Decision-making regarding restructuring in multinational enterprises

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INTRODUCTION

The object of this research paper is to add to existing knowledge on the relationships between the parent company and its subsidiary in decision-making processes regarding the restructuring of the latter.


This type of theoretical approach requires thorough empirical research in enterprises so that the various types of models of the iterative process can be tested and where possible differentiated in the form of a typology. The top management of the parent company of several multinationals were contacted in September 1984 and asked to co-operate in this study. Eventually three of them kindly agreed to allow the research team to undertake in-depth research on recent restructuring decisions. The research team was composed of the author of the present report and two assistants who were students at the HEC (Ecole des Hautes Etudes Commerciales - a French business school), and had both done their third-year traineeship period between January and April 1985 in the offices of the multinationals concerned to collect data on the decisions being studied. In total, the research used the equivalent of one full-time researcher for one year. The resources employed were considerable, as the members of the team crossed the Atlantic several times.* The methodology used is summarised in section I.3 of this paper.

One of the three enterprises originates in Canada, another in a European country and the third in the United States. Each of them is one of the leading multinationals in its industry. The first is active in the mining and chemical industries, the second in popular consumer goods, and the third in high technology. All three are multinationals whose sales abroad account for more than 25 per cent of their turnover; their foreign subsidiaries vary in number from 16 for the Canadian multinational to more than 50 for the American and European groups.

The condition imposed by all three enterprises in exchange for permission to examine their files in detail and interview members of their general management at the parent company's and subsidiary's offices was that their identity should be sufficiently disguised to make recognition impossible. The names of the enterprises referred to in this paper have accordingly been changed. It has sometimes been necessary to make the enterprise being considered look like another one so that its behaviour be consistent with its branch of activity, and to throw would-be sleuths off the scent. The author offers them his apologies for using this device; it is preferable to the disguise "enterprise A from X country", which easily falls. The main industrial activity of the European enterprise and the American enterprise has

* This Working Paper is based on research at the HEC, whose Director we thank for kindly permitting the students to spend their third-year traineeship period on research led by a lecturer at the school. The author offers his very sincere thanks to the three multinational enterprises that were good enough to take part, not only for their farsightedness in throwing their books open to the research team but also for facilitating the students' work.

5931d
been disguised although the logic of facts in their lines of business — consumer goods for the first and high technology for the second — has been respected. The national origin of the European multinational cannot be revealed, but the logic of a large European enterprise that has been a multinational for a very long time has been respected. All the multinationals considered have agreed that the results of the research may be published under this disguise. A table of the disguises used is found in the Appendix.

The restructuring decisions considered are markedly different. Those by the Canadian firm comprised the sale of a controlling interest in a United States subsidiary, takeover of all the latter's activities in Canada, and the purchase from another multinational of one of its subsidiaries, an oil company, in Canada. The second set of decisions relates to the closure of a small plant in France by the European multinational, and the third to a large investment in a plant in France belonging to the American multinational, jointly with the closure of a smaller plant. The cases considered thus cover widely differing restructuring decisions, namely:

- reorganisation of the business portfolio on an international scale;
- restructuring of production facilities, either by plant closure or concomitant closure and opening of production units.

When this research was planned the following six questions were framed in pursuance of our aim of throwing light on the division of tasks between the parent company and the subsidiary when restructuring decisions are being made:

1. How do multinationals make their decisions to disinvest?
2. How do multinationals make their decisions to close plants abroad or reduce their size?
3. How do multinationals make their decisions to shut down or sell entire subsidiaries abroad?
4. How do multinationals make their decisions to reduce the numbers of their staff in a given foreign subsidiary?
5. How do multinationals decide to reallocate the financial and human resources released by disinvestment, or alternatively to absorb their losses?
6. In what respects are planning, budgeting and control procedures and processes important to the above-mentioned decisions?

Each of the above six research questions may be divided into two sub-questions, namely:

(a) Who initiates the decision-making process, the subsidiary or parent company? Who is the principal impetus or trial actor,* the parent company or the subsidiary? In other words, is the direction of the decision-making flow in the hierarchy bottom-up or top-down?

(b) What happens if there is a rupture in the system of actors in a process? In particular, is the manager of the foreign subsidiary

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* For a definition of these terms see Chapter I.
removed after repeated failure to make a foreign subsidiary more profitable or more compatible with the group's world strategy? Is he removed before the subsidiary is closed? Is he dismissed when the subsidiary is sold or closed, or does he continue his career, but within the parent company?

This study is divided into three parts. The first sets out the theoretical basis of the iterative model, the methodology and the principal results relating to decision-making in multinationals; the second reports the results of the three empirical studies comprising this research; the third presents the conclusions of the study, answers the research questions posed in the Introduction and compares the results with those previously existing.
I. RESEARCH ON DECISION-MAKING IN MULTINATIONALS

The following is a brief summary of the iterative model of the decision-making process, of existing results concerning acquisition and disinvestment decision-making processes in multinational enterprises, and of methodology.

I.1 The iterative process

Most managers of multinational enterprises would currently describe the decision-making processes involving their foreign subsidiaries as either "decentralised" or "centralised". This perception is not sufficient to get an exact idea of how the parent and subsidiary share the strategic decision-making task.¹ The parent company's perception is often different from the subsidiary's. Furthermore, the general impression on either side that most important decisions are shared produces a blurry result indeed.

The iterative process shows much more exactly the relations between parent and subsidiary in decision-making processes that concern them both and has therefore been adopted as the theoretical basis of this research.

A strategic decision² is the result of both an intellectual or psychological process and a political process involving individuals at various levels of the enterprise. We shall use the iterative model to describe this process.

A. Description of the iterative model

The iterative model describes a process taking a fairly long time (between several months and several years) and involving both the parent company and the subsidiary.

The iterative model has three distinct phases. They are:

- initiative: an actor or actors makes a proposal or proposals to other levels of participants;
- impetus: one of the actors decides to sponsor a project and stake his reputation for good judgement on getting it accepted;
- trial: the project is examined by top management, which may approve it, reject it or call for its further study.

The iterative model shows that the phases have a repetitive character, which becomes evident from the requests for further study (projects returned to the sender). The trial phases are the ones that give the process its iterative character. An iteration is defined as the succession of the three phases of initiative, impetus and trial, or as a couple of impetus-trial phases.³ The iterative model is dynamic, as it explains change in the content of the decision by variations in its morphology (the number of iterations and change of relations between actors) and in the external environment.

The following three constituent elements of the iterative model of the political⁴ decision-making process are not generalisable to all decisions:

5931d
- the hierarchical organisation, which can vary from one enterprise to another or within a single enterprise in the course of time;

- the level of participants, which varies with the kind of decision;

- the direction of the decision-making flow (see B below), defined as the "direction taken by the sequence of the phases of the process between the levels of participants". Thus if the first initiative phase is carried out by one of the levels below and if the trial phases are carried out by the top levels in the hierarchy the direction of the decision-making flow will be bottom-up.

B. Typology of the decision-making process

The combination of the three phases of the process and of the hierarchical levels of the enterprise gives the structure of the iterative model. There are five kinds of political processes. They are described below.

(a) The standard hierarchic process

This is the model established by the first stages of research on the iterative process. The direction of the decision-making flow is bottom-up. Before the beginning of the process one or more units of the enterprise are responsible for the substance of the decision that is the subject of the process. Figure 1 represents this type of process, with two iterations.

![Diagram of the standard hierarchic process](image)

(b) The hierarchic process "with presidential initiative"

The direction of the decision-making process is still bottom-up, but no unit of the enterprise is responsible for the decision before the beginning of the process. The first phase is triggered by the higher level (the president in the cases studied by Aharoni in 1966, from which the process takes its name”). Figure 2 represents this type of process.
(c) The reversed hierarchic process

The following type of process was observed in a French multinational enterprise: the president triggered the initiative-impetus phase and the financial manager triggered the trial phase. The direction of the decision-making flow was thus reversed: it was top-down. There was no group responsible for taking the decision before the start of the process. If the president allows this type of relationship he is not doing his job properly. Figure 3 represents this type of process.

(d) The competitive hierarchic process

In this case several persons or services in the same enterprise are required by the higher level to compete among themselves in preparing a project. Two units of the organisation are then responsible for the impetus phases. During the trial phase the higher level chooses between the two projects. Figure 4 represents this type of process.
Figure 4:

<table>
<thead>
<tr>
<th>Participants</th>
<th>Phases</th>
<th>Initiative impetus</th>
<th>Trial</th>
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<tbody>
<tr>
<td>Higher level (A)</td>
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<td>X</td>
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<tr>
<td>Level immediately below level A - Participant B*</td>
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<tr>
<td>Level immediately below level A - Participant C*</td>
<td></td>
<td>X</td>
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</table>

n iterations

* Participants B and C are at the same level.

(e) The consensual process

In the consensual process the same actors one by one set in motion impetus and trial phases. Thus each actor changes his conduct as the process develops. The power relationships are thus mobile and the direction of the decision-making flow varies. This process is the one by which decisions are made in organisations without a hierarchy or in particular situations; it can be used as the definition of what is called self-management. Figure 5 represents this kind of process.

Figure 5:
I.2 Existing results

These differ according as they relate to acquisition decisions or disinvestment decisions.

1. Acquisitions

The results of the first proceedings mentioned below cannot be generalised as they related only to a few cases and were not tested on a significant sample.

In eight decision-making processes for acquisitions in the United States between 1964 and 1972 by a French multinational enterprise disguised under the name of Cofracis the standard hierarchic model was followed throughout: initiative, and most of the impetus phases, came from the subsidiary and practically all the trial phases from the president of the parent company and on occasion from the manager of the international division and a few directors at headquarters. The decision-making flow was thus bottom-up to begin with and top-down afterwards.

In decisions by American enterprises whose leadership was of Israeli origin to acquire companies in Israel the decision-makers followed the hierarchic model with presidential initiative. The direction of the decision-making flow was first of all top-down, the president taking the initiative of forming an ad hoc working party to study acquisitions in Israel. Subsequently the decision-making flow was bottom-up, as the impetus phases came from the ad hoc group and their immediate superiors. Later on the decision-making flow was top-down, the trial phases being, as in Cofracis, administered almost entirely by the president of the group.

The main reason for the difference between the above two examples is that the French enterprise already had a foreign subsidiary. It therefore took the initiative of making the acquisitions, which it regarded as part of its responsibilities, whereas in the cases studied by Aharoni the foreign subsidiary did not exist. Accordingly the existence of a unit responsible for making acquisitions appears to determine a priori what process a multinational employer chooses — whether standard hierarchic or hierarchic with presidential initiative.

2. Disinvestment

Research by Gilmour and Torneden concludes that there is a rupture in the system of actors before the disinvestment process. According to these authors the manager of the foreign subsidiary or of the division in major difficulties or even the president of the group is first relieved of his post and replaced. The new executive then proposes disinvestment, and his superiors easily accept it. Once the change of actors is made by "an act of authority" the simple hierarchic process is resumed, but the "act of authority" itself is the result of a process in which the actors are the superiors of the manager or president who is relieved of his post. In most cases that executive takes no part in the decision-making process leading to his dismissal.

Accumulated experience is important for acquisition and disinvestment decisions. The first acquisition decisions by Cofracis took much longer than the second acquisition and cost the parent company's and subsidiary's general managements much more effort; and subsequent decisions were taken even more
easily and with fewer participants than were the first ones. Similarly, the number of participants in the disinvestment processes was inversely related to the number of disinvestment decision processes in which the manager in charge of the operation had previously taken part.

The enterprise's external environment, especially the government and trade unions of the the host (i.e., subsidiary's) country had no direct impact on the process, as they were not contacted during the process but only after the decision had been taken. This is not to say that the external environment cannot exercise indirect influence; the actors in the enterprise who take part in the decision-making may well be sensitive to and anticipate external constraints, for they often share the same values. However, this is not always the case, particularly as regards social problems. The objectives of survival and profit may force the enterprise to relegate social welfare to the background; but social welfare may be the first priority of trade unions and governments.

All the above results are insufficient to permit of generalisation. Furthermore, they all date from before 1973. It is possible that a firm's behaviour has changed since then. In particular, as the number of divestments has increased, enterprises may have learned to disinvest more efficiently. Ruptures in the system may perhaps be less frequent in the mid-1980s than they were in the early 1970s.

I.3 Methodology

Data collection is by interview of all participants in the decision-making process and by reading all the enterprise's internal documents (reports, letters, telex messages, minutes of meetings and records of telephone conversations, and various notes). All these data are transcribed onto individual chronological cards for each interaction between two or more participants, and the cards are then filed in chronological order. Should there be any differences of content for one and the same interaction the written source is given priority. Each interaction or group of interactions is then examined to decide to what phase (initiative, impetus or trial) it belongs. The sequence of phases thus determined is then assembled and simplified in the form of a model reproducing one of the iterative processes previously described (see I.1 above).

Analysis starts by comparing the internal morphology of the successive decision models established, that is, the number of iterations and levels of participants. Subsequently variations in the enterprise's economic, administrative and legal environment enable a structural analysis to be made to explain variations in the morphology of the processes by variables that are exogenous to the firm.

This methodology is examined in more detail in M. Ghertman.

Notes


2 For a definition of this concept see Ghertman, ibid., pp. 4–7.

"Political" in the sense of "the governing of men in organisations". For further details see Ghertman, 1984, op. cit.


Y. Aharoni: The foreign investment decision process, Harvard University, Boston, 1966.


Aharoni, op. cit.


Torneden, op. cit.

II. THE EMPIRICAL STUDIES

We shall now report on our studies of decisions taken by the International Company of Canada (ICC), International Consumer Products (ICP) and the High Technology Company (HTC), in that order.

II.1 International Company of Canada (ICC)

After describing this Canadian multinational company and its strategy we shall present the chronology and models of the restructuring decision process before proceeding to preliminary analysis.

II.1.1 The decision studied placed in the context of the firm's strategy

(a) Company background

On 30 June 1971 the Canadian Parliament adopted an Act to create the International Company of Canada (ICC). The mission of ICC, established by the purpose of the Act (section 2), is the following:

The purpose of this Act is to establish a corporation that will help develop and maintain strong Canadian-controlled and managed corporations in the private sector of the economy and will give Canadians greater opportunities to invest and participate in the economic development of Canada.

The corporate objectives of the company are set out in section 6 of the Act:

(a) to assist in the creation or development of businesses, resources, properties and industries of Canada;

(b) to expand, widen and develop opportunities for Canadians to participate in the economic development of Canada through the application of their skills and capital;

(c) to invest in the shares or securities of any corporation owning property or carrying on businesses related to the economic interests of Canada; and

(d) to invest in ventures or enterprises, including the acquisition of property, likely to benefit Canada, and shall be carried out in anticipation of profit and in the best interests of the shareholders as a whole.

ICC's annual report for 1976 states these objectives as follows:

To achieve the corporation's objectives, ICC's directors have determined that it should be an equity investor in strong, profitable enterprises with high growth potential. Directly, or through subsidiaries, ICC's policy is to put special emphasis on large, longer-range development projects, particularly those involving upgrading of resources, a high technological base, or good potential for building a Canadian-controlled presence in international markets. Such a presence is often necessary if Canada's corporations are to scale up their operations to a larger and more efficient size. This process encourages the development of
managerial, technical and research talents of superior quality, provides interesting work to skilled and creative Canadians, and assists the country to achieve its full potential.

Profit prospects must be proportionate to risks: this is a requirement of the first order.

The board, in 1972, set a specific goal of a 15 per cent return on shareholders' equity. In 1974 this goal was revised upwards to 18 per cent.

ICC is prepared to be patient, recognising that some of its opportunities will exist because others are unwilling or unable to wait through the years of earnings build-up, but the projects selected should have the prospect of high long-term growth and a superior rate of return on equity.

The members of the board of directors of ICC were first chosen by the Canadian Government for their competence as private and successful Canadian business men. With two non-voting ex officio delegates of the Government out of an 18- to 21-member board, ICC is governed independently, unlike a government agency. The members of the board initially appointed by the Ministry of Finance underwent a nomination and election procedure similar to most Canadian firms. A nomination committee selects candidates before they are presented and most often appointed by the board. At the outset in 1971, Mr. Trudeau wrote a letter to each member of the board making it clear that the Government does not wish nor intend to intervene in the operations of ICC "which are carried out in anticipation of profit".

In 1981 the Canadian Government changed its mind and tried to impose a chairman for ICC's board who would act more as a government agent than a businessman. It could have resulted in a change in the policy of ICC to refuse being a buyer of last resort of enterprises in difficulties or an arm of the Government for its employment creation and regional development objectives. After opposition from ICC's board and management the initial policy of non-intervention was maintained. The Canadian Government considered the possibility of selling its participation in ICC, amounting to 87 per cent of common shares. This participation gives the Canadian Government 48 per cent of the voting rights during a general assembly of stockholders (the remaining voting rights belong to other stockholders through preferred and common shares); in June 1985 it made a public announcement that its shares were up for sale to the public.

ICC's annual report for 1976 sets out the corporation's strategy. The ICC,

... does not wish merely to duplicate or to pre-empt the activities of other Canadian investors. Rather, it wishes to play a part in assembling Canadian strengths and competence to create internationally competitive enterprises, especially in areas where investment opportunities for Canadians have been limited. The corporation is prepared to play a catalytic role in mobilising the capital of other investors, both domestic and foreign, in joint ventures which are under Canadian control.

This led ICC to acquire companies with foreign activities in Europe, the United States and Mexico, and so to become a multinational enterprise.¹

ICC derives more than half of its revenues from foreign sales out of which 35 to 40 per cent are due to foreign manufacturing.
At their board meeting of 14 February 1972 the directors reached a consensus that ICC should concentrate its initial efforts in the six following business areas: oil and gas, certain areas of healthcare manufacturing, petrochemicals, mining, pipeline and related northern transport, venture capital.

At the time of the restructuring decision process under consideration ICC was present in eight business areas: five of the six mentioned above (the investment project in pipelines could not be acted upon) plus the following three: office information products, industrial automation and fishing. In 1983 the fishing operation in the eastern part of Canada was divested to a local enterprise. In 1983, 97 per cent of ICC's 3.8 thousand million dollars sales originated in four areas: petrochemicals (55 per cent), oil and gas (13 per cent), mining (13 per cent) and office information products (16 per cent).

Overall, ICC's performance meets the objectives set out by the original 1971 Act of Parliament. It has become a sizeable new Canadian company in the primary sector and high technology industries with strong Canadian control and focus, as well as international competitiveness. Except for 1982 and 1983 when ICC and most of its competitors lost money, the corporation was profitable from 1973 to 1984 at a level analogous to that of its competitors.

ICC's annual report for 1976 described the relations between the parent company and each of its industrial subsidiaries as follows. ICC, ...converts the portfolio investments of Canadians, who can privately own its voting shares, into controlling positions in its subsidiaries. By maintaining effective control of the companies in which it invests ICC can take the necessary measures to protect and increase the value of its holdings. However, it does not intend to participate in the day-to-day management of its subsidiary and affiliated companies, which are expected to have or develop their own skilled staffs and specialised operating personnel.

ICC's role, through membership of the boards and executive committees of such companies, is to participate actively in the strategy, development and longer-range planning of such companies so that they will remain innovative and growth-oriented. ICC also gives attention to maintaining appropriate financial controls and good management development policies. If necessary, ICC will play a part in finding new or additional operating management for such companies.

Every year the management of each subsidiary submits its budget and five-year plan to ICC's board of directors. Every five years the ICC board makes an in-depth review of its involvement in each of its strategic business areas to make sure the industry is still in line with ICC's objectives and to examine a broad set of alternatives ranging from increasing its share to divesture of that particular industry. Every three years the ICC board makes a general review of the corporation's objectives, investment and financial strategies, policies and operating methods.

On average, the ICC board of directors meets seven or eight times a year to consider and decide on strategy and policy.

(b) Developments in ICC involvement in the chemicals and oil sectors

As a result of the strategic orientations decided in February 1972 by the board of directors, which regarded petrochemicals and oil and gas as promising 5931d
sectors for investment, ICC bought in July 1973 30.4 per cent of the shares of an American chemical enterprise disguised under the name of USCO. This gave ICC control of USCO, as no other shareholder held more than 2 per cent of its capital. USCO's general management appealed unsuccessfully to the American courts to reverse the takeover by ICC. In 1973, 60 per cent of USCO's assets and two-thirds of its profits were in Canada, in a petrochemicals complex universally regarded as the world leader in productivity and profitability. Between 1973 and 1979 USCO's strategy led it to expand its activities in the United States in the oil and gas sector to a greater extent than its activities in chemicals in Canada. In 1975 and 1976 ICC and USCO discussed the possibility of separating the United States and Canadian activities into two distinct subsidiaries, but nothing came of the discussions because of legal and tax difficulties.

In 1975, ICC bought up a small oil-producing enterprise in Canada that had no refining or distribution activities. The acquisition very quickly brought good results, and ICC felt the need of acquiring a larger share of crude oil production that would improve its productivity and make it a member of the leading group in Canada.

In November 1976 ICC raised its USCO holding from 30.4 per cent to 30.65 per cent.

In 1979 the ICC board of directors made a strategic survey of its petrochemicals involvement. It decided to retain its controlling interest in USCO because to sell off USCO's United States activities and simultaneously buy up all its activities in Canada seemed to be too complicated. However, this restructuring operation took place in 1981 at the same time as the purchase from a European enterprise, EURCO, of its oilfields in Canada.

Chart 1 below shows the chronology of ICC's planning and strategic-decision processes concerning its strategic sectors in petrochemicals and oil.

Chart 1: Chronology of the strategic planning and decision-making process concerning ICC's strategic areas in petrochemicals and oil

Levels of actors

- **Board of directors**
- **Chief executive officer (CEO)**
- **Vice-presidents of divisions**
- **Subsidiaries board of directors**
- **Chief executive officer of subsidiaries**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>1972</td>
<td>Strategic thinking process</td>
</tr>
<tr>
<td>1973</td>
<td>Strategic decision to purchase USCO + opportunity</td>
</tr>
<tr>
<td>1975</td>
<td>Purchase of a small oil company Discussion with subsidiary on whether to separate activities in USA and Canada. Nothing came of this.</td>
</tr>
<tr>
<td>1976</td>
<td>Strategic thinking on USCO</td>
</tr>
<tr>
<td>1979</td>
<td>Restructuring decision including sale of USCO and purchase of EURCO Canada Technical ways and means + opportunity</td>
</tr>
<tr>
<td>1981</td>
<td></td>
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</table>

5931d
II.1.2 Chronology and models of the decision-making process

The ICC restructuring decision concerning its strategic sectors in petrochemicals and oil was taken in 1981 but was preceded by strategic thinking on the petrochemicals sector in 1979. We shall examine these two processes in turn.

(a) The strategic planning process of ICC's petrochemicals sector

Between May and June 1979, in preparation for the board of directors' meeting of 26 July, the parent company's vice-president in charge of the petrochemicals and oil division and his colleague the vice-president in charge of strategic planning prepared a report to serve as the basis for the board of directors' forthcoming discussion, held regularly every five years, of the advisability of ICC involvement in each of its strategic areas. The report examined the following alternatives concerning USCO:

- disinvestment; this was undesirable, as it could not be quickly replaced by another opportunity offering similar growth and profitability;

- acquisition of more than two-thirds of USCO's capital, so as to become USCO's majority shareholder. This too was undesirable, as it would use large financial resources, preventing their allocation to other purposes and giving petrochemicals too large a share of ICC's portfolio of activities;

- splitting USCO into two parts, one in the United States, in the oil sector, the other in Canada in petrochemicals. This alternative, although fully consistent with ICC's basic objectives, did not seem feasible because of legal, tax and managerial complications;

- increasing ICC's holding of USCO shares: this appeared to be very desirable, at least to slightly above 35 per cent. This would give ICC a minority interest able to block any decision, a minority without which no coalition of shareholders, even a majority coalition, could take any important decision. Ownership of more than 50 per cent of the shares would give no greater advantage.

At the beginning of July 1979, at a meeting between the ICC president and the two authors of the report, the president approved his team's proposals.

On 26 July 1979 the vice-president of the petrochemicals and oil division submitted his report to the board of directors, which discussed it. At the ensuing board meeting and lunch the general feeling favoured increasing ICC's interest in USCO to a little over 35 per cent to avoid the dangers of a takeover bid. Splitting USCO into two so as to retrieve the Canadian subsidiary would have pleased the board and was in line with one of ICC's basic objectives, but did not appear feasible.

Figure 6 sums up this process.
**Figure 6: Strategic planning process of ICC's petrochemicals sector (May–July 1979)**

<table>
<thead>
<tr>
<th>Levels of participants</th>
<th>Phases</th>
<th>Impetus</th>
<th>Trial</th>
<th>Impetus</th>
<th>Trial</th>
</tr>
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<tbody>
<tr>
<td>Board of directors</td>
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<tr>
<td>CEO</td>
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<tr>
<td>Vice-president of the petrochemicals and oil division and vice-president of planning</td>
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<tr>
<td>USCO president and CEO</td>
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<tr>
<td>Dates</td>
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<td></td>
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<tr>
<td>May–June 1979</td>
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<td>July 1979</td>
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<td>26 July 1979</td>
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<td>26 July 1979</td>
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<tr>
<td>Content</td>
<td></td>
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</tr>
<tr>
<td>Preparation of report to the Board of Directors for strategic thinking on the petrochemicals sector.</td>
<td>Discussion of the report's proposals and agreement on its orientations.</td>
<td>Submission of the report's conclusions to the Board of Directors.</td>
<td>Discussion and agreement on the conclusions of the report: to increase participation in USCO to a little over 35 per cent so as to avoid the risks of a takeover bid. Splitting USCO into two to retrieve the Canadian subsidiary would have pleased the Board but did not appear feasible.</td>
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</table>
At the end of July 1979 ICC was thus ready to increase its USCO holding and was looking for opportunities to add to its weight in oil exploration and production.

(b) The decision-making process for restructuring the petrochemicals sector and the takeover of EUROCAN

At the end of 1978 Tom Walker, vice-president of ICC's petrochemicals and oil division, visited the company's oil subsidiary and with the aid of its president made a classification of the oilfields belonging to competitors in Canada, in order of the quality of their assets and oil fields. The Canadian subsidiary of the European company EUROCAN came second on this list.

In the course of a year from summer 1978 to summer 1979 five firms on the list were contacted without result. The industry was prosperous, there were no sellers and each firm was controlled by a majority shareholder.

At the end of 1979 Tom Walker hired the New York investment company Lazard Brothers to help him buy up an oil company. Lazard worked together with EURCO for its investment projects in the United States.

On 19 December 1979 one of Lazard's partners pointed out that since EURCO had to respect limitations on the export of capital coming from its parent company it could usefully sell its Canadian holdings and reallocate its resources in the United States. Why, then, should EURCO not sell EUROCAN to ICC?

On 20 December 1979, at Lazard's offices, Tom Walker met EURCO's vice-president Jacques Costamagna, who was in charge of the group's North American activities. Tom Walker made an estimate of EUROCAN's value which he communicated to Jacques Costamagna. Costamagna did not resume contact with Tom Walker, so indicating that EURCO was not interested in selling its Canadian subsidiary.

In March 1980 the financial newspapers reported extensively that EURCO's attempt to gain a foothold in the United States had been blocked by the Government of its home country.

In April 1980, Paul Halton, the Chief Executive Officer (CEO) of ICC, thinking aloud during a discussion with Tom Walker, said "EURCO might perhaps be interested by USCO. We could do something jointly with EURCO to take full control of USCO and split its assets one day, keeping the Canadian part for ICC and the American part for EURCO". EURCO and ICC were both operating in petrochemicals and therefore were well aware of each other's activities in that sector.

On 30 April 1980 Tom Walker went over the question again with Lazard in the morning and again met Jacques Costamagna, to whom he again broached the subject of a possible takeover of EUROCAN and joint action on USCO. Jacques Costamagna showed little interest because of the risks concerning the export of petrochemicals. Also, he had no intention of selling EUROCAN.

In October 1980 the Canadian Government announced its new energy policy, the NEP (National Energy Program). Enterprises owned 100 per cent by Canadian shareholders were given subsidies for drilling new wells. This made subsidiaries of foreign companies less competitive; some of these sat tight, awaiting the phasing out of the NEP which began in 1984. Others sold some or all of their Canadian assets.
On 11 February 1981 USCO's top management submitted its plan and budget to ICC's board of directors. Nothing was said about the possibility of ICC's selling USCO to EURCO. When returning from the meeting five of the eight members of USCO's management were killed in a plane crash.

On 25 February 1981 Dick McKay, CEO of ICC's oil subsidiary, contacted Lazard in New York to organise a meeting between EURCO and ICC.

On 26 February 1981 a meeting was held at Lazard Brothers' New York office between Tom Walker and Dick McKay for ICC, EURCO's Manager for North American affairs, and EURCO's vice-president. The latter had not yet made up their minds; they would have preferred staying in Canada, but the NEP was forcing them to review their position. They informed their parent company of the ICC proposal.

On 23 March 1981 Jacques Costamagna met Tom Walker in Canada and told him that EURCO was interested in selling EUROCOCAN. Together they made a detailed review of the basis of a potential agreement between the two groups: ICC would buy up EUROCOCAN, EURCO would make a takeover bid for the whole of USCO, and ICC would sell EURCO its 35 per cent holding in USCO and buy up USCO's Canadian assets.

On 2 April 1981, Paul Halton, CEO of ICC, together with Tom Walker and Dick McKay, met EURCO's president and CEO and 12 members of his top management in Paris. The two CEOs finally agreed that the transaction their teams had proposed on 23 March 1982 was in the interest of both groups. The amount of the transactions was not discussed.

Between 2 and 13 April 1981 Tom Walker and Derek Lorange, Vice-President in charge of ICC's legal department, met to discuss ways and means of implementing the agreement in principle between EURCO and ICC. Somewhat to their surprise they found the technical answers that had so far eluded them, especially on how to avoid taxation of the capital gains made by selling USCO's shares.

On 13 April 1981 both men met EURCO's representatives, in Canada, to discuss the main points of the agreement between the two groups. There was no difficulty about the sale of EUROCOCAN, as ICC had quickly decided on a takeover value and EURCO held 75 per cent and was prepared to pay the capital gains tax. Regarding USCO things were not as simple; agreement had to be reached first on the percentage of the total value of USCO's assets represented by the value of the Canadian assets, and as each party came prepared to negotiate within slight differences limits agreement had to be reached. Furthermore EURCO at first preferred to buy the 35 per cent of USCO held by ICC and then make a takeover bid for the rest. This had the disadvantage that it was likely to raise the price of the bids and enable the management of USCO to buy back a block of shares so that it could go to the American courts to resist EURCO's taking control. The reverse seemed preferable, that is, a EURCO takeover bid for 65 per cent of USCO's shares, followed by the purchase of ICC's 35 per cent of USCO's shares.

On 21 April 1981 the two parties met in New York. On 22 April 1981 the two parties and their legal advisers met, and came to an agreement on the general structure of the transaction (its main headings).

On 23 and 24 April 1981 negotiations on the price of EUROCOCAN continued. On 29 April 1981 another meeting was held in New York to establish certain points of the legal agreement in the presence of the legal advisers, especially reconsideration of the agreement in case of lawsuit by a third party, and taxation questions.
On 4 and 5 May 1981 another meeting in Canada led to agreement on the method of assessing the value of USCO, and especially on a range of values for its Canadian assets as percentages of its total value. There was however no agreement on USCO's total value.

From 14 to 16 May 1981 meetings to agree on the value of the two companies, held in Paris between the EURCO leaders and Tom Walker and Dick McKay for ICC, came close to general agreement on the price of EUROCAN and the sale of its assets in the United States, narrowed the gap between the maximum and minimum USCO percentage and introduced an escape clause to prevent ICC from making a profit should there be a competing takeover bid from a buyer other than EURCO. Tom Walker kept ICC Paul Halton, CEO of ICC, informed by telephone of the negotiations.

On 21 May 1981 Tom Walker and Paul Halton informed the board of directors for the first time of the negotiations with EURCO to restructure USCO and EUROCAN and said that agreement was imminent. The board agreed that negotiations should continue, but two of its members were hesitant, for in their view USCO was doing well as it was, and separating the American from the Canadian assets would probably be difficult.

On 29 May 1981 there was further discussion between ICC's and EURCO's representatives and legal advisers in New York, particularly on the escape clause. They were in agreement that any capital gains by ICC would be halved if a competing takeover bid were made.

From 2 to 24 June 1981, ICC's financial Vice-President led his team, and in particular his treasurer, in a drive to raise funds for the operation. Paul Halton and Tom Walker were present at some of the meetings with Canadian bankers. To buy 75 per cent of the EUROCAN shares held by EURO would cost about 1.1 thousand million dollars, and USCO's total Canadian assets would probably be negotiated for 600 million dollars plus the 35 per cent of USCO's shares held by ICC.

On 3 June 1981 the ICC and EURCO representatives and their legal advisers met again in New York. They failed to reach agreement on prices, but came to an agreement regarding the CEO of EUROCAN, a Frenchman, allowing him if he so wished to resign from EURCO and remain CEO of EUROCAN after its takeover by ICC. The other EURO directors were to stay on for two years to ensure continuity and train their successors.

On 11 June 1981 there was a further meeting to check the agreements (covering hundreds of pages) to be signed by the two parties. All questions were settled except prices, which were left blank.

On the evening of 23 June 1981, at a dinner given by Tom Walker and attended by Paul Halton, Dick McKay, Derek Lorange and Canadian and American legal advisers to prepare the submission of the agreements to the board of directors on the following day, Tom Walker discussed prices on the telephone with Jacques Costamagna of EURCO. Paul Halton persuaded his team to change one of the points of the agreement whilst Tom Walker was telephoning. EURCO was offering 45 dollars per share for its takeover bid for USCO. ICC was worried lest the deal should fall through.

On 24 June 1981 ICC's board of directors gave the green light for the signature of the agreements between EURCO and ICC. Four members of the board of directors voted against the decision, one because of conflict of interest (he was the president of an oil company), two others because they were also members of USCO's board of directors, and the last because he would have preferred USCO's CEO to be kept informed of the discussions.

5931d
On 25 June 1981 the agreements were signed by both parties. Paul Halton then telephoned to the CEO of USCO to tell him the news, adding that ICC's four representatives in USCO's 12-member board of directors would not be present when it discussed USCO's reactions to the agreements between ICC and EURCO. Three months later, when the agreements were put into effect, the ICC representatives resigned from USCO's board of directors controlled by EURCO.

The above chronological records are regrouped and analysed below so as to correspond to the various phases of the iterative process that was described in the first part of this Working Paper. The analysis enabled these phases to be assembled in chronological order in figure 7 below, which shows the decision-making process for restructuring ICC's petro-chemical and oil activities.

II.1.3 Analysis

Analysis of the ICC chemicals and oil division's strategic planning and international restructuring process leads to the following ten conclusions:

1. The restructuring decision-making process itself did not start before 21 February 1981, and was over in the comparatively short space of time of four months (by 25 June). It took place in the strategic context worked out by ICC's top management team and approved by its board of directors when the petrochemicals strategic area was re-examined in 1979. Numerous attempts to approach partners interested in restructuring their own portfolio of activities in a way complementing ICC's restructuring led to nothing for the next two years, for lack of a suitable partner.

2. The external environment, especially the economic policy of the Governments of both groups' home countries, was all-important. Without the National Energy Program (NEP) announced in October 1980 by the Trudeau Government, or the change in the French Government's policy encouraging French multinationals to invest abroad, restructuring of ICC's international activities might still be unfinished and EURCO might have kept its oilfields in Canada without moving into the United States in such strength. It was therefore the Canadian Government's action that made EURCO a seller in Canada, and the French Government's action that allowed it to be a buyer in the United States. Without the change in these policies EURCO would probably not have become a partner of ICC, and ICC might still be mainly looking for a partner, as in the two years from mid-1979 to early 1981.

3. The subsidiary USCO took no part in the decision-making process directed at making it change its controlling shareholder. In February 1981, when it submitted its plan and budget to ICC's top management and board of directors, it was not informed of the intended decision-making process. The main reason for keeping it secret from the subsidiary was that, on the North American stock markets, if there is the slightest leakage of information from a highly select group that is in the secret of negotiations between the buyer and potential seller, the price of the subsidiary's shares is likely to be affected and to complicate the negotiations. If the price rises the potential buyers will be discouraged, as they will have to pay more. In other cases any announcement that the seller is disinvesting, made before the divestment is officially announced and fully explained to financial circles, may cause its stock market quotation to fall.
<table>
<thead>
<tr>
<th>Levels of participants</th>
<th>Phases</th>
<th>Initiative</th>
<th>Impetus</th>
<th>Trial</th>
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<tr>
<td>ICC board of directors</td>
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<td>CEO of ICC</td>
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<td>ICC vice-president</td>
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<td>General managers of subsidiaries (USCO &amp; oil)</td>
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<td>Environment</td>
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<td>Potential partner EURCO</td>
<td>EURCO</td>
<td>EURCO Group headquarters</td>
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<tr>
<td>Dates</td>
<td></td>
<td>25-26 Feb.</td>
<td>23 March</td>
<td>24 March</td>
<td>2 April</td>
<td>2-12 April</td>
<td>12 April</td>
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<tr>
<td>Content</td>
<td></td>
<td>CEO of the oil subsidiary organises a meeting between himself and ICC's chemicals and oil vice-president with EURCO.</td>
<td>ICC vice-president proposes as basis of an agreement that ICC buy EUROCAN, sell 35 per cent of USCO to EURCO, buy USCO's Canadian subsidiary from EURCO. The CEO of ICC had already announced the principle of restructuring in April 1980.</td>
<td>Green light. The CEO of ICC and the EURCO president endorse the principle of agreement between their two groups on the basis proposed by their respective teams.</td>
<td>ICC's vice-president, chemicals and oil division and vice-president legal department, try to work out suitable arrangements.</td>
<td>CEO of ICC gives his approval.</td>
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<td>Date</td>
<td>Event/Action</td>
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<tr>
<td>13 Apr-16 May</td>
<td>Series of five successive iterations between ICC vice-president and CEO.</td>
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<td>16-20 May</td>
<td>CEO of ICC approves the progress of negotiations and preparations for the information to be given to the Board of Directors.</td>
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<td>21 May</td>
<td>Submission to the Board.</td>
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<td>21 May</td>
<td>No opposition to main outlines of the agreement except from chairman of board and two directors.</td>
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<td>29 May</td>
<td>Series of three iterations from the two vice-presidents (chemicals/oil and legal) following negotiations with EURCO.</td>
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<td>11 June</td>
<td>CEO of ICC proposes change of plan at dinner to prepare the submission to the Board.</td>
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<td>23 June</td>
<td>Easily convinces his top management.</td>
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<td>23 June</td>
<td>Board of Directors.</td>
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<tr>
<td>24 June</td>
<td>Presentation of the plan to the Board.</td>
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<tr>
<td>24 June</td>
<td>Board of Directors approves the plan. only four of its members voting against.</td>
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4. The CEO of ICC was capable of taking charge of the initiative and impulse phases concerning the content of strategic decisions, even on the eve of the board of directors' meeting held to approve the project before its signature. He was nevertheless the principal author of the trial phases administered by his vice-presidents.

5. The greater part of the impetus phases were the work of the vice-president of the strategic areas concerned and the vice-president of the legal department. These impetus phases followed negotiations with the partner. The president was informed of the gist of the negotiations and gave his agreement to their being continued.

6. The board of directors took action only in the trial phase. It was contacted at quite a late stage in the process but intervened twice. The first time was on 21 May, when it was sounded on general principles (which were in accordance with the orientations it had approved two years previously) and gave the green light. The second time was when it gave its agreement before the signature. Complete consensus was not however sought, some members of the board of directors voting against because of a potential conflict of interest (they were either in the same industry or on the board of directors of the subsidiary being sold), or in the case of one member because he would have preferred the subsidiary to take part in the decision-making process so that it gave its agreement.

7. There were apparently no "go-betweens" (as described by Sfez, 2) from outside the enterprise - for example consultants, business lawyers, members of the board of directors, or non-managerial experts. Only the Chief Executive Officers of ICC, by virtue of his special relationship with the chairman of his board of directors, appears to have translated (or "recoded") the action proposed by his team and, on occasion, by himself, in terms customary to the board members.

8. The rupture of the system of actors had no impact on the decision-making process; the death of the president of the subsidiary and of several members of his top management, and the appointment of their successors, did not change the power relationship between parent and subsidiary, as in any event the parent company did not inform the subsidiary of what was in the offing, for the reason we considered in conclusion 3 above. There appeared to be no risk at all that the new president would be more firmly opposed to a takeover bid than his predecessor, since both men held similar opinions on that subject.

9. The group's strategic planning (or thinking) process followed the "simple hierarchic" iterative process. The direction of the decision-making flow was upward, from the vice-president of the division to the vice-president of the group and to the board of directors. The restructuring decision process followed the iterative "hierarchic process with presidential initiative". It was in part consensual, as the president had no hesitation in exchanging his usual role of actor in the trial phases for that of actor in the initiative phase, or even the impetus phase. The decision-making flow was therefore downward where the president gave the idea of a scheme (the initiative phase) even if this took place before the process commenced. Thereafter the decision-making flow followed that of the simple hierarchic process, bottom-up and then top-down, apart from the consensual exception mentioned above.

10. The restructuring process was never integrated into strategic planning. No provision was made for it in the group because the in-depth examination in 1979 of the value of the strategic sector was made with a five-year time span and appeared to rule out any such procedure as unrealistic.
although desirable. Nor was any provision for restructuring made in the strategic plan of the subsidiary USCO, as is clear from the fact that it took no part in the decision-making process but was informed of it when it ended.

II.2 International consumer products (ICP)

We shall examine in turn the strategy of ICP and its electric-bulb strategic unit, especially in its French subsidiary, before going over and analysing the decision-making process for the closure of one of its subsidiary's plants.

II.2.1 The decision studied placed in the context of the firm's strategy

International Consumer Products (ICP) has for many years been among the largest non-American multinational enterprises. It is of Dutch origin and its headquarters is in the Netherlands (Rotterdam). It very soon embarked on a policy of expansion in Europe and later on in other parts of the world. By 1979 it was largely internationalised, and the Netherlands accounted for no more than a small part of its activities. Europe was however still by far its largest market. ICP manufactures and markets a wide range of electric and electronic consumer and industrial goods.

ICP has long been established in France, and has a 100 per cent interest in several enterprises there. One of these, the Société Française d'Electricité et d'Électronique (SOFRELEC), runs several manufacturing units and markets products manufactured by other French subsidiaries of ICP. AMPA S.A. is a subsidiary company; its manufactures of consumer goods are marketed by SOFRELEC, and virtually its entire production of industrial goods bought by another company in the group, the Société Française d'Appareils Électro-Ménagers (SFAEM), which deals in household electrical appliances.

Most (nearly 60 per cent) of AMPA's production consists in electric bulbs and other lighting products. It has recently developed new products, particularly for domestic lighting. AMPA products are market leaders in France.

AMPA's well tried and constantly improved technology, high-quality products and brand name (a household word) give it an edge over its competitors. It remains the leader even though its prices are higher.

Until the mid-1970s the market grew strongly and steadily. The collapse of the construction market badly affected AMPA's sales until the market became stable again from 1978 onwards.

AMPA had two lighting material units, at Rennes and Orleans. The Rennes one was older and dated from the early 1960s when the market was quickly expanding. It employed 220 people. The other plant was built at the end of the 1960s. It was more modern and larger (its production capacity was three times that of Rennes), closer to the consumer centres of Paris and its suburbs, and more productive than the Rennes plant.

The Orleans plant specialised in mass production, whilst the Rennes plant was used for smaller-scale production (industrial lighting, high-quality bulbs, and special lighting).

ICP has a 100 per cent controlling interest in its French subsidiary, which itself controls about 15 subsidiaries in France, each of which has a
separate legal existence. French activities as a whole have been co-ordinated by ICP France since 1980. ICP France sees to pooling of the resources and management facilities of the group's French companies, co-ordinates their activities, services them and acts as their representative.

The following diagram shows the organisation of the group and of ICP's French subsidiaries:

![Organizational Diagram]

There is no formal procedure for evaluating performance in the group's French companies. The profit margin of the plants and marketing departments is examined monthly, but there is no formal evaluation of the extent to which heads of services or departments attain the objectives set out in the budget.

Since the early 1960s AMPA had had no cause to restructure its activities, but there was some restructuring in the French group in the 1970s. Thus it was decided late in 1971 to transfer a SOFRELEC plant to Le Mans. This restructuring was an important one for the French group's operations. The transfer of activities to Le Mans took place between 1977 and 1981, being hastened from 1979 onwards. The old plant, dating from the beginning of the century, was obsolete, too small and unsuited to modern production equipment; it closed down in 1981. The new plant was much larger (it covered 65 hectares as against the old plant's 32 hectares) and total investment exceeded 500 million francs. The operation had been planned at leisure and decided on long previously — nine years elapsed between the decision to close the plant and its actual closure. Nevertheless the number

5931d
of dismissals (about 400) was high, in spite of a rise in the number of employees at Le Mans from about 700 to over 1,000. Only about 50 employees accepted a transfer to Le Mans and it was found possible to re-assign about 50 more within the ICP group. The social plan made out established detailed procedure for dismissal, transfer and resignations and a social fund to ease the settlement of individual problems.

The managerial control department worked out a complete planning and budgeting system forming an exact structural framework that is still in use.

The first element of the procedure is SOFRELEC's "strategic committee", which is a select committee meeting two or three times in February and March.

Its activities lead to a formal meeting attended by SOFRELEC executives, the heads of the sales departments and the technical managers. At these meetings oral replies are given to questions asked during the previous discussion meetings.

The problems discussed have a strategic range and may be raised by the parent company, which passes on its orientations at the beginning of the year. They concern SOFRELEC's activities, and through SOFRELEC those of ICP's other French subsidiaries whose products it markets. The strategic committee's activities are a preparation for the long-term plan.

The second element, the long-term plan, is more formal. SOFRELEC and AMPA S.A. both follow the same procedure, which is designed by SOFRELEC's management controllers; that is, at the end of April or early in May the operational services forecast sales and investment with the help of the management controllers and in accordance with the orientations fixed in March by the strategic committee. At the end of May the plan is consolidated at ICP France level and transcribed into terms of profit and loss account, investment plan, personnel plan and financing plan. It is then discussed with the parent company in June. At the time of the decision-making process under consideration the time span of the long-term plan was five years.

The last element used is the budget. At the end of June ICP's French subsidiaries work out their sales forecasts and the necessary investments in the plants. In September the pro-forma budgets are discussed but the production units take no part in the discussion. The pro-forma budgets are submitted to ICP in October and should normally continue the first year's long-term plan, which is a virtual budget commitment. Once ICP has given its agreement the pro-forma budgets are sent back to the subsidiaries to be turned into definitive budgets. Finally, in November the budgets are centralised and consolidated at the level of each subsidiary. A profit and loss account for each product and a cash flow plan are submitted to the subsidiary's top management and to Rotterdam for approval.

For the purpose of budget control a profit margin progress report is made monthly for each product, and revised budgets are calculated in March, June and September for accuracy and to work out remedies in cases where profits fall below those expected. If the profit margin on a product is 2 per cent or more below that planned, cost prices are revised and integrated into the next revision.

II.2.2 Chronology and models of
the decision-making process

We shall divide the periods of the decision-making process into three. The first will set out the steps leading to the decision in principle to close
the Rennes plant (autumn 1979 - March 1980). The second will describe the re-examination and confirmation of that decision (May 1980 - December 1980). The third will detail the decision-making process for the sale of the plant, a process which shows the important part played by the local economic and political environment in finding a socially acceptable arrangement.

(a) The decision in principle to reorganise

Data on this decision-making process come almost exclusively from interviews. Supporting documents were rarely available, but the statements of the various parties are in agreement.

A. Chronological records

The following are the data collected:

On 19 April 1977 Paul Courcoux, general manager of AMPA, reported to his board of directors that after a record growth year the lighting market had suffered a sudden setback. AMPA's board of directors was composed mainly of former ICP staff who were appointed to the board as a reward for past services. The area group director of the ICP parent company was also a member of the board and held nearly all ICP's voting rights (the remaining members of the board having only one vote). In fact the ICP area group director rarely attended the three or four board meetings held every year, delegating his powers to the French subsidiary's president.

On 27 October 1977 Courcoux told his board of directors that AMPA had lost SFAEM as a customer which had switched over to a foreign source of supply. This meant that AMPA was no longer replacing natural departures from its workforce at its Rennes and Orleans plants.

On 25 April 1978, at another meeting of AMPA's board of directors Courcoux reported that sales had fallen off badly in 1977 and said he was worried about low-price competition on industrial markets. The board approved the proposed investment of 4,900 million francs in the Rennes plant in 1978, in part to expand the plant's packaging capacity. The Orleans plant's investment budget was 25 per cent lower than that of the Rennes plant.

In August 1978 AMPA ceased to manufacture resistors (a secondary activity at its Rennes plant) and to avoid dismissals decided to slow down production of other equipment. This decision was in accordance with the wishes of SOFRELÉC's general manager.

At a meeting of AMPA's board of directors on 3 April 1979, Courcoux stated: "Sales of electric bulbs were middling to poor at the end of 1978... net trading results for this activity fell from 7.4 million to a mere 0.9 million in 1978" (this compares with a turnover of nearly 130 million francs) ... "I am looking for an activity to replace the manufacture of resistors at the Rennes plant, but studies under way for lighting-related products show that we are not really competitive... meanwhile the manufacture of electric bulbs will be prolonged until this summer to maintain full employment, but we are working at half capacity". Planned investment for 1979 amounted to 3.3 million francs at Rennes and 3.7 million francs at Orleans. "Operations will be reduced in Orleans, except in June and July when a test of production capacity will be made."

At this time (May-July 1979) SOFRELÉC's "low-voltage electrical equipment" sales department proposed that very low-voltage bulbs should no
longer be manufactured, since, in spite of introducing new product lines and great efforts in marketing and sales, the sales department had never managed to get a firm foothold on the market for SOFRELEC products. SOFRELEC's general manager, Schneider, approved this proposal and informed Courcoux so that he could adjust the production level (which was by AMPA at its Rennes plant). This was not AMPA's main activity but nevertheless accounted for a small percentage of its turnover. This decision put about 40 jobs in jeopardy at the Rennes plant.

In August and September 1979 Rennes was working only at one-third capacity.

On 1 September 1979 AMPA appointed a new personnel manager.

In the autumn of 1979 Courcoux asked his technical manager for the application of low-voltage electrical material, and the financial studies officer of ICP France, to prepare a study on the lighting branch. Their report showed that production costs at the Rennes plant were higher than at the Orleans plant and that the whole of production could be concentrated at the Orleans plant.

On 30 October 1979 Courcoux told his board of directors that "full employment will be maintained at Rennes by manufacturing bulbs for the coming sales promotion campaign, and if necessary by making up packaging material for other firms, with materials supplied by them, for some months...the plant should work at half capacity". Actually, the plant was engaged solely in packaging in November and December 1979, but this was compensated for by subcontracting done for SOFRELEC plants. The number of jobs fell slightly in 1979, from 233 in January to 224 in December, and steadied at 220 a year later.

On 15 January 1980 Courcoux visited the Rennes plant with AMPA's administrative and financial manager. SOFRELEC's technical manager and the electrical equipment manager both joined them the following day. Together they discussed the reorganisation of the lighting branch.

In January or February 1980, Courcoux told Armand Eveillard, president of ICP France, that the lighting branch would have to be reorganised.

In March 1980 Eveillard submitted the project to the area group director in charge of the European market at ICP headquarters and his assistant for France. The project was imprecise but proposed restructuring the production of lighting equipment for AMPA, arguing that although lighting equipment was one of ICP France's major activities the company would ultimately have to lower its prices to keep its market. It was therefore imperative to improve profitability by optimising productivity and adapting production capacity to demand; this entailed restructuring.

The area group director at ICP group headquarters was kept regularly informed of the state of the French subsidiaries by his assistant, and after examining European market prospects agreed that the lighting branch in France should be restructured. He added the following advice: "Take your time over the restructuring preparations, we want the employees who have to go to be treated irreproachably and without causing any trouble outside, so that the group's image does not suffer".

B. The sequence of phases and models of the process

During this period the sequence of phases of the process was as follows:
- initiative by the AMPA management following pressure by the environment and SOFRELEC's decision to cease marketing very low-voltage bulbs;

- impetus phase from the AMPA management to the president of ICP France: support for a project for the reorganisation of the lighting branch in France;

- trial phase coming from the president of ICP France, who regarded the reorganisation as timely;

- impetus phase from the president of ICP France to the area group director responsible for the European market (the second man in the ICP hierarchy) with structuring of the arguments in favour of the project;

- trial phase coming from ICP's European group director, who agreed that the lighting branch should be restructured.

Figure 8 below shows this process.

**Figure 8: Restructuring decision process**

<table>
<thead>
<tr>
<th>Participants</th>
<th>Initiative</th>
<th>Impetus</th>
<th>Trial</th>
<th>Impetus</th>
<th>Trial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area group director, ICP Europe</td>
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<tr>
<td>President, ICP France</td>
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<tr>
<td>AMPA management</td>
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<td>Environment</td>
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</table>
(b) Re-examination and confirmation of the decision to close the Rennes plant

Data on this process are more numerous, especially from October 1980 onwards.

A. Chronological records

On 29 February 1980 Eveillard sent a note to all SOFRELEC's departmental managers and to the managers of ICP's main French subsidiaries, announcing the appointment of Courcoux as technical and personnel manager of ICP's third French subsidiary (in order of turnover). Jean-Jacques Perquel, the manager of the Rennes plant, was appointed general manager of AMPA in succession to Courcoux.

On 22 April 1980 AMPA's board of directors officially appointed Perquel as general manager from 1 June 1980. Courcoux's progress report stated that the plant's fixed expenses had risen sharply (by 15 per cent); business had been "very average" at the Rennes plant, which had worked at half capacity in 1979, and the market appeared to be stable. "The outlook for electric bulbs is not brilliant, (he said) either in France or in the rest of Europe. There is the equivalent of 40 production lines but only enough work for 25 of them. We have 21 lines at our disposal, but 14 or 15 would be enough to cover needs, and our principal industrial customer could buy abroad at half our prices." Investment would nevertheless be maintained at the high level of 13 million francs, 4.8 million of which would go to Rennes. Courcoux welcomed Perquel as his successor and said "I should like to tell my successor and the whole staff that they can look forward to an easy and prosperous time, but let's face it I really cannot. The state of affairs I am handing over to J.-J. Perquel is still full of difficulties. He will for example have to decide on the future of the electric bulb plants and probably accept co-existence with one of the principal manufacturers of minor electrical equipment. It will everywhere be necessary to improve the productivity and profitability of our manufactures. International competition is so fierce that one of our competitors in the bulbs market has collapsed and another has withdrawn from the French market."

At the beginning of 1980 SOFRELEC's sales department handed in its sales forecasts for the long-term plan. For standard bulbs it forecast 10 per cent (for 1980) to 18 per cent (for 1984) lower sales than in the long-term plan made out the year before. For special lighting, forecasts were 47 per cent lower than the May 1979 forecasts for the period 1980-1984. In order to give no hint of the decision to restructure, however, the May 1980 long-term plan provided for "normal" activity at the Rennes plant.

On 1 June 1980 Perquel took up his duties as AMPA general manager. He was succeeded as manager of the Rennes plant by Yves Thiollier, who had until then been SOFRELEC's lighting operations engineer.

In June 1980 Perquel received two documents. One of these recapitulated the cost prices of lighting equipment for 1980. The other, entitled "Profitability of the Rennes plant", compared production costs at the Rennes and Orleans plants for standard packaging of low-voltage bulbs. It showed a 4 per cent difference in Orleans' favour although fixed expenses there were higher, and that production in Rennes had cost 1.2 million francs more than it would have cost in Orleans, even disregarding the economies of scale (between 4.1 and 5.6 million francs) that might be achieved by concentrating the two plants into one. The document was prepared by SOFRELEC's and the French production subsidiaries' managerial control department.
On 1 July 1980 Perquel received a memorandum concerning the Rennes and Orleans plants and the whole of AMPA. It gave the workforce at 30 June 1980, the lighting equipment production, the production capacity, budgeted purchases of raw materials for the coming season, and the prices in the contracts signed with suppliers.

On 3 July 1980 Perquel, Eveillard and the European group director of ICP met in Rennes to discuss restructuring. Thiollier was informed that it had been decided to restructure the lighting branch.

In August Perquel, under pressure from the president of ICP France, agreed in principle to further discussion of the future of the Rennes plant. He decided to take "conservation measures" there, reducing investment to the absolute minimum required for maintenance and safety and putting a freeze on hiring any more staff. This was a painful decision both for Perquel and AMPA; the manufacture of electric bulbs had started and grown at the Rennes plant, and Perquel had managed the plant for several years before becoming AMPA's general manager.

Perquel then requested his administrative and financial manager, assisted by AMPA's personnel manager, to work out solutions to the social problem posed by the restructuring. Perquel's working hypothesis to Dravet was that the plant would close on 31 December 1981 with its employees being informed of the decision in November 1980 after the annual contracts were in force.

On 6 October Perquel met the director of ICP France's human resources department and they discussed possible ways of solving the social problem.

On 10 October AMPA's personnel manager sent Perquel a note showing what staff would be needed (a) if Rennes became a workshop of the Orleans plant, and (b) if only the Orleans plant were kept.

At the beginning of October Thiollier sent AMPA's administrative and financial manager a note apportioning the expenses shown in the 1980 budget for the Rennes plant between (a) standard bulbs and industrial lighting and (b) other products.

Before 13 October Thiollier sent Perquel six pages of tables setting out the total expenses at the Rennes plant and the fixed expenses for each of the product ranges produced there, including those of the standard bulbs and industrial lighting section.

On 13 October Thiollier wrote to Perquel that he was as requested sending him a "review of our problem", adding "Perhaps we could discuss this for the meeting of 22 October in Paris and try to foresee developments." Thiollier enclosed a manuscript entitled "Rennes on the basis of the 1980 budget". This reproduced the breakdown of specific fixed expenses and total expenses between the various product ranges and gave a breakdown of expenses by nature of product range, and a breakdown of wages and fixed labour costs. It also gave figures for savings on fixed personnel costs according to four possibilities: the current situation, the current programme with a minimum labour force, a programme reduced to standard bulbs and industrial lighting in accordance with a normal hypothesis, and a reduced programme according to a low hypothesis. The possible savings compared with the current situation were 18 per cent, 45 per cent and 54 per cent. Changes in specific fixed expenses and total expenses were also quantified for the three latter hypotheses. Thiollier mentioned as "elements to be taken into account": that a withdrawal plan and timetable would have to be drawn up; that a reassignment proposal could be made to the entire staff of ICP's French subsidiaries, but for this a clear policy would have to be agreed on with the local executives; and that exact figures would have to be

5931d
prepared for the cost of necessary investment at the Orleans plant, as well as for the depreciation of fixed assets (scrap or sale), if all activities were to be transferred to Orleans.

On 21 October a technical adviser from Rotterdam visited the Rennes plant.

On 22 October 1980 Perquel, Thiollier, AMPA's electrical equipment technical operations manager, Eveillard's assistant, ICP France's financial director, the head of the cost price department for SOFRELEC and the production subsidiaries, and the manager of the Orleans plant met in Paris to discuss the organisation of ICP France's lighting branch as a whole on the basis of Thiollier's paper of 13 October 1980.

On 24 October 1980 AMPA's programming manager sent Perquel a note, with a copy to the manager of the Orleans plant, stating the maximum production capacity of the Orleans plant assuming it to operate 46 weeks yearly and 108 hours weekly.


At the end of October 1980 Perquel submitted to Eveillard a project for the partial closure of the Rennes plant; it proposed that the manufacture of standard bulbs and industrial lighting should continue but that special lighting should be dropped.

At the end of October 1980 Eveillard asked the manager of ICP France's managerial control department for a study clarifying the following points: production costs at the Rennes and Orleans plants, the implications and cost of closing the Rennes plant, and the possibility of transferring certain products to the Orleans plant. At the same time he asked Perquel to enlarge on his proposal to restrict future production at the Rennes plant to standard bulbs and industrial lighting.

On 2 November 1980 Perquel replied to Eveillard: "This proposal would halve expenses and require us to keep on a labour force of about 107. This study repeats the points made in Thiollier's note of 13 October and in the note of 25 October."

On 4 November 1980 Perquel sent Eveillard's assistant a draft statement as a possible basis for the progress report to be submitted to AMPA's board of directors on 12 November 1980 and the to central works committee on 13 and 14 November. In this draft Perquel stated that measures of conservation, namely a ban on further investment and hirings, were necessary at the Rennes plant, which was more exposed and more vulnerable to difficulties in the sector than the Orleans plant. The reasons he gave for this decision were: falling or stagnating markets, increased low-priced competition, the withdrawal from the French market of one competitor and cessation of business by another. He concluded that the Rennes plant was vulnerable and that its future was under discussion.

On 5 November 1980 Lefèvre sent Eveillard the study he had requested. He also passed on copies to his assistant, SOFRELEC's technical assistant general manager, Perquel, the general manager of the Orleans plant, and Thiollier. It was entitled "Rennes - Orleans regrouping" and was in three parts, as follows:

(a) Production capacity at Orleans: this was only slightly under 1982 requirements but covered only 85 per cent of the needs for 1985. There were four alternative courses of action: to adjust working hours, invest in
Orleans, buy semi-finished products outside, or buy within the group substitute products for the industrial goods sold to SFAEM.

(b) Transfer of standard bulbs and industrial lighting to Orleans, and cessation of manufacture of special lighting equipment: savings in fixed expenses would exceed 11 million francs of which 7 million francs for standard products (bulbs and industrial lighting). The loss of profit after financial and marketing expenses would be 6 million francs. In Rennes 228 jobs would be lost, but in Orleans 77 would be created at an estimated cost of about 7.5 million francs. The estimated cost of transfer of plant and equipment and necessary investment in Orleans was 5 million francs. The cost of transferring the 77 employees, receipts from the sale of the Rennes plant, and depreciation of fixed assets had still to be quantified.

(c) The special lighting branch: net profits exceeded 2 million francs. Its transfer would create 79 extra jobs in Orleans and equipment transfers and investment would cost another 5 million francs.

On 10 November the general secretary of ICP France (who was also secretary of the AMPA's board of directors) met Perquel at the latter's request. The two men discussed the closure of the Rennes plant and relevant legal procedure.

On 12 November 1980 Perquel submitted his progress report to his board of directors. His draft of 4 November had been slightly altered by Eveillard's assistant and the general secretary of ICP France so as to give greater prominence to the phrase "the position is to be investigated in detail and the results will be available shortly."

On 13 and 14 November 1980 Perquel submitted the same report to the central works committee and in answer to questions said that the only measures taken so far were to cease hiring and reduce investment; employees would be informed as soon as possible of the results of the study and the central works committee and the Rennes works committee would be informed of all important decisions; the 1981 budget assumed normal activity at the Rennes plant; in case of closure some of the workers would be reassigned within the group in France and others would be offered early retirement or early withdrawal, but the company would be mainly concerned to reassign all staff.

About 20 November Perquel sent Eveillard a preliminary project for the total closure of the Rennes plant and transfer of all its activities to Orleans.

Between 20 and 25 November Eveillard asked Perquel to verify that the project would not jeopardise SOFRELEC's short-term supplies, so that orders from its retailers could be filled.

On 26 November 1980 the manager of the Orleans plant sent Perquel a telex submitting a programme for the adjustment of production capacity of standard products in the Rennes and Orleans plants to the needs forecast for 1981.

On 26 November Perquel wrote Eveillard proposing the adjustment programme drafted by the manager of the Orleans plant and adding that production for 1980 would exceed 1979 production by 11.5 per cent, so bringing it nearly up to the saturation level of the Orleans plant. Perquel concluded: "The regrouping brings the Orleans plant up to maximum capacity. Investment for the manufacture of standard products is undesirable. The SFAEM could however reduce its calls on us and this would reduce the saturation level of the Orleans plant. If the Orleans plant is working at full capacity it will not of course be able to adapt its production to seasonal variations in commercial needs."
On 26 November Perquel recapitulated the results of these studies in terms of an operating account for the Rennes plant. If the manufacture of standard products were continued the plant's profit margin would fall by 55 to 60 per cent. Trading results would fall below one million francs and the capacity utilisation rate would be about two-thirds.

On 29 November Eveillard approved the projet for the closure of the Rennes establishment. It was proposed to sell the land and buildings, but ICP France was unwilling to sell the plant to a competitor.

On 1 December 1980 Perquel sent a note to SOFRELEC's technical operational manager for electrical equipment, with a copy to Eveillard, his assistant and SOFRELEC's assistant general manager in charge of technical problems. He asked him to consider releasing credits quickly for several projects to improve productivity in Orleans.

On 1 December 1980 Eveillard wrote to Perquel setting out what should be AMPA's position in external communications, namely that it was essential for the company to become more competitive to retain its position as market leader, and it therefore proposed to cease certain marginal activities (special lighting) and the use of the Rennes plant, which was small in size and had declining markets and heavy fixed expenses. These directions from the president of ICP France to the AMPA management illustrate the importance in the president's eyes of the group's public image, and show that he felt responsible for relations with the environment, and that the group image was sufficiently important for him to take the initiative of giving instructions to AMPA's managers.

The European group director in Rotterdam was consulted on the above-mentioned closure project, which was submitted to the general manager and then to the president and board of directors of ICP in Rotterdam. The select committee of the board of directors and the board of directors itself (which met in plenary session approximately once a month) both approved the project. Our interviews also show that Rotterdam then reaffirmed that it would prefer the decision to be put into effect slowly (over a two-year period), given that the closure of the Rennes plant was not urgent.

B. The sequence of phases and the models of the process

The sequence of phases over this period was as follows:

- Initiative by SOFRELEC's departmental managers: sales forecasts for the next four years 10 to 18 per cent lower than the sales department's previous forecasts, and a managerial control study showing that the Rennes plant was unprofitable in comparison with the Orleans plant and that large economies of scale would be possible if the work of both plants were concentrated into a single one. The president of ICP France also took part in this impetus phase directed at the AMPA management.

- Trial phase by the AMPA management: restructuring procedures would be studied. For the time being "measures of conservation" would be taken; that is, hirings and investment would cease. The manager of AMPA (who had been in the job for only three months) did not commit himself any further.

- Initiative-impetus by the manager of the Rennes plant and AMPA's general management: calculation of the savings possible if the plant were to cease manufacturing any but standard products, and listing of the factors still to be determined, namely, a calendar for withdrawal, reassignment of the
entire workforce, policy towards the public authorities and calculation of the cost of transfer of production lines to Orleans.

- Trial phase by the president of ICP France: Eveillard instructed his managerial control manager to prepare a study on total closure of the Rennes plant. At the same time he asked the management of AMPA for statistics on the alternative of keeping on the Rennes plant to manufacture standard products only.

- Impetus phase from AMPA management, showing the savings resulting from manufacturing only standard products at Rennes. Then an impetus phase from the managerial control director, who submitted the study required of him; this concluded that production capacity at the Orleans plant could easily be increased to satisfy needs, and calculated the savings and costs that would result from the transfer of standard products to Orleans and the transfer or cessation of manufacture of special lighting.

- Trial phase by the president of ICP France, who asked the AMPA management to reconsider the entire matter in the light of the managerial control department's study.

- Initiative-impetus from the general manager of AMPA to the president of ICP France: project for total closure of the Rennes plant and the transfer of all activities to Orleans (on 31.12.81). It appeared possible to reassign the entire Rennes personnel within ICP's French subsidiaries.

- Trial phase by the president of ICP France, who asked for confirmation that the proposed closure would not disturb short-term supplies to his markets.

- Impetus phase by the general manager of AMPA, who proposed a production programme for 1981 in which capacities would be trimmed to needs, and stated that investment to increase capacity at Orleans was not desirable.

- The president of ICP France agreed to the closure project. This entailed selling the plant site and buildings, but ICP France said it would not be in favour of selling the plant to a competitor.

- Impetus phase by the president of ICP France towards ICP's European group director and board of directors.

ICP's European group director, and later its board of directors, agree to the closure of the Rennes plant, stipulating that it should be done with as little disturbance as possible.

Figure 9 below shows this process.

(c) Decision-making process on the sale of the Rennes plant

We shall give only a rapid summary of the chronological records and the model of the phases of this process, as the details they give do not affect the result of ICP's internal decision-making process produced by the foregoing process.

At the end of December 1980, following rumours that ICP's Rennes plant was to be closed, the mayor of the city called a meeting attended by himself, the ICP representative, the member of Parliament for the city (député), two senators, the president of the regional economic council, a conseiller général (county councillor), the sous-préfet, five town councillors, a representative of
Figure 9: Decision-making process for the closure of the Rennes plant by ICP

<table>
<thead>
<tr>
<th>Participants</th>
<th>Phase of the process</th>
<th>Initiative</th>
<th>Trial</th>
<th>Initiative impetus</th>
<th>Trial</th>
<th>Impetus</th>
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<tbody>
<tr>
<td>ICF board of directors</td>
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<td>ICP manager for Europe</td>
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<td>President ICP France</td>
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<td>AMPA management</td>
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<td>AMPA &amp; SOFRELEC departmental managers</td>
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<table>
<thead>
<tr>
<th>Content</th>
<th>Lower sales forecasts; calculation of profitability.</th>
<th>We will make a study and are taking measures of conservation.</th>
<th>Project for reduced activity: special lighting manufacture to cease.</th>
<th>Managerial control director asked to provide further information on this project and to prepare a study.</th>
<th>Management quotes figures for savings from reduced activity. Managerial control study on production capacity calculates cost of transfer.</th>
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5931d
### Figure 9 (cont.)

<table>
<thead>
<tr>
<th>Trial</th>
<th>Initiative impetus</th>
<th>Trial</th>
<th>Impetus</th>
<th>Trial</th>
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AMPAs principal supplier, an AMPA representative, AMPA trade unionists, the Confédération Générale du Travail's full-time officer for the Département, and two journalists.

Agreement was quickly reached that there should be no dismissals before one year had elapsed and that the closure would become effective only after 18 months. The Mayor then made very great efforts to attract enterprises that would take over the industrial plant and most of AMPA's employees. After a number of unsuccessful attempts he arranged for the GONIN company to go over the plant. Between May and July 1981 discussions were held with a view to the GONIN company buying the Rennes plant with small-scale assistance by AMPA's traditional suppliers. On 18 July the joint production committee accepted this change of control and the social plan. ICP France's board of directors approved the operation on 22 July. The agreement with the Gonin company was signed on 23 July.

It provided that the latter company would take over 91 employees, that 44 would be dismissed, 37 transferred to the Orleans plant and 39 go into early retirement. The plant was to be sold for a little less than 5 million francs, one third of the price at first announced by the Gonin company.

Figure 10 below summarises this process.

Six months after this agreement the latter company was placed under rule of court. The sale of the plant was accordingly renegotiated. Another six months elapsed before an arrangement was reached whereby AMPA's principal supplier took over the Rennes plant.

II.2.3 Analysis

We shall submit our analysis of the decision-making and restructuring process of ICP's plants in France in the following six points:

1. The decision in principle to close the Rennes plant followed the "simple hierarchic" iterative model. The manager of the AMPA plant took the initiative by proposing a restructuring plan that included closure of the older and less productive plant following a very heavy fall in its capacity utilisation rate due to the general collapse of the market. The president of ICP France and subsequently the parent in Rotterdam agreed. The decision-making flow was therefore first of all bottom-up and then top-down.

2. The change of manager of the AMPA plants led to re-examination of the results of previous processes, as there had to be a new decision-making process before the results of the previous one could be confirmed. The new manager did not adopt the former decision to close the plant (of which he had previously been the manager). There is therefore a distinct possibility of discontinuity if a change takes place in the system of actors. It illustrates the freedom of action of the operational managers vis-à-vis their immediate superior in the hierarchy when those managers take up their new duties. The new decision-making process therefore began by following the simple hierarchic model with a bottom-up decision-making flow.

3. The president of ICP France did not intervene directly in an impetus phase to win over one of his directors. He asked him for further information on the proposal for partial closure of the plant, and at the same time called upon his managerial control director to prepare a study. He therefore used the "competitive hierarchic" iterative model. (See section I.1.A.(d) above and figure 4.) After reading the managerial control director's study recommending
### Figure 10: Sale of plant

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<thead>
<tr>
<th>Phase of process</th>
<th>Initiative</th>
<th>Impetus</th>
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<th>Trial</th>
<th>Initiative</th>
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<th>Trial</th>
<th>Final negotiation</th>
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<tr>
<td>Participants</td>
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<td>President</td>
<td>ICP France</td>
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<td>AMPA general management</td>
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<td>AMPA &amp; SOFRELEC managers</td>
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<tr>
<td>Content</td>
<td>Town hall asks for the use of up to three bays. Refusal would be resented.</td>
<td>Play for time, let the town hall make the next move.</td>
<td>Town hall wants the use of bays free of charge. Efforts to torpedo this plan.</td>
<td>Nevertheless prepare a draft lease.</td>
<td>Submits draft lease. Operation is embarrassing but refusal impossible.</td>
<td>Continue to protect AMPA as far as possible.</td>
<td>Buyer for fully equipped plant, for minor electrical and lighting equipment. Risk of competition.</td>
<td>Proposal acceptable: push ahead with negotiations. Margin of negotiation stated. Details of taxation.</td>
<td>Agreement with the GONIN company.</td>
</tr>
</tbody>
</table>
total closure of the Rennes plant the manager of AMPA's plants fell in with that proposal.

It was therefore by using a competitive hierarchic process introducing a new actor, in the course of a standard hierarchic process, that the president of ICP France (Eveillard) was able to persuade the responsible operational manager to re-adopt the conclusion already acceptable to him (Eveillard) at the time of the previous process.

4. The parent company intervened only at a very late stage, when it approved closure of the plant. No European area or group team for the rationalisation or improvement of productivity was involved. The system for evaluating and motivating managers contained nothing, either formally or informally, to measure their performance in order to improve the productivity and profitability of the activities for which they were responsible. The parent company wanted the subsidiary to take its time, regarding social peace and the public image of its consumer goods (which might suffer from a social dispute exploited by the mass media) as more important than short-term profitability. Serious damage to the public image would affect all ICP products, not only those made by AMPA. The result was that decision-makers in the subsidiaries, being well aware of the group's general attitude to the impact on employment of decisions to restructure the plants, were extremely sympathetic to social constraints.

5. The decision to close the plant and its confirmation by a new process ending at the end of 1980 was not mentioned in the 1981-1986 strategic plans of ICP France and AMPA, and was included only in the next (1982-1987) planning cycle. The 1981-1986 strategic plan was not remodelled in consequence of the decision to close the plant taken at the end of 1980.

6. The process of negotiating the sale of the Rennes plant to a third party highlights the primary importance of the local economic and political environment in finding an industrial replacement for the plant. The mayor of the city played an essential part. The seller of the plant does not appear to have attached much importance to its price, as he agreed to divide the buyer's initial proposal by three. Even although the enterprise dragged its feet a little, it had already decided to close the plant and was apparently prepared to accept an arrangement it disliked rather than incur the hostility of the local environment. The regional environment of the plant, that is the town hall, Conseil Général (County Council) and local trade unions, and its national environment, the ministries and the group's trade unions, were not consulted at the time of the closure decision process but played an essential part in subsequent attempts to mitigate its effects.

II.3 High Technology Company (HTC)

We shall begin by placing the restructuring decision process in the context of the firm's strategy, before retracing the chronology and models of the decision-making processes that took place concurrently with the restructuring. We shall then analyse the results.

II.3.1 The decision studied placed in the context of the firm's strategy

The High Technology Company is one of the world's leading multinationals. It operates in very high technology sectors (computer science, telecommunications, electronic components and aerospace) and is regarded as the world leader in telecommunications. Apart from its technological eminence it
is principally noted for its business efficiency and its public image, being highly esteemed by its customers and the general public. The parent company gives priority to marketing issues in its relations with its subsidiaries. The greater part of its strategic planning, budget and managerial control relates to sales.

It has long been established all over the world, especially in Europe, and uses a mixed form of organisation — simultaneously regional and by products. Its domestic division assembles communications systems and sells them in the United States. Its international division carries out similar operations for the rest of the world. Its electronic components division produces virtually all the requirements of its domestic, international and aerospace divisions and also sells to third parties. Its aerospace division has worldwide responsibilities but works mainly for the United States defence industry.

The following diagram illustrates HTC's structure:

**HTC organisation chart**

```
President and
Chief Executive Officer

Research          Domestic Division          International Division          Aerospace Division          Components Production Division

  Sales          Assembly plants          Sales          Assembly plants
```

A large proportion of HTC's sales go to government departments and public enterprises. Its strategy of relations with such customers accordingly plays an essential part in its success in all countries in which it is active. In Europe it wholly owns three large subsidiaries — in the United Kingdom, the Federal Republic of Germany and France. The French subsidiary, HTC France, is the leader and is the most dynamic as regards turnover but the least profitable, being unable to negotiate freely the price of the telecommunications systems it sells to French users, because of the price controls imposed by the French Ministry of the Economy. French prices are well below those of other subsidiaries in Europe. The French subsidiary thus has relatively low profits, not because its production costs are higher but because its prices are frozen at a much lower level than in other countries. The top management of HTC, the vice-president of the international division, and the president of the French subsidiary are all well aware of this.
The group invests large sums in its plants all over the world at approximately five-year intervals, that generally coincide with the discovery by its Research and Development Centre of new technology lending itself to industrial and commercial development.

II.3.2 Chronology and models of the decision-making process.

Between autumn 1978 and January 1984 HTC made certain decisions on restructuring its producing units in the French subsidiary. The first was the strategic decision to invest in a new plant. Concurrently it decided to close an old plant. A decision-making process to choose the industrial site of the new plant and to allocate financial resources also occurred during that period. All these processes are interconnected, as the following diagram 2 shows:

Each of these processes will be analysed in turn below:

(a) The strategic decision-making process to invest in a new plant in France

HTC takes a strategic decision to invest on this scale approximately every five years. It is a major strategic decision for the group, which decides on an industrial and commercial application of new technology from its laboratories. The group decided to build only two plants, at an approximate cost of fifty million dollars each in 1981 (about 200 million French francs at that time). The first plant was to be in the United States and the second in Europe. This was a major event - for the group, which was launching a new series of products worldwide, and for the European subsidiary privileged to host the new plant.

On 2 September 1979, at a discussion in New York with the president of the French subsidiary, the president of HTC's international division suggested setting up the new plant in France so as to settle the long-standing problem of French prices, all of which were lower than those of its sister subsidiaries in Europe. This could not be done unless the French subsidiary managed to negotiate with the Government of its host country a rise in prices on all its existing products, as well as those of the new products to be manufactured by the new plant, in return for HTC's siting the new plant in France.

Between 8 and 20 October the president of the French subsidiary and his top management contacted all the relevant government ministries - those responsible for telecommunications, industry and exports. The Offices of the Prime Minister and President of the Republic were also contacted.

From 25 to 27 October the French subsidiary contacted the head of the parent company's European department, asking for further information on the new system brought out by HTC's Research and Development Centre in the United States. It was given a little more information, which was however only fragmentary because the plans for construction of the plants and the robots required for the smooth running of the assembly lines were not quite ready.

Between 1 November and 17 December the French subsidiary's development manager continued his contacts with the French ministries. The Prime Minister designated one of his advisers to co-ordinate the work of an ad hoc interministerial committee composed of representatives of the ministries responsible for telecommunications, industry and exports. HTC France's development manager and the interministerial committee discussed the
Diagram 2: Interconnecting series of HTC's decision-making processes and negotiation processes with the French administration and Government regarding investment in a new plant and divestment of an old plant belonging to its French subsidiary (1979-85)

Strategic

Parent Company
1. Strategic decision-making process to build a plant in France
   - Price increase on all HTC products
   - Price increase on all HTC products
   - Price increase on all HTC products
   - INTERNAL SYSTEM OF ACTORS WITHIN THE MULTINATIONAL

Subsidiary

Decision

SYSTEM OF ACTORS IN THE FRENCH ADMINISTRATION

2. Decision-making process for closure of an old plant
   - Closure of the plant: REGIONAL, ECONOMIC, SOCIAL AND ADMINISTRATIVE ENVIRONMENT
   - President of subsidiary
   - Top management of subsidiary
   - 3. Decision-making process of choice of a site

Operational


4. Decision-making process for approval of the investment in the new plant
   - Construction of the plant begins
   - Production begins
essentials of a possible agreement, namely the amount of investment and number of jobs created in France and potential exports to the remainder of HTC's other subsidiaries worldwide, excluding the American domestic market, and price increases for HTC's products in France during the six years following the agreement.

On 17 December the president of the French subsidiary and his development manager informed the European area management and the president of the international division of the essentials of the proposed agreement with the French Government.

On 19 December the international vice-president approved the structure of the project, on which he briefed the president of the HTC group for the first time, commenting that "We may possibly find a way out of the harassing problem of the French subsidiary's low profitability. The president of that subsidiary and one of his management team are negotiating an agreement with the French Government for price increases on all our products in France as soon as we undertake to build a new plant in that country."

On 23 December the president agreed that it would be a good thing to solve the problem of the French subsidiary's low profitability, but declined to commit himself to a decision.

From 23 December to 16 January there were further negotiations between HTC France's development manager and the inter-ministerial committee. The president of HTC France came to some of these meetings. The French Government pressed for further information on the amount of investment and on a timetable of export forecasts, and gave their conditional assent to the essentials of the draft agreement proposed by HTC.

On 16 January the president of the French subsidiary awakened the president of the international division in the middle of the night to tell him that the French Government had given its agreement. The president of the international division then awakened the president of the group to give him the news and ask him to agree to the project. The group president agreed in principle.

On 18 January in New York the president of HTC, the president of the international division and the president of the French subsidiary met to prepare a report on the project to the board of directors, most of whose members were unconnected with the HTC management.

On 19 January HTC's board of directors agreed to the signature of the official agreement, which was duly signed by both parties early in February 1980. The prices of all products sold by HTC in France were increased from the date of signature and further increased in February 1981.

Figure 11 below presents the above data showing the sequence of phases of the process for each level of participant.

(b) The process for the choice of an industrial site for the new plant

This process took place strictly within the French subsidiary. At the end of March 1981 the president of the French subsidiary asked several members of his top management to find an industrial site for the new plant. He had not done so previously because industrial implementation of HTC's technological breakthrough was a year behind schedule.
**Figure 11: The strategic decision-making process to invest in a new plant in France**

<table>
<thead>
<tr>
<th>Levels of participants</th>
<th>Phases</th>
<th>Initiative</th>
<th>Impetus</th>
<th>Trial</th>
<th>Impetus</th>
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<td>Board of Directors</td>
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<td>Top management of parent company</td>
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<td>President of French subsidiary</td>
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<td>Development manager of French subsidiary</td>
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<tr>
<td>Local environment</td>
<td></td>
<td>Ministry of Industry and Telecommunications</td>
<td>Interministerial Committee</td>
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<tr>
<td>Content</td>
<td>President of HTC's international division suggests an idea to the president of the French subsidiary: a new plant in France provided negotiations with the French Government for price increases succeed. The French administration shows interest but asks for further information on the new communications systems.</td>
<td>HTC France's correspondent at parent company headquarters can get only a little more information, which he sends to HTC France.</td>
<td>Formation of an interministerial committee of representatives of the ministries responsible for industry, telecommunications and exports coordinated by member of the office of the Prime Minister.</td>
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**Figure 11 (cont.)**

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<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>29 Dec. 1979</td>
<td>First discussion between the president and CEO of HTC and the president of the international division, who briefs him. Negotiations under way to settle the French subsidiary's problem by setting up a new plant in France in return for price increases.</td>
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<tr>
<td>23 Dec.</td>
<td>HTC's president and CEO gives green light for continued negotiations without committing himself.</td>
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<tr>
<td>23 Dec.-16 Jan. 1980</td>
<td>French administration presses HTC to guarantee export quotas and agrees to HTC's draft agreement.</td>
</tr>
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<td>16 Jan.</td>
<td>President of HTC France awakens president of international division in the middle of the night to tell him that French Government has agreed.</td>
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<tr>
<td>16 Jan.</td>
<td>President of international division awakens president of the group to inform him and ask for his agreement to submit the draft to the board of directors.</td>
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<tr>
<td>16 Jan.</td>
<td>President and CEO gives his agreement.</td>
</tr>
<tr>
<td>18 Jan.</td>
<td>Board authorises signature of draft agreement in spite of objections by some directors.</td>
</tr>
<tr>
<td>19 Jan.</td>
<td>Board authorises signature of draft agreement in spite of objections by some directors.</td>
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</table>
From May to September 1981 three iterations took place between these two levels of participants regarding the site of the plant. The impetus phases always came from the top management and the trial phases from the president of the subsidiary, but neither party was in a hurry because of the growing uncertainty since June 1981 as to whether the new Government would respect the agreement signed by the old one. (In May 1981, François Mitterrand was elected President of France.)

In mid-October 1981 the president of the French subsidiary gave his agreement as to the site. He preferred waiting a little before requesting the parent company for capital appropriations.

Figure 12 below summarises the above interactions.

(c) The decision-making process for the allocation of financial resources to the subsidiary for the construction of the new plant

On 8 January 1982 the president of HTC France filled in the financial appropriation request form for a 10 million franc subcontract with a French public enterprise. He needed the parent company's agreement before signing any contract over 5 million francs. This was a fairly small financial commitment in comparison with that of 8 million francs to buy land for the plant and 200 million francs to build the plant. This good will gesture by HTC France was necessary to show its intention of carrying out the agreement and appeared essential to obtain the third price increase due on 3 February 1982 under the agreement. The risk was anyway slight, as under the "cancellation for force majeure" clause the contract was null and void if the protocol agreement was not signed by the French Government and HTC.

On 15 January the parent company approved the French subsidiary's application for signing the 10 million franc subcontract.

A week later the subsidiary wrote to all the ministries concerned informing them that, in accordance with the protocol, HTC France would increase its prices on 3 February, unless of course the French authorities advised it to the contrary.

On 3 February 1982 HTC increased its prices without encountering any difficulty.

On 17 March 1982 the president of HTC France received a letter from the Minister of Telecommunications confirming that the French Government would respect the agreements signed in February 1981. Shortly afterwards the French subsidiary completed the appropriation request to invest 200 million francs for the new plant.

Early in April the HTC group's board of directors approved the investment, which HTC incorporated in its 1983-1985 plan and 1983 budget.

Figure 13 below summarises the succession of phases in this process.

(d) The decision-making process to close the old plant

The old plant was a post-war one in Strasbourg. Its productivity was very low and could not be improved by reorganising the plant. It carried out assembly and packaging operations. All its 120 employees had been with HTC
### Figure 12: Decision-making process for the choice of an industrial site

<table>
<thead>
<tr>
<th>Levels of participants</th>
<th>Phases</th>
<th>Initiative</th>
<th>Impetus</th>
<th>Trial</th>
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<tbody>
<tr>
<td>Board of directors</td>
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<td>President and CEO</td>
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<td>President, international division</td>
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<td>Top management of parent company (vice-president finance and vice-president engineering)</td>
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<td>President, French subsidiary</td>
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<td>Top management, French subsidiary</td>
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<td>Managers, French subsidiary</td>
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<td>Local environment</td>
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<tr>
<td>Content</td>
<td>President of the French subsidiary asks his top management to find an industrial site for the new plant.</td>
<td>Three iterations between the French subsidiary's top management and the president as to the choice of site. Impetus still comes from top management. In no hurry because of uncertainty whether the agreement between the Government and HTC will be implemented.</td>
<td>President of French subsidiary approves a site, but prefers to wait before asking the parent company to agree to further investment.</td>
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**Figure 13:** Decision-making process for the allocation of financial resources to the subsidiary for the construction of the new plant

<table>
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<th>Levels of participants</th>
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<td>Top management, parent company (vice-president finance and vice-president engineering)</td>
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<td>President, French subsidiary</td>
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<td>Top management, French subsidiary</td>
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<td>Managers, French subsidiary</td>
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| Content | President of HTC France formally applies for authority to sign the subcontract, this being necessary to show HTC's good will and important in order to obtain permission for the third price increase on 3.2.82. | Parent company's agreement: supplementary financial forecasts needed. | Prices increased on 3.2.82 without opposition. The French Government confirms continued validity of previous agreement on 17.3.82. Subsidiary applies for permission to make 200 million franc investment. | President and board of HTC approve the investment. HTC France incorporates it in its 1983-85 plan and 1983 budget. |
France for between 20 and 30 years. The plant's low profitability was not of strategic importance to HTC's competitiveness in telecommunications and affected the company's profits much less than did the subsidiary's artificially low prices. But the question of divestment of this plant was strategic with regard to relations with the French administration and Government. HTC France was worried that the French authorities might denounce their agreement, especially that they might stop HTC price increases should any serious social problem arise for which the local economic and political environment might hold HTC responsible.

Before the decision-making process to close the old plant started the question of the plant's future was raised four years in a row at the October meetings in New York at which the French subsidiary submitted its strategic plans to the parent company.

Thus in October 1979 the plant–productivity team of which the financial controller were part, asked: "What do you propose doing about your Strasbourg plant?" The French subsidiary's production manager, who was present at the meeting, answered: "Productivity is low at this plant but its workers are the best of all the French plants and are very devoted to HTC."

In October 1980 the financial controllers became more pressing, pointing out that productivity figures for the Strasbourg plant were the lowest of any of the group's plants around the world, and asked whether the French subsidiary was prepared to do anything about it. The production manager, a Frenchman, repeated that he could not think of any plant that had as good a team of workers, but said that he would look into the matter and try to solve it.

In October 1981 the parent company's financial controllers renewed the charge telling the production manager that "if you are a manager you will have to solve the issue of your Strasbourg plant". The production manager agreed but repeated that the plant had the best group of workers of any of the French plants.

In October 1982 the parent company's financial controllers pointed out that HTC France's strategic plan made no mention of the Strasbourg plant. They asked the subsidiary what it had decided to do and were told by the director of production that to close it might cause social problems that could lead the French Government to terminate the agreement it had signed on price increases. The production manager added that his team was very busy with the construction of the new plant, and he promised to deal with the matter by the beginning of the forthcoming strategic planning cycle.

In November 1982 the manager of HTC France was transferred to the HTC European co-ordination centre in Geneva. This was part of his normal career plan and was completely unconnected with his having "dragged his feet" in the matter of the Strasbourg plant. He was succeeded by Jacques Mounier, who thus became the French subsidiary's new production manager.

In December Jacques Mounier submitted a dossier to the president of his subsidiary in which he proposed closing the Strasbourg plant.

In February 1983 the president of HTC France gave his agreement, but said there was no hurry and that alternatives to closing the plant should be investigated.

In October 1983, when submitting its strategic plan, HTC France said it had a problem with the Strasbourg plant that had to be faced. The staff of the plant were to be informed early in 1984 that the plant would be closed at
the beginning of 1985 unless it were possible to sell all or part of it to a partner. The president of the HTC parent approved the closure of the plant, saying that he could not see what else HTC France could do.

Figure 14 below summarises the decision-making process to close the Strasbourg plant.

II.3.3 Analysis

We give below the analysis of each decision-making process. Aggregated they form the decision process to restructure HTC production in France.

(a) The decision to invest in a new plant

The iterative model followed is the standard hierarchic process, but with the initiative coming from the president of the parent company's international division. The decision-making flow is therefore successively top-down, bottom-up and top-down. (See section I.1.B(b) above and figure 2.)

The parent company's first initiative phase took place because the subsidiary had no direct access to the area of uncertainty formed by confidential and succinct information on new products. The investment decision and the decision to launch a new product were then combined into one, as the technological determinant was of primary importance. In this case the technological advance over competitors amounted to several years. It gave HTC full confidence in the success of the new telecommunications system. The sales managers in the subsidiaries could only agree.

In the case of the acquisitions in the United States made by the French multinational Cofracis (mentioned earlier) the area of uncertainty formed by the United States marketing and legal environment was completely controlled by the subsidiary already established there. Accordingly the initiative phase came from the subsidiary and not, as with HTC's investment decision, from the parent company. At Cofracis the process followed the simple iterative model rather than the iterative model with initiative from the parent at HTC.

Nearly all the impetus phases came from HTC's French subsidiary. International management at headquarters triggered an impetus phase only very late in the process to persuade the president, and the president triggered an impetus phase directed at his board of directors only when he thought the time was ripe. The trial phases were triggered successively by the European area management and the international vice-president at headquarters, and the president and his board of directors.

The process took place very quickly. There were only a few (five) iterations. Few people were in on the secret - two at subsidiary headquarters, and three at parent company headquarters before the president and his board approved of the decision. The financial and tax advisers at the parent company's headquarters took no part in the studies concerning this investment. They would probably have been against it from the very start for tax reasons. The president of HTC did not inform them. When they felt that back pages something was going on they showed their disapproval. But by that time most of the actors in the decision-making process had already committed themselves to the investment in France.

The "go-betweens" - that is, those actors able to understand and recode the terminology and point of view of the one party (the subsidiary) and transcribe them in terms comprehensible to the other party (the parent
Figure 14: The decision-making process to close the Strasbourg plant

<table>
<thead>
<tr>
<th>Phase of the process</th>
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<td>Levels of participants</td>
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<td>President, international division</td>
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<td>Top management, parent company</td>
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<td>President, French subsidiary</td>
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<td>Plant manager, French subsidiary</td>
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<td>Managers, French subsidiary</td>
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<td>Content</td>
<td>&quot;What do you intend to do about your Strasbourg plant?&quot; Question asked when the subsidiary submitted its strategic plan and its budget.</td>
<td>Answer: &quot;This is our oldest plant in France, and although its productivity is low it has our best group of workers and they are very devoted to HTC.&quot;</td>
<td>&quot;The productivity figures of your Strasbourg plant are the worst in the whole group. Are you prepared to solve this problem?&quot;</td>
<td>&quot;Yes, but this is the best group of workers we have. We will consider the matter.&quot;</td>
<td>&quot;If you want to be good managers you will have to solve the issue of your Strasbourg plant.&quot;</td>
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**Figure 14 (cont.)**

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<th>Trial</th>
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<td>&quot;Yes, but these are the best workers we have ever had. I will give this matter serious consideration.&quot;</td>
<td>&quot;Your strategic plan makes no mention of the Strasbourg plant. What do you intend to do?&quot;</td>
<td>&quot;Dangers of social problems locally. We are fully occupied with the construction of the new plant. I plan to go into this matter next year.&quot;</td>
<td>Mounier, the French subsidiary's new production manager, submits a project for closing the old plant.</td>
<td>The president of HTC France approves the project, adding that there was no hurry and that alternatives to mere closure of the plant should be investigated.</td>
<td>&quot;We intend closing our Strasbourg plant. We will inform staff early 1984, closure planned for early 1985 if partial or total sale impossible.&quot;</td>
<td>Closure or sale of Strasbourg plant approved.</td>
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</table>
company) - were all executives of HTC. They had a very specific profile. One was the manager of the parent company's European department (a naturalised American of French origin) and the other was his assistant (a member of HTC France who had returned to Paris after a four-year spell at headquarters in New York).

The board of directors' meeting was important, for the directors came from outside HTC and would not necessarily endorse the proposals from HTC executives. Two directors in particular, who were presidents of very large American multinational enterprises with large French subsidiaries, were far from optimistic about being able to work freely in the French administrative context.

(b) The decision-making process leading to the choice of a site for the new plant

This process was strictly an internal one for the French subsidiary, which had delegated authority to make this kind of decision. Although not a strategic decision it had to be concluded before the formal appropriation request could be made. The decision-making process was a standard hierarchic one with initiative from the president of the French subsidiary. (See section I.1.B(a) above and figure 1.)

The result of this process had no real connection with the process for the closure of the Strasbourg plant. It was indeed considered that to find a site nearby could be a partial answer to the social problem caused by the closure, but this consideration was not decisive although HTC had always had a preference for eastern France (it finally set up its new plant within 50 miles of Strasbourg).

(c) The decision-making process for financial allocations to the new plant

This process was in two parts: authority to sign the sub-contract before the new French Government confirmed that the formal agreement signed by its predecessor would remain in force, and the investment authority to purchase the land and construct the plant.

For each part the process was a simple hierarchic one with impetus coming from the subsidiary and the trial phase from the parent company.

(d) The decision-making process to close the plant

The initiative phase came four years in a row from the parent company's management (the financial controllers). It was not an impetus phase since staff executives as opposed to operations executives can only ask questions and express opinions. They had apparently little influence on the heart of the strategic decisions or on decisions regarding the promotion of the subsidiary's managers. There were never any initiative or impetus phases from the parent's operations executives (the president, president of the international division, or president of the French subsidiary). So long as they did not intervene in any direct impetus phase aimed at him, the French production manager could get away with "dragging his feet". There was therefore no decision-making process as such so long as operational managers did not trigger an impetus phase. The French production manager's answers can be regarded as trial phases directed at the parent company's top management, for by doing nothing himself he implicitly put the ball back in their court.
The change in the system of actors was decisive. The new French production manager felt that it was probably not in his interest to start his job by keeping on ice a file that could irritate some of the parent's staff and operations executives. There was accordingly a simple hierarchic process. Its impetus phase came from the subsidiary production manager, the trial phase from his president, and the ensuing impetus phase, aimed at the parent, from both of them. The board of directors of the parent took no part in this decision.

The negotiations with the local administrative, political and social environment were essential to HTC's internal decision-making process. At the time of the investment decision-making process for the new plant the new impetus phases from the subsidiary's development director would have been impossible had the negotiations with the interministerial committee not gone well. HTC's president, followed by his board of directors, did not approve the project until the French Government gave its agreement.

Similarly the process for the financial allocation of resources to the new plant could not be completed until the new French Government had confirmed the agreement made with its predecessor.

It was HTC's strategy of relations with the French Government and administration that made a strategic act of the closure of a small plant not vital to the competitiveness of its strategic sector.

The local economic and social environment was not contacted during the decision-making process for the closure of the plant, as in the case of ICP, but was nevertheless very important, as the deputy mayor played a considerable part in finding a local industrialist who was prepared to buy the plant.

Notes


3 In France, current legislation (Order of 22 February 1945, amended by the Act of 18 June 1966), requires the works committee (Comité d'Entreprise) that must be formed in all enterprises employing at least 50 workers to be given an annual report on trading results and forecasts for the ensuing financial year, including investment, and quarterly reports on production plans and the employment situation in the enterprise. The works committee must be informed and consulted on proposed changes in equipment or methods of production and organisation, and on their effects on conditions of work and employment. The Act of 3 January 1975 requires the works committee to study employment developments over the past year and the employer's employment forecasts for the coming year.

In multiplant enterprises, a central works committee (Comité Central d'Entreprise) must be formed having the same rights and powers as regards information and consultation as the works committee for each plant.
An Act of October 1982, respecting the development of institutions representing the staff, extended the works committee's right to information and consultation and required an economic commission to be formed within the works committee in enterprises employing more than 1,000 workers. It also instituted group committees at the level of the management of groups of enterprises, so that the works committees of subsidiaries could be informed not only of the subsidiary's strategy but also of the group's national strategy, its economic situation and its effects, if any, on future employment.
CONCLUSIONS

This paper has described various iterative processes, each for a different kind of decision. In the Canadian multinational (ICC) the decision was to restructure an international portfolio. In the European multinational (ICP) the plant closure concerned only the French subsidiary. In the American multinational (HTC) the investment in a new plant in France was to manufacture new telecommunications systems for the whole world except the United States, and the closure of the old plant concerned only the French subsidiary.

All these processes were performed at leisure, the decision-makers taking their time. The parent company and its subsidiaries were not pressed by any sense of urgency. Even if all those involved in the decisions were of the opinion that they would have been better taken earlier, the decisions were all regarded as successful ones. This study has not however examined any decision-making process for the hasty liquidation of a subsidiary after unsuccessful attempts to restore its fortunes.

It is possible to establish a typology of the processes analysed in this report, based on the type of decision of which they form part. The following diagram 3 shows this typology.

Diagram 3: Typology of the decision-making processes analysed, by type of strategic decision

<table>
<thead>
<tr>
<th>Type of decision</th>
<th>Type of process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restructuring of the business portfolio (ICC)</td>
<td>Standard hierarchic, within the parent's top management. Some initiative and impetus phases from the president. Subsidiary excluded from the process.</td>
</tr>
<tr>
<td>Closure of plant (ICP)</td>
<td>Standard hierarchic, almost entirely within the subsidiary. Possible use of competitive hierarchic process by the president of the subsidiary, when a previous orientation is revived after a change of manager. Parent company intervenes late in the process.</td>
</tr>
<tr>
<td>Restructuring plants (HTC)</td>
<td>Standard hierarchic for the closure of the plant, necessitating impetus phase from the subsidiary; but the subsidiary can delay the process until the parent company presses for disinvestment. Standard hierarchic with initiative from the international vice-president (IVP) for investment in the new plant. The IVP controls the &quot;relation with Research and Development&quot; area of uncertainty to which the subsidiary has no access.</td>
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</table>
Let us now see whether the types of decisions analysed in this working paper which may be characterised as examples of the iterative processes are applicable to other cases.

The relevant literature\textsuperscript{1} has not uncovered a single case in which the executives of a subsidiary have participated in the decision-making process leading to a change in ownership when a complementary restructuring of the business portfolios of two separate multinationals was going on. The present study adds a further piece of evidence to confirm this — a finding which is probably generally applicable to this type of disinvestment process.

The reason for their exclusion is that in the United States and Canadian business environments, the stock markets determine the behaviour of executives of enterprises whose shares are quoted on the markets much more than in Europe. Everyone involved knows that the slightest leakage of information on a restructuring deal that is being considered, or a fortiori being negotiated, may affect stock market quotations of the shares of the buyer, the seller, and the subsidiary to be sold in whole or in part. The rise or fall in stock market prices changes the amount of the proposed transaction and may lead to a breakdown in the negotiations. In particular, the top managers of a subsidiary — whose shares are widely distributed over a large number of small shareholders, but which is controlled by another group (holding more than 33 per cent of its shares) from which they are unwilling to part, — have has every reason to organise leaks so as to raise the price of a bid. It may succeed in chocking off the potential buyer if the subsidiary's stock market quotation rises sharply, for the buyer probably does not want to raise his bid beyond a certain figure. Furthermore, anyone informed about the negotiations can buy a few shares of the subsidiary that is to be taken over and then go to the courts to oppose the takeover bid. This opposition can jeopardise the transaction and in any case greatly delay the implementation of the deal.

That the buyer and seller should keep the secret is therefore a well known rule of good management probably practised by all executives whose firm's shares are quoted United States or Canadian stock markets. If secrecy is not maintained and there are leaks the restructuring negotiations may break down. This then would be a sign of poor management.

As portfolio adjustments are the most common type of restructuring in the United States and Canada\textsuperscript{2} the conclusion can be posited that the subsidiary takes no part in most decision-making processes for restructuring enterprises of United States or Canadian origin, but with caution. Indeed it has never been confirmed by a statistically valid sample, although the literature contains no examples to the contrary. The value of this conclusion rests mainly on the theory that the decision-makers' behaviour is dictated by the institutional constraints of United States and Canadian stock markets. This theory is, however, extremely convincing and is drawn from many authors, especially Herbert Simon.\textsuperscript{3}

The above conclusion is perhaps equally valid for restructuring-decisions made in the United States by multinationals of European or Japanese origin. It is probably not applicable to European enterprises in their traditional areas of influence (Europe, Africa, Asia, Latin America and the Middle East), where the stock markets are less important in financing enterprises and provoking possible changes in majority shareholders.

In both the cases studied (ICP and HTC), plant closure or restructuring followed a standard hierarchic process in which the subsidiary played the main part. The parent companies, ICP and HTC, gave their agreement without difficulty, and showed by word or deed that they were in no hurry.
No group can be competitive unless it maintains good industrial relations, because of the short-term and long-term effect on productivity. If an enterprise selling a very large number of consumer or industrial goods has a social scandal in one of its plants, especially a small plant, the group's public image may suffer. This would hurt the sales of all its products, and gains in productivity due to restructuring may be more than offset by losses in sales.

This reasoning is probably valid in most decisions to close and restructure plants, and the examples examined in this paper are probably fairly representative of such decisions. Probably more plant closures have gone through without embarrassing the management than is generally believed; they are perhaps the submerged part of the iceberg. The others, the tip of the iceberg, are probably those that caused a scandal because parent companies took drastic decisions hastily without consulting the subsidiary. They are perhaps better known because they cause much more of a fuss, but are probably not typical of the decision-making behaviour of multinational enterprises.

Disinvestment decisions involving very large numbers of persons, as in the steel and automobile industries, also get special attention from the media. They are of strategic importance to the competitiveness of the enterprises taking them; only rarely, however, do they relate to disinvestment in foreign subsidiaries, and where they do (as in the sale of Chrysler's European subsidiaries) it is not known whether the parent company consulted the subsidiaries before deciding to sell them.4

Unfortunately it was not possible in the course of this research to examine an emergency restructuring decision-making process occurring after the failure of repeated attempts to get the foreign subsidiary "out of the red" had failed. The president and CEO of a French multinational did indeed tell the researchers of a recent example of this kind, but the manager responsible for the subsidiary had been transferred to head office and downgraded, and was so touchy about the case that the president of his enterprise declined to reopen the subject. The "trouble-shooter" sent out from headquarters to replace the former manager and to find a solution proposed that the subsidiary should be liquidated; the group approved his proposal and withdrew from that foreign market. The president thought the "trouble-shooter" could not do otherwise than describe his predecessor's management in unfavourable terms. The process is similar to that mentioned by Gilmour and confirmed by Torneden.5

Interestingly, the decision-making process for the closure of the plant in France follows the same iterative model (standard hierarchic, with the participation of the subsidiary) for the European multinational ICP as for the United States-based multinational HTC. We saw that ICC did not consult its subsidiary about selling it. It can, therefore, be inferred that it is not the multinational's Canadian, American or European origin that determines its decision-making behaviour, but rather the type of strategic decision concerned. For strategic portfolio restructuring secrecy must be maintained in order not to rock stock market prices. It is not their national origin but the financial environment prevailing in the United States and Canada that determines the decision-making behaviour of all firms active there, including those of European or Japanese origin. For rationalisation decisions like plant closures, initiative and impetus from executives close to the potential social trouble is likely to be the preferred management practice.

Change or rupture in the system of actors usually affects the decision-making process. Thus in the case of ICP the new manager of AMPA's plants disputed the orientations approved only a short time previously by the president of his subsidiary, who had to use a competitive hierarchic process.
to get his manager back on the track. In HTC the French subsidiary's production manager managed to "drag his feet" for four years in spite of prodding from the parent company's staff, who were admittedly not his direct operational superiors. The new manager almost immediately proposed to close the plant. These changes of actors show the room for manoeuvre enjoyed by individual actors, who can in the same situation pursue a strategy different from their predecessor's, at least for a time.

The environment decisively influences the process, for several reasons. Firstly the actors in the enterprise are sensitive to social constraints, at least when these are acute enough to risk scandal that could tarnish the group image and so affect their own career with the group. Secondly, the actors need certain agreements with their administrative, political and social environment in the host country. Where they negotiate public markets or exemptions or adaptations of current regulations, as did HTC, it is essential that the negotiations proceed for the successful completion of the firm's own decision-making process. Thirdly, a change of policy by the governments of the host country and country of origin may decisively affect the position, as seller, of a multinational in a given country (as with EURCO and other oil companies in Canada) and its ability to invest large sums abroad (as with EURCO in the United States). The members of the environment do not however take any direct part in the firm's internal decision-making processes, and are not part of the system of actors who produce the iterative processes which have been examined.

Torneden's conclusion of 1974 was confirmed both for ICP and HTC: the local economic, political and social environment was not consulted until both these multinational enterprises had decided to close a plant. Uninational enterprises probably behave in exactly the same way. Once disinvestment is decided on, however, the local environment is extremely active in trying to find an alternative, generally a takeover by another industrialist of the site of the plant and some of its employees.

In all the cases examined the decisions made were not mentioned in the strategic plan before being taken. This confirms the conclusion that the strategic decision-making process is independent of strategic planning. The actors are not necessarily identical, the time is different and the issues at stake are not of the same kind.

Finally we would repeat that the above conclusions are not based on a representative sample of the three enterprises. Any interpretation must therefore be treated with the utmost caution.

Notes

1 Torneden; Gilmour and Ghertman, 1981, op. cit.


5931d
5 Gilmour and Torneden, op. cit.
## TABLE OF DISGUISES USED

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* D: disguised
** ND: not disguised