Kent Chemicals – Organizing for International Growth

Assignment 3

Introduction:

Kent Chemical Products started out in 1917 as a U.S. based rubber producer. Over the last century, the company expanded to diverse products such as consumer goods, medical plastics, industrial products, fire-protection chemicals, building construction products, agricultural products, etc. The company had a strong market share in the United States that was starting to flatten out, while international sales was growing rapidly. However, the international front of Kent Chemical was not always synchronized with the domestic operation, resulting to somewhat chaotic operations. The international operations of Kent were a result of various acquisitions, joint ventures, etc. Luis Morales, president of Kent Chemical was attempting to streamline operations for the third time, through re-organization of various divisions and optimizing operations. Since the last two attempts had not succeeded, Morales wanted to ensure that the latest one succeeded (Bartlett & Winig, 2012).

Context:

The Kent Chemical paper is a case in point for various companies that struggle with the results of mergers & acquisitions (M&A's). The management of such companies is especially tough when the M&A's are international. The distance between the parent company and the subsidiaries adds to the already preexisting stain on forming a company that has a similar culture. The course textbook states, "*All too frequently, mergers & acquisitions do not produce the hoped-for outcomes. Efforts to mesh the corporate cultures can stall due to formidable resistance from organization members. Differences in management styles and operating procedures can prove hard to resolve* (Thompson, Jr., Peteraf, Gamble, & Strickland III, 2014)".

This case was written to provide a student insight into:

- Organizational structures, company sub-cultures, and their impact on mergers & acquisitions (M&A's).
- What could happen if strong linkages do not exist between various divisions of a company, especially ones that have grown through M&A's.

Q1a. What was the international market entry approaches pursued by Kent until Fisher took over as a CEO?

A1a. Until Ben Fisher took over as CEO in 1998, Kent's strategy for international market presence was based on:

- Maintaining a national (one country) production base and exporting goods to the foreign market.
- Licensing foreign firms to use Kent's technology and to produce/distribute the company's products.
- Using strategic alliances and minority joint ventures (JV's) with foreign companies to produce and market its products.

Q1b. Why did they pursue these options?

A1b. Kent pursued the options outlined in "A1a" above due the "business pressures" listed in the table below (Bartlett & Winig, 2012):

Kent Business	Business Pressures	Kent Approach
Consumer Products	• Sales outlets and retail distribution channels varied by country. • Consumer preferences were not homogeneous across countries.	• Set up a plant in France capable of producing the Grease-B-Gone line, and distributing to various countries outside the U.S. • All other products were made in the U.S. and shipped to other parts of the world.
Fire Protection Products	• Fast growing industry – therefore had both local and global pressures. • Fire protection regulations varied by country.	• Chemical agents were produced in 4 plants around the world. • Former Kent licensees produced and tailored products to meet local needs.
Medical Plastics	• Customers were global and required specialized plastics for targeted applications.	• Product development was performed in Kent's Akron, OH R&D labs. • Products were manufactured in two specialized plants in California and Netherlands.

Q1c. What are the pros and cons of each option?

A1c. The pros and cons of each of the international market-entry approaches followed by Kent are listed in the table below (Thompson, Jr., Peteraf, Gamble, & Strickland III, 2014):

Approach	Pros	Cons
One country production base, and exporting goods to foreign market	• Good initial low-cost strategy to enter foreign markets. • Can use existing capacity in domestic plants. • No experience and knowledge of foreign consumer market and political system needed. • Minimizes direct investment in foreign market.	• Exporting from one country to another is usually more expensive than manufacturing locally. • Cost of shipping to foreign country is sometimes high. • Exchange rate fluctuations affect profits.
Licensing foreign firms to use company's technology	• No need to have the organizational capability to navigate the foreign market. • Resources are not permanently committed to the foreign market. Risks are minimized. • Income is generated from royalties.	• Providing intellectual property rights to another company, in another country that may or may not be defendable in the foreign country's courts, if license infringements occur.
Strategic alliances and minority joint ventures (JV's) with foreign companies to produce and market its products	• Ideal for the service sector such as restaurants and retailing enterprises. • Franchisee bears the costs and risks of establishing foreign locations.	• Franchisor incurs cost to train, support, monitor quality, and brand name adherence. • Franchisee may not adhere to quality standards of franchisor. • Franchisor may try to make modifications to the product and therefore adversely affect quality/brand name.

Q1d. Why did Fisher want to make Kent a global company?

A1d. Fisher wanted to make Kent a global company to ensure that the company survived the plateauing of the U.S. market, while continuing to make money in the global market. Fisher realized that while sales in the U.S. market were flattening out, there was a huge global market that Kent could tap into. Also Kent's international market entry strategies, while good for the short term, were not so great for enduring long-term profitability of the company.

Q2. What were the problems facing Luis Morales as he began implementing Ben Fisher's international expansion strategy?

A2. The problems that Luis Morales faced as he began implementing Fisher's international expansion strategy, are listed in the table below:

Strategic	Structural/Systems	Interpersonal
Kent was a minority shareholder in subsidiaries and JV's in 22 countries.	Limited financial and operating control over subsidiaries and JV's.	Staff members from the JV's were reluctant to collaborate with each other.
Kent subsidiaries were competing with each other.	Global financial / ERP system metrics contradicted regional knowledge of key staff members.	Impact of data from new systems caused friction.
Capital allocation had become complex.	Clear reporting lines and channels of communication were not present.	Resulted in less collaborative interpersonal relationships between staff.
Clear global strategy on product, place, price, and promotion did not exist. Regional organizations had difficulty coordinating issues with global implications.	No clear organization structure to support clear strategy.	Managers protected self-interests and continued with their parochial practices. R&D rarely focused on offshore needs.

Q3a. How would you evaluate the organizational changes he made in response to those problems?

A3a. The table below shows my evaluation of the impact of the two rounds of organizational changes that were made at Kent:

Re-Organization	Strategic	Structural/Systems	Interpersonal
<u>2006</u> Global Business Directors (GBD's)	• The overall strategy did not seem to be fully effective across the enterprise.	• The Medical Plastics GBD was effective in providing worldwide business coordination, while all other GBD's failed.	• Staff from all subsidiaries except the Medical Plastics Division did not buy into the GBD model. • The main reason that the model failed was most likely because of personality issues of the leaders and their staff. If the

Re-Organization	Strategic	Structural/Systems	Interpersonal
			Medical Plastics GBD was successful, the others should have been too, but they were not.
<u>2007</u> World Boards (WB's)	• Overall, this model was not successful in any division except for the Fire Protection Division.	• The Fire Protection WB was successful while the others were not.	• There were personality and operational issues in all WB's, except the Fire Protection one.

Q3b. **Why were they unsuccessful?**

A3b. As stated previously, the two re-organizations were not successful for the most part because of the following reasons:

- Lack of buy-in to the concept from company leaders such as Angela Perri.
- Lack of operational maturity of the staff members of the various divisions.
- Inter-divisional cultural differences between staff.
- Personality differences between the leaders and their staff members.
- Using a unified model across the company to solve diverse problems.

In summary, both the re-organizations failed because of people issues.

Q4a. **What do you think of the Sterling Partners recommendations?**

A4a. Sterling Partners identified the key problems of the company correctly. The company was trying to, "*impose uniform organizational solutions on a strategically diverse portfolio*" (Bartlett & Winig, 2012). I agree with this part of the analysis. However, the Sterling report did not pinpoint the underlying cultural/people problems within the company. They tried to mask the people issues by recommending a complex "decision matrix".

Fundamentally, Kent has lot of cultural and people problems, because the company had grown through a series of mergers & acquisitions (M&A's). Kent's strategy, structure, and culture are not aligned towards meeting the same goals as a company. This needs to be corrected at the senior leadership and grass roots level, in order for the company to move forward as a cohesive and successful unit.

Q4b. What did Kent get for the $1.8 million fee?

A4b. For the $1.8M fee, Kent got two items:

1. A partial analysis of why the company was not working as a cohesive unit.
2. A complex set of decision-matrices that would be hard to implement and sustain.

Q4c. What should Morales recommend?

A4c. Morales should work with his senior leadership and staff members to do the following:

- Accept the foundational cultural issues within the company.
- Work on correcting the cultural issues, and win over the dissenters / non-believers.
- Work on creating an organization structure that best meets the needs of the specific Division. It may not be the same for all the Divisions.
- Not implement the "decision-matrix". Implementing the "decision-matrix" will probably create more bureaucracy, confusion, a less-agile organization, and initially, lots of complexity.

Q4d. What should Chairman Ben Fisher decide?

A4d. Chairman Ben Fisher has a tough decision on his hands. He has the following options:

- Fix the current set of companies and the cultural problems within each of them.
  OR
- Sell the worst performing businesses. This could be a few sub-companies, or the entire Division.
  OR

- Exit ownership stake in certain regions and go back to alternate means of operating in those markets, using exports, licensing agreements, and joint ventures.

  OR
- Use a combination of each of the above options, for each of the Divisions.

Conclusion:

This case does an excellent job at introducing the student to the complexities of operating in companies that have grown through mergers & acquisitions (M&A's). Additionally, the challenges emanating out of diverse work cultures in various global companies, add to the complexity. In any company, culture challenges are the ones that need to be addressed first. If the strategy, organization structure, and culture are not aligned, companies cannot thrive. This has been proven time-and-time again during various M&A's. In a Forbes article on why M&A's fail, the author states, "*The first mistake acquiring companies make is underestimating the problems that unalike company cultures can inflict on a merger*" (Rein, 2009).

This case explores company performance issues associated with operating in foreign countries, M&A's, diverse company cultures, organizational structures, and strategy. The article far exceeds the targets set in the "Context" section of this document. It provided me with an excellent understanding of the issues stated herein.

Works Cited

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Rein, S. (2009, Jun 16). *Why Most M&A Deals End Up Badly*. (Forbes.com, Producer, & Forbes.com) Retrieved Jul 12, 2015, from Forbes.com: http://www.forbes.com/2009/06/16/mergers-acquisitions-advice-leadership-ceonetwork-recession.html

Thompson, Jr., A. A., Peteraf, M. A., Gamble, J. E., & Strickland III, A. J. (2014). *Crafting & Executing Strategy: The Quest for Competitive Advantage: Concepts and Cases* (18e ed.). (P. A. Mehta, Ed.) Boston, MA, U.S.A.: McGraw-Hill.