.

However, French government authorities at times have restricted new hypermarket permits to safeguard town centers, protect small businesses, and prevent visual despoliation of the countryside. As a consequence, Carrefour decided to expand internationally. Figure 12.1 provides a chronology of Carrefour's expansion into foreign markets via company-owned outlets. Its first foreign entry was a partnership in Belgium, and its first wholly owned foreign store was in Spain. Both are in neighboring countries, both entries were with hypermarkets, and both countries had consumers who were going through lifestyle changes similar to those we described for France.

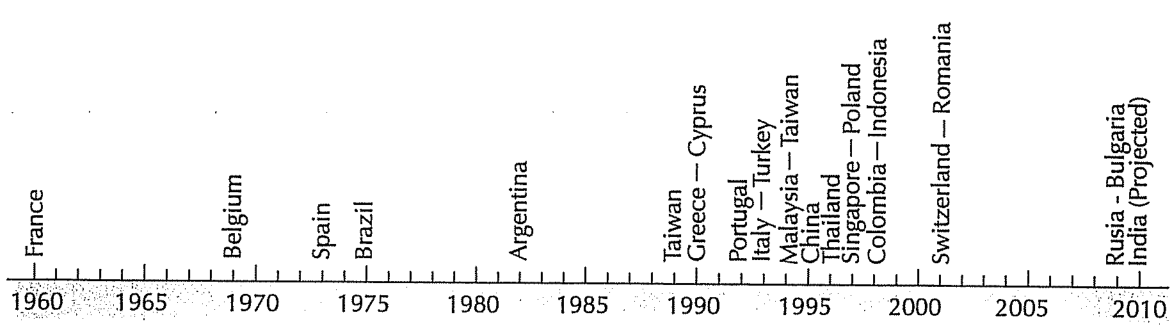
Carrefour easily managed these ventures because its French suppliers provided much of the stores' stock and because its French managers could easily travel to oversee the operations. Since then, a guiding principle for Carrefour's international expansion has been countries' economic evolution. Its former CEO, Daniel Bernard, said, "We can start with a developing country at the bottom of the economic curve and grow within the country to the top of the curve." When Carrefour has deviated from this principle, it has failed. It expanded unsuccessfully into the United States and the United Kingdom after both countries had gone through economic transitions and other distributors had satisfied the changed consumer needs. It also entered the Mexican, Japanese, Korean, and Chilean markets late and sold their operations there. Bernard said later, "To go global, you need to be early enough. Generally, in new countries you need to be the first in for the first win. When you arrive as number three or four, it is too late."

Some additional factors caused problems for Carrefour in markets it has abandoned. In the United States, customers simply have not wanted to spend the time shopping in a hypermarket where they had to walk long distances before reaching even the first aisle. In the United Kingdom, Carrefour did well on food

FIGURE 12.1 Carrefour's Major Locations and Entry Dates

Data refer to company-owned outlets and do not include franchises. Carrefour also entered and exited some foreign markets, including the United Kingdom, the United States, and Japan.

Source: Based on data from Groupe Carrefour, "The Carrefour Group's Store Locations," at www.carrefour.com (accessed June 11, 2007) and updated via a variety of sources.



sales, but consumers preferred to shop for durables in city centers where they could compare the products offered by different distributors. In Mexico, Carrefour was up against an established Wal-Mart, which could integrate buying and distribution with its successful U.S. operations. In Japan, consumers were disappointed not to find a French shopping experience. In both Hong Kong and Chile, Carrefour was unable to build enough stores to gain the needed economies of distribution.

Another factor influencing Carrefour's choice of country has been the ability to find a viable partner familiar with local operating needs. It has found these with the Maus group in Switzerland, President Enterprise in Taiwan, the Sabanci group in Turkey, and Harbor Power Equipment in China. However, Carrefour entered Mexico well after Wal-Mart, which had teamed with the best local partner, Cifra. It entered Japan without a partner because management believed its traditional operating costs, which were lower than those of Japanese rivals, would enable it to compete. At the time, a retail analyst prophetically noted, "Their [Carrefour's] chances of success are zero." Carrefour lasted only four years before selling out.

Why would another company want to partner with Carrefour? Aside from financial resources, Carrefour brings to a partnership expertise on store layout, clout in dealing with global suppliers (for example, it runs a global sales campaign, "Most Awaited Month," in which the largest manufacturers of global consumer goods provide its stores worldwide with lower prices for a one-month sale), direct e-mail links with suppliers that substantially reduce inventories and the need for Carrefour's buyers to visit suppliers, and the ability to export unique bargain items from one country to another.

Carrefour also considers whether a location can justify sufficient additional store expansion to gain economies of scale in buying and distribution. To help gain these economies, Carrefour and some of its competitors have recently been expanding via acquisition. However, some analysts have felt that Carrefour may be expanding retail operations to too many countries and will not be able to build sufficient presence in each to gain necessary economies of scale. In contrast, the British retailer Tesco is expanding to fewer countries but is building a large presence in each one.

Carrefour depends on locally produced goods for about 90 percent of its sales, using manufacturers' trademarks or no trademarks at all. This strategy contrasts with such retailers as Tesco, which depends heavily on own-label products. Thus consumers can easily compare prices of most Carrefour products with those of competitors because few of its products have unique labels.

Nevertheless, Carrefour has recently been pushing global purchasing. For example, when stores in one country find an exceptional supplier, the management passes on the information to Carrefour's merchandising group in Brussels, which then seeks markets within Carrefour stores in other countries. The Malaysian operation, for example, found a good local supplier of disposable gloves, and Carrefour now sells them in its stores worldwide.

Despite Carrefour's success in many markets, analysts feel that it will never become the world's largest retailer without a significant presence in the United States and the United Kingdom. Its only presence in either is a minority interest in Costco in the United States.

Introduction

Companies lack resources to take advantage of all international opportunities.

The old adage that "location, location, and location" are the three most important factors for business success rings quite true for international business. Countries offer different opportunities and risks as companies try to create value from increasing sales or acquiring competitively useful assets. Furthermore, because all companies have limited resources, they must be careful in making the following decisions:

1. In which countries to locate sales, production, and administrative and auxiliary services
2. The sequence for entering different countries
3. The amount of resources and efforts to allocate to each country where they operate

CASE The Fizz Biz: Coca-Cola

Sailin' 'round the world in a dirty gondola.
Oh, to be back in the land of Coca-Cola!
—**Bob Dylan,** "When I Paint My Masterpiece"

Although Dylan's "land of Coca-Cola" is the United States, more than 75 percent of Coca-Cola's (Coke's) sales are elsewhere.[1] Coca-Cola's brand is the world's most recognized; thus other companies, such as Murjani International for clothing, have paid Coca-Cola licensing fees for use of the logo on their products. The company describes itself as a manufacturer, distributor, and marketer of nonalcoholic drinks. Despite the popularity of the Coca-Cola name, you probably can name few of the more than 400 brand names the company uses globally within its five drink segments: juice drinks, energy drinks, water, soft drinks, and sports drinks. Here are just a few you might not recognize: Bonaqua Bonactive (Hong Kong), Novida (Kenya), Far Coast (Singapore), Mother (Australia), Multon (Russia), and Nanairo Acha (Japan).

A LITTLE HISTORY

Coca-Cola originated as a soda fountain drink in 1886, began bottling in 1894, commenced soda fountain sales in Canada and Mexico in 1897, and initiated its first foreign bottling plant in Panama in 1906. Coke continued to expand internationally during the 1920s and 1930s, even opening a foreign department in 1926. But its big international boost came during World War II. Recognizing that the war would bring a shortage of sugar, one of Coke's essential ingredients, its CEO announced on national radio that the company would ensure that all U.S. military personnel anywhere in the world could buy Coca-Cola. His propaganda message worked. Not only did Coca-Cola get all the sugar it wanted, even though U.S. households seldom found sugar in the grocery stores, it also got permission to build 64 bottling plants around the world during the war.

When the war ended, Coca-Cola was known almost everywhere, and returning service personnel had become loyal customers. Today, Coke's network of more than 1,000 plants serves customers in about 200 countries and operates a fleet of delivery trucks five times larger than that of UPS. It has the largest share of the soft-drink market, and more than 16,000 Coca-Cola beverages are consumed worldwide *every second.*

COLLABORATIVE ARRANGEMENTS

Suppliers

Although its product offerings and shrewd marketing are pillars of Coke's success, the company could not have reached its present position alone. Coke buys from over 84,000 suppliers, and it needs help in almost every aspect of its operations. For instance, in 1996, it formed a three-way joint venture for a facility in Kyrgyzstan. The joint venture hired a Turkish turnkey operator (Fintraco Insaat ve Taahhut), which used 400 trucks just to carry supplies from Turkey to build the plant.

In another example, Coca-Cola has paid to have a multipurpose exhibition and entertainment venue named the Coca-Cola Dome in Johannesburg, South Africa. The dome owner is the Sasol Pension Fund, which, in turn, pays Thebe Entertainment and Events a contractual fee for managing the facility. In sum, when operating both domestically and internationally, Coca-Cola uses a variety of collaborative operating forms, and it takes varying levels of ownership in operations that support its business.

The one area in which Coca-Cola maintains strict ownership control is in production of the concentrate, thus ensuring that its "secret formula" does not fall into the hands of competitors.

Franchises: Bottlers

Coca-Cola sees its bottlers worldwide as the backbone of the company. These bottlers operate under franchise agreements in which each has exclusive rights to sell within a given territory. They not only bottle Coke beverages, but they also deliver them to such outlets as grocery stores and vending machines. They put up ad displays in stores and even make sure bottles are aligned correctly on supermarket shelves. In short, they know and respond well to their local markets. By turning activities over to the franchised bottlers, Coca-Cola can concentrate its efforts on what it feels it can do best. And these efforts help the profitability of bottlers.

What's in It for Bottlers? So what do the bottlers get in return from Coca-Cola?

1. They get the results of Coca-Cola's innovation in developing new products, such as Coca-Cola Zero, and in developing ad campaigns that help sell Coca-Cola products worldwide. These have included such themes as

"Coke side of life," "It's the real thing," "Things go better with Coca-Cola," and "I'd like to teach the world to sing."

2. They benefit from Coca-Cola's strict quality control, which includes procedures for and inspection of water purification and the mixing of syrup, concentrate, and carbonation. Quality control is important in that a slipup in one bottling plant can adversely affect sales in many countries.
3. They get help in instituting work processes to increase their efficiency. Coca-Cola studies and compares bottlers, and because they are not in competition with each other, Coca-Cola shares information among them. Finally, last but not least, Coca-Cola makes the concentrate that all its bottlers must buy.

The Franchise as Big Business? Some of the franchisees are quite large and are themselves traded publicly. For example, Coca-Cola HBC is headquartered in Greece, has operating rights in 28 countries with a combined population of 550 million, and is traded on stock exchanges in Greece, the United Kingdom, Australia, and the United States. When franchise rights cover a large territory, the franchisees generally subfranchise to bottlers throughout their region.

Four of these large franchisees account for about 40 percent of Coca-Cola's worldwide sales. In each of these four, Coca-Cola has taken a significant minority ownership stake, ranging from 23 percent to 35 percent, which is sufficient to gain considerable influence in the operations.

Ownership Options

Coca-Cola's ownership abroad varies substantially. For example, within China, it wholly owns its concentrate plant but has joint ventures with various bottling plants. Coca-Cola's ownership in foreign bottling operations has become sufficiently significant that it has set up a Bottle Investment Group within the company. It has sometimes taken an equity position abroad, even a wholly owned one, to sustain production where it would like to sell. For instance, in the Philippines, Coca-Cola bought some poorly performing bottlers that might otherwise have ceased production and merged them with successful bottling operations there. Coke hopes to turn them around and then sell them. When entering the Vietnamese market, it did so with a local joint-venture bottling partner that needed Coke's financial and marketing help. After the operation became viable, Coke sold its interest.

However, the ownership dynamics sometimes go the other way. For instance, Coca-Cola had a 35 percent interest in a joint venture with the Philippines' San Miguel. When San Miguel wanted to disengage itself to concentrate on its core businesses, Coca-Cola bought the remaining 65 percent.

Further, Coca-Cola has sometimes had to settle for a joint venture when it might have preferred full ownership. One case in point is India. Coca-Cola once left the market because of the Indian government's insistence on knowing Coke's concentrate formula. To return about 15 years later, the Indian government required Coca-Cola (and PepsiCo as well) to share ownership with an Indian company. Another case in point was when Coca-Cola wished to acquire Inca Kola, the largest soft-drink brand in Peru. The family owners of Inca Kola refused to sell the whole company, and Coke settled for a half ownership.

RED COUNTRIES VERSUS BLUE COUNTRIES

Whereas the two major U.S. political parties talk about red states and blue states, the two major soft-drink competitors refer to red countries (Coca-Cola) and blue countries (Pepsi) where each has the larger market share. These are shown on Map 14.1.

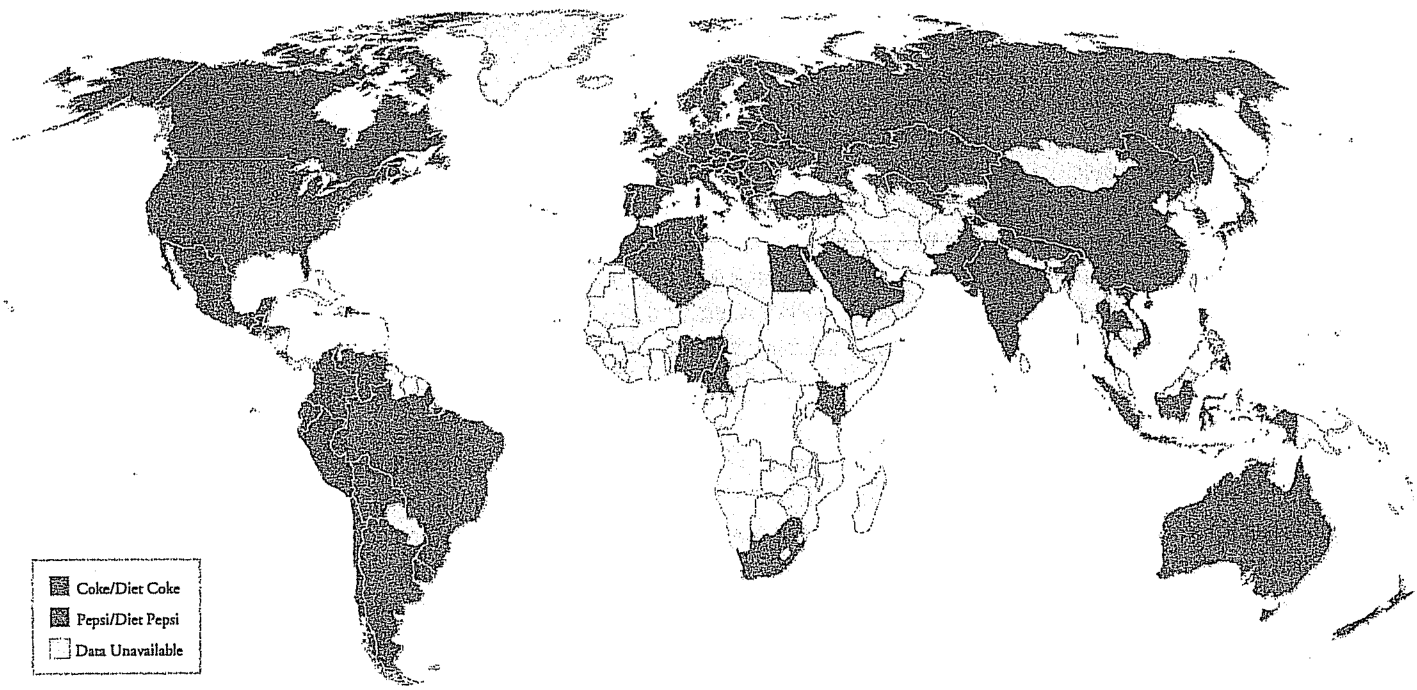
Coca-Cola not only leads PepsiCo in most foreign markets—it depends much more on foreign sales than PepsiCo does. This is positive for Coke's future inasmuch as soft-drink sales in the United States have been declining. For fiscal year 2008, Coke derived about 75 percent of its sales outside North America.

Competitive Markets and Product Lines However, Pepsi is leading Coke in the two markets with the fastest growth potential: China and India. Not only are these the two most populated countries, but their annual soft-drink per capita consumption is also low (e.g., 1.2 liters in China and 0.1 liters in India as

MAP 14.1 We'd Like to Sell the World a Cola

In the countries shown in red, Coke leads Pepsi in market share; Pepsi leads Coke in the blue countries. Of course, the two soft-drink giants compete in a lot of other places as well, but market-share data are unavailable for some areas. Note that although red countries outnumber blue countries, the world's two most populous nations—China and India—are in the blue column. Data reflect sales of Coke/Diet Coke and Pepsi/Diet Pepsi only.

Source: Adapted from "I'd Like to Sell the World a Coke," *New York Times* (May 27, 2007), at www.nytimes.com (accessed November 5, 2007). Data from Euromonitor International and the Coca-Cola Co.



compared with 31.3 liters in the United States and 20.2 liters in Brazil); thus there seems to be great potential for growth in those markets as the economies grow. This growth potential undoubtedly affected both companies' acceptance of operating terms in India that they may not have accepted elsewhere.

Coca-Cola has learned that it must widen its product line and that doing so by simply adding cherry or vanilla flavoring to Coca-Cola is not enough. If Coca-Cola does not offer a larger variety of nonalcoholic drinks, it might lose exclusive sales to large customers, such as food franchisors and airlines. Coke's bottlers have also added production and distribution of products not available from Coke, such as Cadbury Schweppes' coffee latte drink, Cinnabon.

Collaboration as Expansion Strategy Because of changes in the market for nonalcoholic drinks, Coca-Cola has been expanding its product offerings in three ways:

- Developing new products
- Acquiring companies that have complementary products
- Gaining licenses to use brand names of other companies

Coke has been doing some of this broadening on its own, some in partnership with other companies, and some through acquisitions. Its acquisitions have been widespread, including juice companies in Brazil and Russia and specialty water companies in Denmark, Germany, and the United States. It has a joint venture with Nestlé for tea products outside the United States and a joint venture with Cargill to develop a new sweetener to put into drinks. It is spending heavily on licensing for the production and sale of products using different trademarks. One of the most important license agreements is with Danone for various water brands including Sparkletts.

CASE Organizing "People, Values, and Environment" at Johnson & Johnson

The typical pharmaceutical company relies on global integration due to steep product development costs and potential scale economies.[1] Meanwhile, it must respond to local market conditions, obtaining government approval for each product in each country, and establishing local sales and distribution systems. This task requires configuring locally responsive value chains that are then coordinated through sophisticated collaboration between headquarters and subsidiaries. Building an organization that can meet this mission is tough. One standout company that does so is Johnson & Johnson (J&J).

A LITTLE BACKGROUND

How J&J Grew

Since the start of its U.S. operations in 1886, J&J has evolved into the most broadly based health-care company in the world. International activity began in 1919 with J&J Canada. J&J, headquartered in New Brunswick, New Jersey, now lists more than 250 operating companies across the world and sells products in more than 175 countries. It employs about 119,000 people worldwide, with nearly 70,000 working in 57 countries outside the United States. Its steady success is renowned. It holds nearly 54,000 U.S. and foreign patents and is the world's leader in a several medical segments, such as adhesive bandages, contact lenses, prescription pharmaceuticals, and medical devices. Through 2007, J&J's annual sales had grown for 75 consecutive years, reaching $61 billion by 2009. It has maintained profitability since going public in 1944, with 45 consecutive years of dividend increases. Surveys rank J&J as the most admired pharmaceutical company in the world.

What J&J Sells

J&J develops, manufactures, and markets products to consumers and health-care professionals worldwide. It aims for industry leadership in pharmaceuticals, medical devices and diagnostics, and consumer products. The pharmaceutical segment includes products in areas like anti-infective, cardiovascular, dermatology, immunology, and oncology. These products are distributed to retailers, wholesalers, and health-care professionals for prescription use by the public. The medical devices and diagnostics segment includes products distributed to wholesalers, hospitals, and retailers and used in professional fields by physicians, nurses, therapists, hospitals, diagnostic laboratories, and clinics. The consumer segment makes and markets products used in the baby and childcare, skin care, oral and wound care, and women's health-care fields, as well as nutritional and over-the-counter pharmaceuticals. These products, available without prescription, are marketed to the public and sold to wholesalers and to retailers throughout the world.

How J&J Is Run

J&J's nine-member Executive Committee is the principal management group responsible for operations and allocation of the resources worldwide; it oversees and coordinates the activities of the business segments. Executive committee members also chair worldwide Group Operating Committees (GOCs), composed of managers who represent operations within the group as well as management expertise in other specialized functions. The GOCs coordinate the activities of domestic and international units that fall in the pharmaceutical, medical device and diagnostics, and consumer segments.

DECENTRALIZED DECISION MAKING

Decentralization is the heart of J&J's organization—it allows managers who are closest to customers and competitors to make decisions. As the company says, it aims to be big and small all at once, building a global profile based on the conglomeration of many small units. By design, each unit operates with substantial autonomy, commanding the freedom to act as it sees best given local market conditions. Each operating company acts as its own small business, entrepreneurial in character and aware that success depends on anticipating customers' needs and delivering meaningful solutions. Decentralization, explains Ralph Larsen, CEO from 1989 to 2002, "gives people a sense of ownership and control—and the freedom to act more rapidly." His successor, William Weldon, concurs, adding, "The magic around J&J is decentralization." He expanded on these ideas, explaining:

> *The decentralized manner in which we operate our businesses marries the best qualities of smaller companies with entrepreneurial drive for growth and close proximity to customers with the resources, know how, and investment capital of a Fortune 500 company. This strategic approach gives us many advantages over a centralized operation. One is a strong sense of ownership, entrepreneurship, agility and accountability seldom seen in large multinational corporations. The leadership and employees of our*

250 operating companies around the world are intensely competitive. We look to the leaders of our decentralized businesses to grow their businesses faster than their competitors. They are driven to innovate . . . [and] to bring greater value to the marketplace through internal discoveries, application of new science, technology, in-licensing and acquisition. We believe our decentralized approach to running the business yields better decisions—in the long run—for patients, health professionals and other customers, because the decision makers are close to the customers and are in a better position to understand their needs. Finally, our decentralized approach to managing the business is a tremendous magnet for talent, because it gives people room to grow and room to explore new ideas, thus developing their own skills and careers.

This philosophy enables J&J to behave like 250 small, innovative, entrepreneurial firms, responding to the unique opportunities and threats in their local markets. Yet at the same time, each unit can tap the know-how and resources of a large, successful MNE, thereby giving it access to deep pools of products, processes, and people.

Supporting Subsidiaries

J&J entered new markets by adding subsidiaries through investment, alliance, or acquisition of companies. Upon startup, J&J did not dispatch armies of home-office managers directed by headquarters-based generals. Rather, J&J provides the subsidiary the resources that local managers believe support achieving superior results. Its philosophy is that people who understand how the company creates value, have familiarity with the company's core competencies, and are culturally familiar and physically close to the market ought to be running the local business. Thus, for example, baby oil managers in Italy decided how big a bottle to use, even if that bottle differed from the one sold in Germany, Japan, or Mexico.

The heads of J&J's foreign subsidiaries once commanded so much autonomy that they were seen as "kings of their own countries." Headquarters would install some systems to coordinate activities among countries, often negotiating financial targets with the heads of the separate business units. It would then leave them to figure, given local market conditions, how to achieve those targets. With few exceptions, each international subsidiary is run by citizens of the country where it is located.

Growing pressures for global integration tested J&J's commitment to decentralization. Senior management conceded that decentralization resulted in inconsistent market development and duplication of efforts. For example, J&J launched Tylenol in 1960 as an over-the-counter pain reliever in the United States. Although it was available to local operating units shortly thereafter, the Japanese unit did not begin local sales until 2000. Therefore, although decentralization enabled J&J to respond to local needs, it slowed the global diffusion of products and programs.

Decentralization also created agency dilemmas for local management, creating questions regarding their primary allegiance: should they improve local performance at the expense of global corporate objectives? The risk came into play in 2007 when J&J revealed that some of its foreign units made improper payments related to the sale of medical devices in two "small-market countries." Management did not disclose details of the payments but said they were "contrary to the company's policies" and "may fall within the jurisdiction of the Foreign Corrupt Practices Act." Simultaneously, the company announced the early retirement of the executive responsible for the units, the then worldwide chair of medical devices and diagnostics.

Streamlining Coordination and Control

Senior management has since streamlined the way country managers coordinate value activities, recentralizing certain activities from the 250 subsidiaries to headquarters. The GOCs now deal with issues common to operating units, such as human resources, finance, science and technology, and government affairs. Managing certain activities at headquarters frees the units to concentrate on day-to-day performance. It also improves headquarters' coordination of production and marketing around the world. Input from local managers is still sought in formulating a unified marketing strategy; for example, they may debate whether cleanliness or beauty is the better promotion theme. Ultimately, though, when J&J rolls out a product, country managers no longer have the option to reject it.

Coordination has proven beneficial. For example, implementing an updated version of Windows across all operating units at the same time saved J&J an estimated $80 million. Still, years after starting to integrate information technologies, benign changes still meet resistance. Some business units, for instance, argue that they cannot adopt corporate technology standards or bear their share of the cost for infrastructure upgrades. For example, when she first started to integrate information technology, the then–chief information officer had difficulty getting answers on what type of systems were in operation. Similar sorts of problems have led to selective use of market control systems to benchmark the performance of operating units against competitors and each other.

The value of leveraging knowledge and expertise across the company shapes J&J's structure. J&J aimed to improve the global perspective of local decision making. Channels of communication and forums for discussion cut across the organization, encouraging and enabling far-flung units to share their ideas. Self-directed councils—for research, engineering, and operations, among others—meet to swap ideas. Successful employees rotate among operating units, sharing their expertise with their new work groups.

PEOPLE, CULTURE, AND THE CREDO

Management maintains that people and values are J&J's greatest assets. As they often note, every invention, every product, and every breakthrough the company has brought to human health and well-being has been powered by people. The bedrock of the organization was J&J's organization culture—what former CEO Ralph Larsen referred to as the "glue that binds this company together." The basis of this "glue" is a one-page ethical code of conduct, "Our Credo," that guides how J&J fulfills its business responsibilities (see Figure 15.1). Crafted in 1943 by Robert Wood Johnson, company chair from 1932 to 1963 and a member of the company's founding family, the Credo defined J&J's vision of organization.

The Credo tells J&J managers worldwide who and what to care about and in what specific order. J&J's "first responsibility is to the doctors, nurses, patients, mothers and fathers who use our products and services." It addresses the communities where J&J operates and the roles and duties of J&J employees.

FIGURE 15.1 The J&J Credo

Originally spelled out in 1943, the J&J Credo has been updated over the years to reflect the changing markets and circumstances of J&J.

Source: Johnson & Johnson, "Our Company: Our Credo" (November 14, 2005), at www.jnj.com.

Notably, shareholders come last. The Credo declares that shareholders receive fair returns only upon tending to the other constituents; essentially, the company holds that the business will be well served by putting the customer first. As declared on the title sheet of the 2006 annual report, the "Credo underscores J&J's personal responsibility to put the needs . . . of the people we serve first. It liberates our passion and deepens our commitment to delivering meaningful health innovations." The company maintains that the Credo is more than just a moral compass. Rather, J&J believes it is the basis of success and finds proof in the fact that it is one of a handful of companies that have flourished through more than a century of change.

Translating the Credo

The Credo is available in 36 languages across Africa, Asia-Pacific, Eastern Europe, Latin America, the Middle East, and North America. Executives worried that the language and attitude differences might distort the clear, shared understanding of the company's mission among its global workforce. Consequently, the company periodically surveys employees on how well J&J meets the call of its Credo. These assessments are returned to senior management and, where there are shortcomings, the company takes action. J&J continues to update some of the language of the Credo as the world evolves; adaptations include the environment and the balance between work and family. Despite revisions, management believes the founding spirit of the Credo endures.

No matter the details of its particular structure, systems, and culture, J&J's leaders believe that the basis of the company's continued success is building an organization that is flexible enough to leverage the knowledge held by employees. Indeed, given the choice between staffing international operations with folks who implement top management's orders or hiring local people who are entrepreneurial innovators, J&J opts for the latter. Management reasoned that the benefits of front-line managers capitalizing on their initiative, developing their capabilities, and broadening their perspectives exceeded the risk of poor decisions. Decentralization has been, is, and will be the foundation of J&J's continued success. More pointedly, explained the CEO, "I am here to passionately protect the values of J&J. Our Credo is value-based. It comes down to people, values, and environment."

Introduction

Artfully engineering an organization that coordinates global activities to meet the mandates of multinational operations is the frontier of international business. Competitive advantage follows from devising an organization that directs value creation in the face of pressures for worldwide integration versus local differentiation.[2] Therefore, this chapter examines how managers build an organization to implement their strategies.

Organizing is the process of creating the structure, systems, and culture needed to implement the company's strategy.

Strategy as a Process We begin with the premise that an insightful strategy is a necessary, although insufficient, condition for long-term success. An MNE must implement its strategy, putting into practice what it has planned. The task turns managers' attention to how they should organize international operations. J&J exemplifies this situation, (1) showing the power of building an organization that integrates a network of decentralized national units, (2) tailoring technology, human resources, reward systems, and information systems to coordinate and control value activities, and (3) relying on its Credo to sustain a meaningful organization culture.

Throughout these tasks, managers articulate what must be done to sustain the company's competitive advantage. They focus on how employees do their jobs, how the company coordinates interdependencies among value activities, the means taken to control situations that go awry, and the values that define its culture. In this way, J&J gives a sense of the efforts managers make to build the organization that implements their strategy.