

WHEN MARKETS QUAKE

The Management Challenge
of Restructuring Industry



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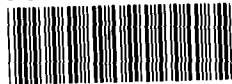
*The Management Challenge
of Restructuring Industry*

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Contents

Preface	ix
Introduction	1
A Story of Crisis	1
Implications	11

CHAPTER 1

The World Petrochemical Industry in Transition

Background	15
The Major Trends	19
Feedstock Prices	19
Technology	20
Global Recession	20
Sources of Supply	22
The Need for Restructuring	23
The Response by Companies and Governments	28
Companies	28
Governments	30

CHAPTER 2

Patterns Observed

Introduction	35
The Role of Crisis	37
The Role of New Management	38
The Role of New Structure	40
The Role of Portfolio Analysis	42
The Role of a Credible Source of Outside Information	43

CHAPTER 3

Lessons from Petrochemicals

Introduction	49
Structure Is Strategic	50
Competition Can Be Destructive	52
Cooperation Is Required to Escape the Dilemma	54
Strategy Is Political	61

Which Game to Play?	63
Stopping the Bloodbath	63
Winning the Endgame	64
Maintaining Employment	64
Maximizing Profits	64
Playing Two or More Games at Once	65
Managing in a Politicized Environment	66
Three Phases of Restructuring	69
Preparation	70
Concentration	71
Mergers	72
Swaps	72
Acquisitions	73
Takeovers	73
Cartels	73
Rationalization	74

CHAPTER 4
What Role for Government?

Introduction	77
Europe: The Need for a Regional Perspective	78
France	79
Germany	80
Italy	81
Japan: The Issues Addressed	82
The United States: Toward a New Competition Policy	83

CHAPTER 5
**The Restructuring of Union Carbide Corporation
and Dow Chemical Corporation**

Petrochemicals in the United States	93
Misunderstanding by Entrants	95
Misunderstanding by Competitors	96
Aggressiveness	97
The Restructuring of Union Carbide	100
The Restructuring of Dow	105

CHAPTER 6
**Other Forces in the Market: Oil Companies
and the United States Government**

Introduction	109
Chemical Companies vs. Oil Companies	110
The Chemical Companies	110
The Oil Companies	111
Exxon Chemical	112

The United States Government: A New Move to Protection?	118
The ITC Suit	119
The ITC Report	121

CHAPTER 7

The Restructuring of British Petroleum and Imperial Chemical Industries

British Petroleum	125
ICI	127
The BP/ICI Swap	130

CHAPTER 8

The Restructuring of French Chemical Production

History	137
The French Government	138

CHAPTER 9

The Restructuring of Montedison

History	147
A New Montedison	151
An Agreement with ENI	154
New People and a New Culture	155
A New Structure for a New Strategy	157

CHAPTER 10

The Restructuring of Europe's Petrochemical Industry

Introduction	165
Germany	165
BASF	168
Hoechst	171
Bayer and Veba AG	173
Shell	175
The Role of CEFIC and the European Commission	180
The Commission	184

CHAPTER 11

The Restructuring of Japan's Petrochemical Industry

History	189
The Combinatos	190
The Naphtha War	192
MITI Acts	193
The Prospect	199

CHAPTER 12
A Restructuring Agenda for Managers

Introduction	207
Three Tasks for Management	208
Creating a Profit Capability: Preparation	209
The Administrative Task	209
The Strategic Task	211
Organizing for Turmoil: Concentration	213
Building Legitimacy: Rationalization	214
The Need for Outsiders to Deal with Politics	217
The Work of a Leader	222
Glossary	225
Index	233

Preface

This book represents a continuation of twenty years of research into the strategic character of economic problems facing top managements. *Managing the Resource Allocation Process* describes how the process of making major capital investments determines the future character of the firm and argues that that process can be managed once it is understood. *Two Faces of Management* describes the problems that develop when political managers have to work with technocrats, a problem increasingly common as governments intervene in a wide range of economic activity. In that context, this book is an analysis of management work at the political/technocratic interface in one of the world's most important industries.

The book also represents one line in a series of investigations of business policy problems in that group of industries characterized by global competition which have been carried out at the Harvard Business School over the past decade. Although the research questions and findings are mine, the work has been substantially influenced by the other work done here.

Bruce Scott and George Lodge have played a major role with their project on U.S. competitiveness. Scott in particular with his analysis of national economic strategies, and Lodge whose work demonstrates the powerful role played by ideology have changed the way we think about international competition. In the research leading to the present book it was possible to expand on the considerable research they both have done in building the course "Business, Government and the International Economy," and in their individual research projects and writings.

Also important to the development of my thinking has been Malcolm Salter's study of the world auto industry, and the related work of William Abernathy and Robert Hayes. The works of Thomas McCraw on the evolution of regulation in the United

States, and Richard Vietor on regulation in energy and in telecommunications have also been useful. More directly, I am thankful for the comments provided by those who read and commented on the manuscript: Professors Kenneth Andrews, Joseph Badaracco, Richard Caves, Albert Chandler, George Lodge, Thomas McCraw, Richard Vietor, and Ezra Vogel of Harvard University; and Richard Foster of McKinsey & Co. Catherine Barre provided substantial assistance on France and the French companies, especially during the process of interviewing industry executives. Benjamin Gomez-Casseres contributed significantly to the research on Montedison.

The approach to the research reflects the context as well. Through friends and alumni of the Harvard Business School I was able to interview the leading managers of the chemical businesses at BP, ICC, Shell, Atochem, CdF Chimie, Rhône-Poulenc, ENI, Montedison, BASF, Hoechst, Mitsui Chemical, Mitsui Trading (Bussan), Mitsui Petrochemical, Mitsubishi Chemical, Mitsubishi Petrochemical, Mitsubishi Corporation, Showa Denko, Sumitomo Chemical, Takeda, Kanegefuchi, Dow Chemical, Du Pont, Exxon Chemical, Mobil Chemical, and Union Carbide. This was not a random sample; nor was it the population of petrochemical producers. By the estimate of industry participants, however, it was an extensive and representative group of the most important producers. In addition, I had access to the data bases of McKinsey & Co. and Parpinelli and considerable support from Chem Systems Ltd. A number of past leaders of the industry were also willing to be interviewed.

In all instances I tried to learn what was happening to the industry; how the companies were responding; and what special problems management faced. Since the companies were all familiar to each other, and the industry problems shared, I soon found that I was going over familiar ground. The managers I worked with were helpful and interested. After the field research was completed, I sent early drafts of the material to the managers interviewed for corrections and such vetting as they thought necessary. Generally speaking, the only changes were the elimination of factual error and the weakening of critical remarks about competitors and governments. In some instances, especially in Japan, managers were only willing to be quoted as "a company executive." Unless there is a specific reference footnoted, all quoted material in the text comes from company interviews. In my judgment, it is

the best balance between retaining the use of valuable illustrative data and respecting the wishes of those who cooperated with the study.

The place where this approach was weakest was in dealing with the European Commission. I was asked by the European companies to avoid the Commission during my research. While in the end, I did have limited conversations with important figures, the discussion in the text may be biased by the lack of contact with Commission executives, especially those in the Competition Directorate. In fact, I do not believe that my argument is weakened, but the possibility must be acknowledged.

The same is not true for national governments. I interviewed key figures in the French Ministry of Industry, the Italian Ministry of State Participation, the British Department of Trade and Industry, the Japanese Ministry of International Trade and Industry, the U.S. Department of Commerce, and the U.S. Trade Representative. The only gap was the German government, where some of the same sensitivities existed as with the Commission.

I hope that the book is treated as a reliable description of what has been happening in the petrochemical industry. That description provides the basis of a somewhat controversial argument. Nonetheless, if readers find it persuasive, the study will have served its purpose. But it is important to understand that extensive as it is, this is not the definitive description of the world petrochemical industry. That has yet to be written. Nor are most of the company descriptions complete case studies of the restructuring that has been managed over the last decade. Those tasks would take a lifetime, and in the end, the policy problems would have changed.

I attempt, then, to step back and capture for consideration by managers a picture of an entire industry in transition, as environment and technology shift and company strategies are modified to take account of the sea change. From that detached but not remote perspective, I believe it is possible to see common features in the problems facing the companies and in their responses, features which carry important lessons for managers in other companies and in the governments of the free world.

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