

CORPORATE ORGANIZATION AND GLOBAL POLITY

My eight year old son was asked to describe in school what he would like to be when he grows up. He has been studying various books about the city, the urban situation, firemen, policemen--all the usual fare of a second grader. In his notebook, he first drew a picture of the Chicago skyline on one side and of the Caracas skyline on the other. A plane was flying back and forth between the two. Then he wrote as a description of his career that when he grows up, he will be a lawyer and his job will be to protect Sears. That for me is evidence of what the new generation is all about. No longer are the vocational images of our youth sparked by cowboys or astronauts--or even by the traditional urban heroes such as the policemen, firemen or engineer. No, these are being replaced by the image of the global manager.

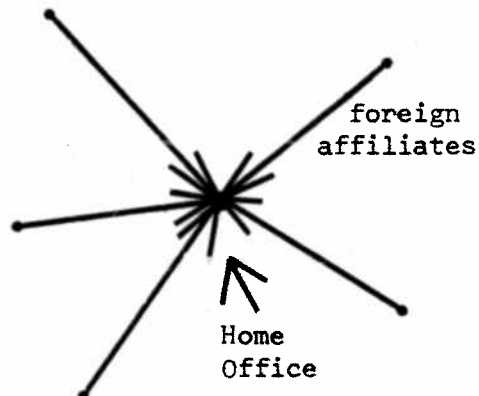
This fits the trends of our times. Consider the implications in the fact that collective bargaining is now beginning at the global level. The International Federation of Chemical Workers, for example, expects to begin global collective bargaining within two years. Consider the regional markets that are being formed. The European Common Market is well established, and now the Andean Common Market is paving its way in Latin America. As longer run prospects, there is the Latin American Free Trade Association and glimmers of a potential South-east Asian Regional Common Market.

Consider also the matter of language. The President of Matsui Trading Corporation stated recently that, within twenty years, he fully expects the headquarters language of the Matsui firm to be English. Already there exists multi-lingual corporations like Nestles of Switzerland, and bi-lingual corporations like Unilever. Indeed, Unilever is actually bi-national, since it has parallel incorporations--Dutch and English--as well as parallel Boards of Directors. Finally, consider that existing multinational enterprises presently produce about 15%, or \$450 billion, of a gross world product today of approximately \$3 trillion. Perhaps something over half of this is accounted for by U.S.-based companies. That figure is increasing at the rate of 10% a year. As a result, by the year 2,000, these complex global organizations will be generating 50% of the gross world product. J.-J. Servan-Schreiber states unconditionally: "The multinational corporation is an instrument for improving the standard of living more efficiently than anything else in history." However the world decides to regulate this form of economic organization, man's hope for continued economic growth over the next thirty years will depend on the existence of some such business enterprises integrated on a global basis.

EXISTING FORMS OF BUSINESS OPERATION

Let's look briefly at the current forms of international business organization which have emerged over the past century. The approach will be to describe their nature and function, discern their bias and see how the weaknesses of the one have tended to give rise to a new form. It should be remembered in each case that while the model appears to be pure, in practice most companies operate out of a combination of these three models.

Historically speaking, the "classical" form of business operation is centered around the home office in the home country to which are linked, like spokes in a wheel, the foreign companies or affiliates of the parent company. In this form, which is normally associated with mining, agricultural and petroleum development activities, the foreign affiliates--typically 100% owned--are closely tied to the parent company in satellite fashion. As the arrows in the diagram indicate, the flow of raw materials, semi-finished goods and earnings is toward the home country, which dominates the overall management and operation of the various subsidiaries and branches as well as most of the major and middle-level decisions. United Fruit Company, as well as various petroleum and metal mining firms would be examples of this form.



CLASSICAL FORM

The highest position in the foreign affiliate would probably be a production manager, who is responsible for implementing home country policies and seeing that the flow of goods back to the home country remains unimpeded. The main function of the foreign affiliates is to secure resources and supplies for the home country markets. This type of operation has been labeled "ethnocentric," because it is based upon the needs and criteria established in the home country.

The weaknesses of this form have been widely discussed under the label of "colonial." That is to say, because the total concern of the business operation in foreign countries is to supply the home country, there is a tendency for the operations of the foreign affiliates to be turned-in and to encourage an enclave mentality. The concrete results appear in the formation of "company" societies, which are basically unrelated to the needs and aspirations of the host country. All incentives are geared to the main purpose of supplying the home country, so that even host country employees become caught up in the "company" society and its

system of values. Without evaluating whether these weaknesses are part of more current examples, much Japanese foreign investment today is of this type, being directed toward the development and securing of raw materials for the Japanese market or for Japanese export industries. Further, many U.S. companies (operating under special custom law exemptions of the United States) transport high technology components to foreign plants for assembly by low-wage labor and then re-export them back to the United States or to other world markets. Favorite locations for such "cross-border" activities are Hong Kong, Taiwan, South Korea, Mexico and increasingly Colombia.

A second type of business form that has developed over the years is the international holding company (IHC). Under this form, a group of foreign companies exist as relatively independent satellites of a home office. The affiliates are oriented essentially to host country markets, tend to have similar activities but exchange little if any components or products among themselves. Often they are forced to do this due to the erection of tariff barriers whose objective is to create nationally-oriented production facilities. Examples of this are banks, hotels, and retail operations such as Sears, Roebuck. The IHC is a highly decentralized form of organization,



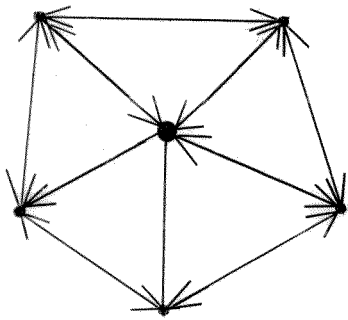
giving the affiliated companies a great deal of local autonomy and requiring that each one be a self-supporting profit center. Diagrammatically, you will note that the arrows flow both ways between the home office and the affiliate companies, but not at all between the affiliate companies. This suggests that communications technology and decision-making flow primarily between the home office and the affiliates. Normally, the home office establishes the overarching guidelines and systems of managing and operating the company, which then are implemented variously by the foreign affiliates. The variance arises from the differing demands of the host countries and the tendency of these affiliates to identify closely with the host

countries. A very large proportion of the employees will be host country nationals, although the top management positions in each of the foreign affiliates will typically be filled by home country nationals. This personnel policy is necessary in order to counteract the centrifugal tendency of local autonomy. A great advantage of this form is in allowing the foreign affiliates to respond quickly and flexibly to the demands and cultural variations of the host country.

The IHC, however, tends to keep the foreign affiliates isolated from the global economy. Much of the reason for this comes from the fact that host country economies themselves are isolated from global interchange. To save foreign currency, many countries have adopted far-reaching policies favoring local business and import substitution. Further, the close association between each

foreign affiliate and the home country means that the style and systems of the parent organization usually dominate the foreign affiliates, who very often (as in the classical example) are 100% owned subsidiaries of the parent. The one-to-one relationship between the parent and the foreign affiliate also tends to bias the overall view of the parent organization toward a country-by-country approach, depriving both of an overall global perspective. The great strength of this form of organization lies in its decentralization of decision-making and close identification of the foreign affiliates with the host country to a much larger extent than occurs under the classical model. Because of this decentralization, the IHC has been called "polycentric" in form.

The third and, in some ways, most advanced form of international business organization is commonly known as the multinational corporation (MNC) or enterprise. The term "multinational" refers to the operations of the enterprise and not its ownership. Although multinational ownership can be expected in the future, in fact with the emergence of the global manager and of host country regulation, ownership is becoming less and less a significant criteria for international business. The MNC has arisen in strength only within the last two decades, due primarily to the advances in management science and practice, and the development of computers and the communications revolution of our times. Whereas it once appeared that the most scarce factor in a firm was management, it now appears that there is almost no limit to management powers.



MNC

Diagrammatically, the MNC appears as a web of relationships between the home office and foreign affiliates as well as among the individual affiliates themselves. As under the IHC form, communications, technology and decision-making flow in both directions, but there is the added factor of mutual flows among the various foreign affiliates themselves. In contrast further to the IHC, the flows of the MNC also include goods and raw materials to a large extent. There is in fact a world-wide rationalization of the production process along a few lines of goods. There is at the same time substantial division of labor between plants in the various countries, so that no country has complete possession of all of the parts or technology necessary to the production of a

particular end product. The need for flexibility and mobility, arising from global rationalization and division of labor, explain why MNC's largely prefer unquestioned control--if not 100% ownership--of their subsidiaries.

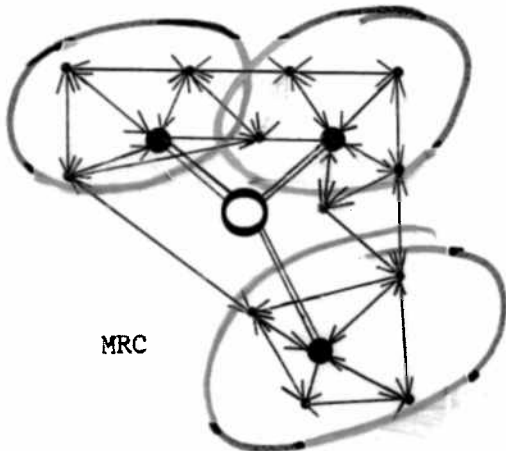
The MNC, therefore, moves close to becoming a global corporation, completely integrating all foreign operations into the one enterprise. Nevertheless, there still remains a home office and normally a dominant home country which strongly influences all aspects of the global enterprise. Examples of this

form may be seen in IT&T, IBM, and 3M Corporation to a greater or less extent. It must, of course, be recognized that some divisions of these companies possess an MNC form, whereas others may possess IHC or even "classical" form. Based on the worldwide distribution of the foreign affiliates and facilities, this form has been called "geocentric" in nature.

The very formation of the MNC gives testimony to the coming of age of a global economy. At the same time, it implies the interdependence of nations and a certain loss of sovereignty. Precisely these facts have caused many states to react in fear and hostility to concentrations of power and decision-making centers which are located beyond their borders and yet intimately affect the performance of their economies. Nations realize that an MNC can move its facilities (though not without some substantial cost) if the host country business climate does not suit its needs. There are cases, such as Ford in Great Britain, where MNC's have threatened to close their plants due to labor difficulties. Nations also suspect that MNC's possess an undue position of influence within their economies and are able to shift their revenues in such a way as to avoid taxes. The question for the MNC is how to maintain global integration of business operations, while at the same time honoring the needs and fears of host countries.

#### THE MULTI-RATIONAL CORPORATION

The increasing national and regional pressures upon the MNC raise the question of survival for the international enterprise. This clash of interests becomes comparable, as former Under Secretary of State George Ball put it, to the historical conflict between church and state. And there is every indication that this conflict will intensify at least over the short run. Let me demonstrate on a triangle with economic, political and cultural poles. The MNC,

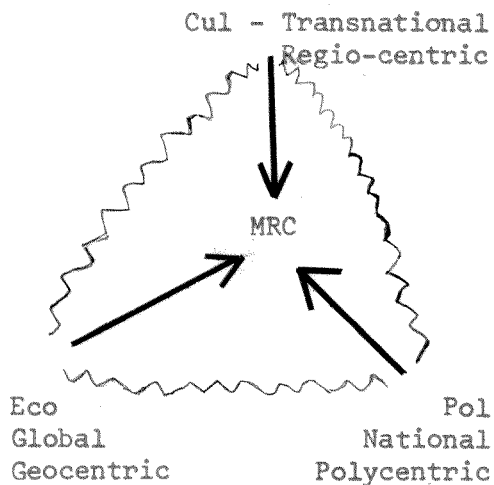


being geocentric in nature, has to do with the globality of economic organization. So let's place it on the economic pole. The polycentric International Holding Company, by contrast, falls on the political pole. Its primary identification is with the political interests of the host country. What's more, the political process reflects the regulatory means by which the national interests of the host country are asserted. Finally, the cultural pole represents a regio-centric orientation, such as embodied by the European and Andean Common Markets. Though essentially economic in nature, these Common Markets are built upon a common history or cultural heritage.

Any enterprise that decides to operate globally will be forced to deal with these three basic tensions: (1) global, the need to rationalize production, sourcing and marketing on a world-wide basis; (2) national, the pressure to serve the national interests and aspirations of the

host countries; and (3) regional, the drive of common markets to seek as high a degree as possible of independence and self-sustenance. Can the home office or parent organization divest itself of ownership and production control and still remain a single entity for operational purposes? Obviously, this is only possible if the home office becomes something other than it has been under the prior three models of business organization.

Looking behind the trends just discussed, there is emerging a fourth type of international business organization for the post-modern world. Regional

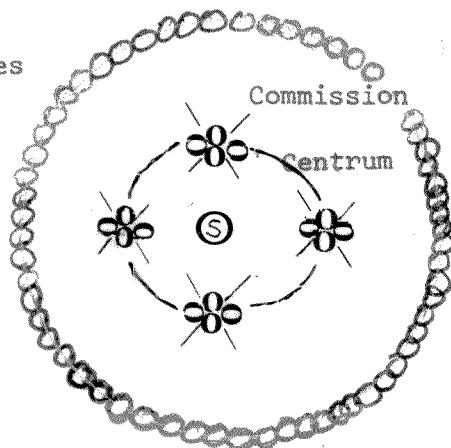


and national pressures are forcing a decentralization of the MNC, such that a global enterprise must rationalize its operations and production around three or more geographical locations in the world. It would be as if the home office of the MNC were exploded into three or more geographically separated home offices, but with one coordinating center to which all the home offices report and maintain close communication. Each of these regional offices would have its own web of operational and production relationships much as does the MNC home office, but would be unified globally through certain common functions. While it is difficult at this time in history to point concretely to examples of this type of global organization, some partial examples might be

the R & D joint ventures between companies in the European Common Market, the International Trade Secretariats of various trade unions around the world, binational enterprises like Unilever (Dutch-English), Renault-Volvo-Peugot and Aga-Esab-Air Liquide (Swedish-French), and the regional financial system formed by Banco de Roma, Credit Lyonnais and Commerzbank. Emerging also are transideological ventures between East and West, such as the proposed trans-Siberian oil pipeline. None of these are complete examples, but they point in the direction of what may be anticipated.

This new form of international business organization may be referred to as a multi-rational corporation, because it is based upon divergent rationalities as they appear in the several regional emphases of the enterprise. Its organizational form is in effect "cultur-centric," for each region or sphere of the globe will have its own set of values and priorities geared to its particular needs and the aspirations of its peoples. The home office, on the other hand, would maintain the global commonness of the enterprise, retaining such limited functions as management training or other specialized training, research and coordination, basic and new systems research, a globally coordinated communications system and an over-arching story and style of company management and operations. While majority ownership of the regional affiliated companies or concerns would be in the hands of regional nationals, the home office would maintain balanced "control" of the regional operations through management and technical assistance agreements and coordination of overlapping production and marketing systems between the various regions. World-wide resource procurement

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Area  
Houses



ORDER POLITY

as the Panjayat, Priors Councils and House Priors. Around the Symbolic, in the second circle, are located the Centruns. Presently, we are thinking of four Centruns: London, Bombay, Hong Kong and Chicago. They would carry out the missional thrust of Management, Operations, Development and Research. Around the Centruns, in the outer circle, are the fifty-four Area Houses. Each of the Area Houses, of course, is responsible for and responsive to the various regions and houses in that Area. The decision-making of the Centruns as well as of the Area Houses must always hold the globality of the entire mission. The fifty-four Area Priors, forming the Global Priors Council, articulate the decisions of the entire Movement.

This is a dynamical model of decision-making. In order to avoid the bureaucratic rigidities of the more traditional approach, new language is needed to describe the operation and the inter-relationships of its various elements. Thus, consensus formation--not hierarchy--is the fundamental operating principle. While the former seeks to establish the common will on a matter, the latter delegates decisions of increasing scope and importance to the next highest rung in the line of command. The subordinate does not act because it is the common will, but because it is the will of a higher command. On the other hand, consensus does not connote a sort of representative democracy. Rather, it honors grass roots creativity. Consensus is missional, pure and simple. You are not after a "fair" or "equal" voice in things for everyone, but a decision that most fully reflects missional demands. That reason--and that reason alone--requires that the broadest spectrum of experience possible participate in every decision.

New Language is also needed to avoid the bureaucratic trap. For instance, global mission determines the style of discipline and organizational structure--not vice versa. As mission shifts, organizational structure also may need to shift. Structures serve missional needs. Further, an "existing" consensus of, say, the Global Priors Council is not simply "implemented." It is "actualized" as the Centrum "re-creates" it through battleplanning and model building. The intent of a consensus must be honored consistently, though the form of actualization may shift from situation to situation. Finally, it must be understood that Symbolic bodies do not "decide" a matter as would the president of a typical corporate enterprise. Decisions get made so-to-speak in the bowels of the Movement--in research assemblies, PSUs and battleplanning--and are only "affirmed" symbolically. Of course, a veto or a shift in emphasis is always possible by the Panjayat or the Global Priors, but it could come also from anyone speaking up in the various councils, research assemblies, or PSUs if he speaks the common mind. The point is that decisions get affirmed symbolically. When this happens, not just a particular decision but the entire decision-making process is affirmed. Which is to say that the grass roots is affirmed, for its creativity is the source and grist of those decisions.

and coordination would also be of common critical importance. Beyond this, the home office would remain symbolically the center of the company and the guardian of company style and public image. The various regions or spheres would be left then with substantial autonomy over production operations, marketing and personnel policy. What has been described here is essentially a federated model of global organization.

The weaknesses of the MRC can already be anticipated. They lie, of course, in the tendency toward fragmentation of the global enterprise as well as the likelihood of a power struggle among the various regions. Whether these weaknesses can be overcome depends to a great extent upon whether management in the home office is capable of developing a new approach to management which is based more upon mutual need and common consensus rather than upon hierarchy and purely monetary rewards. This, of course, would be buttressed by minority ownership through the home office as well as management and technical assistance contracts. It is also anticipated that the MRC would develop a global management core of its own, emerging out of the several regional management systems. While it may at first glance appear that business organization does not lend itself to such shifts in organizational methods, there are many indications here and there in the international business world that experimentation of this type is already being undertaken. For instance, the large Japanese companies utilize to a great extent a type of consensus system in their policy making. Further, many companies already have a great deal of experience on the use of management contracts. The real challenge will be in the area of management systems, which allow for company purpose and direction to merge out of the common mind of a large segment of corporate personnel, rather than being formed by a small elite and passed down hierarchically. Behind this is the requirement that business organization develop a new concept of trust that extends beyond immediate material benefits and personal gains.

#### GLOBAL ORDER POLITY

The emergence of the multi-rational corporation in effect calls for a new decision-making style. Where regional operations have considerable autonomy, due essentially to regional ownership and regulation, hierarchy is no longer a viable primary organizing principle of decision-making for a global business operation. As a result, decisions must begin to arise out of the areas and regions rather than being imposed from the top down by a home office. We are in fact seeing, as Peter Drucker recently points out, that decision is as much a dimension of management as is work and task, results and performance. Still, he says, "We know of no decision-focused design principle of organization structure." What kind of decision-making process then must emerge in order to maintain the complexity of global organization for the MRC?

As a way of talking about the new style of decision-making that is necessary for complex global organization, let me sketch an image of global polity with which we have been experimenting. The image consists of three concentric circles. At the center is the Symbolic, where we might group such bodies

Now a word about the Commissions, such as those dealing with finance, legal matters, etc. As we began to talk about them in the recent gathering of the Legal Commission, the Commissions are not decisional bodies. They have an advising and recommending function. They deal with issues raised in the work of the Centrum, including its battleplanning, or brought to them by the Global Priors. That is to say, the issues have already been isolated as serious questions, and now require that expert or professional experience be brought to bear on them. A dialogue takes place between those who know the issue face-to-face in their daily task and those who have an independent perspective and specialized experience or discipline. Here is where creativity gets broken loose, bureaucratic delineations overcome and revolutionary operating principles designed which are practical within the constraints of the established order. At the same time, existing operating principles are reviewed and maintained or redesigned. While it is clear that Commissions only advise and do not decide, the principles they recommend embody decisions. These in turn must be affirmed in the councils and Panjayat and actualized concretely in the Centrum.

Out of the Legal Commission of last March have come five principles of polity. The first one is that the mission determines the polity. We have already mentioned that. You do not create a vehicle, or you do not get into a car, unless you know where you are going--unless you have the vision. Which is also to say you don't make decisions unless they are necessary. Second, every decision embodies the local and the global tension. That happens in every arena of decision-making whether that is in the Centurms or the Commissions, the Panjayat, the Global Priors Council or wherever. Third, every individual and every group is responsible for mission. A prior, for instance, of any one of the Area Houses is not responsible simply for his Area but he is responsible for the entire globe. Fourth, power always lies in the middle of the table--that is simply the operating principle. There is no group and there is no individual about whom you could say, "His say goes." It is only by corporate decision that anything finally gets decided. And the power is available to everyone, but it always remains in the center of the table. No one can monopolize it. No one, that is, unless you allow it. Fifth, global polity depends on recreating and maintaining what Joe Mathews has called "complexified tensional relationships." Those are difficult words. I guess the way you describe them is by looking back at the kind of evolution that business organization has come through. When you operate on a global basis you also have to take into consideration the national and regional emphases that are there. The Movement talks about this as global-local tension. On top of that, you consider the various types of functions that need to be performed--functions of consensus formation, of affirming and actualizing the decisions, of recommending and advising--a complex of many differing decisional dimensions.

The time is past when we can talk about simplified decision-making. We must deal with complexity, and the kind of complexity that constantly places us in the midst of competing considerations. The temptation is to reduce the complexity and conflict through rigid bureaucratic compartmentalization. The challenge, however, is to design a system of polity which holds the

conflicts within a tensional system, so that the rich variety of values and wisdom is not lost but constantly allowed to infuse and enlighten the entire process of decision-making. For this reason, the focus of any polity model must be dynamics, not structure. Indeed, on brief reflection, you will see that every structure in fact incorporates every dynamic of the decision-making process.

As we look back on the evolution of international corporate organization, and toward the development of new forms, we should be clear about several trends. First, in the last twenty to thirty years the global economy will be shaped by multi-national/multi-rational enterprises of some type. After that something else will take over, but until then this type of organization is going to remake the global economy. At the same time, the increasing globality of the economy will occur only amidst the development of regional groupings, such as the European and Andean Common Markets. Here is where globality experiences the complexity of regional emphasis. Third, ownership in the various forms of international enterprise will become highly diversified among various nations and regions. These enterprises no longer can expect 100% control of their foreign affiliates. This fact entails new methods and styles of management for these enterprises. Fourth, there will be increasing international or transnational regulation of international enterprises. This is already indicated by the United Nations Study on Multinational Corporations published last August, and by the "group of twenty eminent persons" appointed by the Secretary General of the United Nations last Fall to hold hearings on multinational enterprises. Business leaders who testified before this group indicated a willingness to accept international regulation, at least in some respects, for they are experiencing the increasing impingement of national and regional legislation. Fifth, there is emerging a complex infrastructure for the global economy, including financing and banking services, worldwide collective bargaining and systems of resource allocation. Over the next two decades, this infra-structure will extend to literally every facet of economic life. Sixth, as already mentioned decision-making will become increasingly complex. Therefore, we must develop polity models that deal creatively with this complexity. Indeed, finally we are faced with the necessity to develop a new style of decision-making. I don't know whether the model of global polity that we are experimenting with or some other model will fit this need. In any case, the new model must certainly be one which holds in tension global comprehensiveness with grass roots creativity.

-- Clarence J. Mann