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The Identity of National Subsidiaries of Multinational Organizations

(With special focus on ITC/BAT and HUL/Unilever)

BY
SAMPURNA GANGULY (1611130)
INDRASIS BOSE (1611173)

UNDER THE GUIDANCE OF:
PROFESSOR ABHOY K. OJHA

भारतीय प्रबंध संस्थान बेंगलूर
INDIAN INSTITUTE OF MANAGEMENT BANGALORE

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Abstract

“Without a sense of identity, there can be no real struggle” – Paulo Freire.

Identity is an intriguing concept. It is ever changing – an attribute that makes the concept all the more difficult to grasp. As human beings we strive to create an identity in the early years of our lives, and toil the rest of our lives to try and justify it. Even then, in times of distress or trauma, our identities that are shaped by the very fabric of our personalities, can undergo massive changes. Thus, we can never truly be sure of who we are- we can only hope to have a core set of defining principles that embody the essence that is us.

Organizations aren’t any different. They also consciously try to create distinctive identities. But that’s easier said than done. Multinational organizations face a plethora of issues in creating and sustaining identities. It is often difficult for them to create an identity and then stick to it perennially. The reason for this can be attributed to the dynamic business landscape, wherein parent organizations and their subsidiaries operate in completely different environments. Hence, organizations metamorphose and adapt themselves by adjusting their identities over time. During the course of this constant metamorphosis, organizations may at times choose to privilege global integration over local responsiveness & vice versa. How and why such decisions are made are the focal point of discussion of this paper, and would assist us in understanding the nature of identity transition of organizations at different points in time[i].

In this paper we have studied two FMCG giants with a long operating history in India: HUL and ITC. We have tried to analyse the kind of equation they have shared with their parent organizations Unilever and BAT, respectively, in terms of identity over a period of time. In our endeavour of understanding how the identities of these subsidiaries have changed with respect to their parent organizations, we have analysed the operations of these organizations over several years, and tried to relate their actions or policies with the corresponding influence their parent organizations were exerting on them. Thus, we have essentially tried to observe these two organizations through the lens of their changing identities over a prolonged period of time.

Analysis Methodology

Based on our study of the research paper “Navigating Identity Duality” by Anirban Pant & J Ramachandran, we have tried to apply the concepts outlined in the paper to our subject of study. The authors in this paper talk about the Paradox perspective and its stark difference with the Contingency perspective, in context of organizational tensions between the parent organization and its subsidiary. The Paradox theory states that reasons for such conflicts may not, and need not necessarily be resolved. For instance, in context of a multinational enterprise, the choices available to the enterprise may not have to be an either/or choice between the two paradoxical strategies of local responsiveness and global integration. The Paradox perspective stresses on the fact, that when two choices are available to any organization, the resulting decision may be taken such that it focuses on engaging both the choices to derive effective outcomes. This theory is thus in complete opposition of the Contingency theory that advocates strict choice of only one among the available set of choices. To represent the loci of the institutional environment, two contradictory logics have been introduced in the paper: the domicile logic & the enterprise logic. The domicile logic pertains to the institutional environment of the host country, whereas the enterprise logic pertains to that of the parent enterprise. The inherent friction between the domicile & institutional logics is manifested through the complex nature of identity duality of organizations. The Paradox perspective thus brings us to the most significant concepts of Logic Ordering & Logic Bridging, which are employed during resolution of conflicts between an organization & its subsidiary. Logic ordering is characterized by privileging one institutional logic over the other. In certain scenarios, logic ordering may be seen favouring the enterprise logic, and in others it may be seen favouring the domicile logic. The reason as to why one logic is privileged over the other is completely contingent upon the institutional environment that the subsidiary operates in at that point of time. However, it must be noted, that privileging one logic over the other does not mean that the logic that is less privileged is done away with. It continues to persist, albeit in seemingly less stringent ways. And this is exactly what's so different and novel about the Paradox Perspective – even in face of contradictions, the complementarities are never overlooked. Logic bridging, on the other hand, leverages the complementarities between the domicile and enterprise logics of the subsidiary, in order to resolve issues. Thus, in very simple terms, while logic ordering operates on the contradictions of domicile & enterprise logics, logic bridging operates on their complementarities. When a subsidiary is faced with any change in its institutional environment like change in government regulations (labour laws/FDI norms/protectionism, etc.), change in government, etc. {domicile},or change in the vision of the parent organization, call for more integration throughout the global network, etc. {enterprise}, it may choose to employ logic ordering, logic bridging, or a combination of both, in order to adapt itself to the changing business landscape, and carve out an evolved identity[ii].

In our study of HUL & ITC, we intend to apply the aforementioned concepts, to understand when & why the organizations have undergone changes in identity.

A Perennial Tussle? Or Jostle for Alignment?

Before we look at the holding structures of the parent organizations (BAT and Unilever) on their Indian subsidiaries (ITC and HUL, respectively), it is important to understand the markets in which they operate as their strategies are often dictated by the landscape of those individuals markets. While a parent is primarily looking to achieve the Global optima, the subsidiaries often look to achieve local responsiveness (sometimes, they fall prey to the "Me too" strategy as well, wherein they merely imitate what a local competitor is doing so as to maintain its stay in that segment). There can be an occasional tussle when the ideologies of the two organizations are not in line given that they are often trying to maximise their utility from the same pool of resources, and therefore need to prioritise on the local or global needs, in terms of which one to achieve first.

BAT and ITC

Competitive Landscape

BAT

The British American Tobacco (BAT) company is primary involved in the manufacturing, marketing and selling of tobacco products. It operates in over 200 countries across the globe and has its headquarters in the United Kingdom where it is the fourth largest tobacco player. It While there has been increase in the regulation and taxes in the tobacco industry and as a result prices have been driven up (which tends to imply that the consumer base in getting reduced), BAT has maintained its strong position due to its Global Drive Brands (GDB), namely, Dunhill, Kent, Lucky Strike, Pall Mall and Rothmans.

SWOT Analysis[iii]:

Strengths: As briefly mentioned in the introduction, BAT's major strength lies in the major brands included in the GDB, which accounts for close to 50% of its annual sales volumes. BAT focuses on growing its GDB share faster, compared to the other portfolios. This is due to the reason that the GDB presence allows the company to come up a new product offering since the brand is already well known. Moreover, if GDBs exist in the premium as well as the value for money segments, then it can arrest any drop if market share even if the consumer preference changes or the disposable income. Its business risk is also mitigated by its strong presence is over 200 countries across the globe. Their revenue stream is also fairly even across regions. A quarter of their revenues come from each of Western Europe, Eastern Europe & Middle East, and Asia Pacific, while America provides for around 20%. This necessarily means that they are not dependent on the economy of any particular country and will be less affected by volatility. Since it mostly operates in a segment where marketing aspects are highly regulated, market share can be gained primarily through product differentiation. This can happen only through constant efforts at innovating and coming up with a range of products. BAT has been investing heavily in R&D with factories in 41 countries, and it is their innovation in product that helps them grow.

Weaknesses: One of the major problems associated with this industry is the legal aspects related to the consumption of the product. People file lawsuits and reimbursement claims, and these pending lawsuits do play a role in the tarnishing of the brand image. Furthermore, it comparison to some of its competitors, like Imperial Tobacco Group or Philip Morris International, it has a relatively small scale of operations, and thus fail to have bargaining power similar to those of its competitors.

Opportunities: Presently, more than a quarter of its revenue comes from the Asia Pacific region. It is interesting to note that this market is growing rapidly due to increase in population, and has largely been untapped by the international players. BAT's presence in India through ITC (which has a stronghold there) means that it is well placed to take advantage of the burgeoning population with an ever increasing disposable income. In light of the increase in demand for e-cigarettes, BAT acquired two companies over the last few years, CN Creative and Ten Motives, that specialise in the manufacturing of e-cigarettes. These cigarettes emit vapour (instead of smoke) and are thought to be less dangerous. With these acquisitions, BAT is well positioned to take great strides in this segment as well.
Another growing segment is smokeless tobacco, which has been registering strong growth in US, Norway and Sweden. BAT entered this market on the back of a few acquisitions thereby enhancing its manufacturing capabilities. With this segment expected to grow at a rate faster than before, BAT through its strategic acquisitions is ready to see its revenue go up.

Threats: While advertisements and promotions play a very important role in creating brand awareness, owing to the different laws in most of the countries, tobacco products cannot be marketed or advertised. Furthermore, some laws even necessitate the company to have graphic images on the cover of the packs which has a negative impact on the consumer's desire of purchasing the product. Increase in excise taxes has two separate impacts on the business. First, it has a negative bearing on the profit margins of the company. If the prices go up then the consumers often trade down to a lower level in terms of product offerings. Over and above this however, these high taxes result in the increase of illicit trade practices. These practices include having counterfeit products, smuggled goods and other illegal means through which prospective BAT customers are lost.

ITC

Primarily operating in India, with its headquarters in Kolkata, ITC Limited is engaged in FMCG products, tobacco products, hotel operations, papers and packaging, IT and agri-businesses. In the tobacco segment, it has around 70% of the Indian market share and 40% of its stake in owned by BAT[iv].

SWOT Analysis[v]:

Strengths: Be it in any of the segments in which it operates, ITC has one of the leading brands in each of those segments. From Insignia, Gold Flake in the cigarette business to Ashiswaad atta, from Sunfeast biscuits to Yipee and Bingo, ITC has made it presence felt. Due to the presence of these strong brands, ITC has also been able to develop a significant reputation at the corporate level, thereby allowing it to make forays into new businesses. ITC's efforts at creating sustainability are very well known. It has backward integrated and improved the conditions of the small suppliers who were often at the receiving end of the vicious ploys of middlemen. Among these, e-Choupal is widely acclaimed across the world, in which ITC directly connects with the farmer, create awareness about local prices and global patterns, and help them in maintaining better inventory. This helps in creating a loyal customer base as well. In line with its triple bottom line strategy, ITC aims to create value for the society through its integrated watershed development programme, women employment programme and livestock and animal husbandry programme. The improvements aimed at the grass root level also helped ITC change its identity from that of a tobacco manufacturer to a company truly aiming to create social value. ITC already had a very well established network of distributors due to its cigarette business. It tapped into the same network to achieve synergies and create efficient cost advantages for its entry into FMCG products as well. The paperboard and packaged paper segments are growing rapidly in the country, and ITC has a dominant position to ride the tide and increase their revenues.

Weaknesses: ITC divides its FMCG products into two segments – Cigarettes and others. The cigarettes business still contribute for about 78% of the overall FMCG revenue. The company has made significant investments in the non-tobacco products for brand building and new product development. However, with the government continuing to increase taxes on the tobacco products, there is increased dependence on the other FMCG segments which are yet to turn profitable. ITC's excessive dependence on cigarettes in a country like India where both consumers and regulations are growing at a rapid pace, could prove to be a weak link. Yipee noodles, one of ITC's growth drivers, was banned following the Maggi controversy surrounding MSG. While ITC managed to prove that its products met the safety specifications, it definitely left an indelible mark on the mind of the consumer.

Opportunities: Having made certain strategic acquisitions in the past few years (from Johnson & Johnson), ITC has taken major strides in the personal care segment. With the Indian population becoming more and more aware of the hygiene practices, ITC are also making foray into new segments like shampoos, shower gels, hand sanitizers to name a few. In 2015, ITC entered the dairy space by a brand extension of the very well-known Aashirwaad brand. The packaged milk and related products market is expected to grow by around 16% annually, and by setting up its own dairy processing plant in Bihar, ITC is well placed to make use of this opportunity.

Threats: The FMCG market in India is extremely crowded and ITC faces competition in almost all the segments. Its biggest competitor in the FMCG space is HUL which is the market leader in most of the segments. In the food products as well as lifestyle products, there is stiff competition from groups like Future Group, ABG and many more. This might affect the profit margins for ITC, particularly in the FMCG segment where it is struggling to recover the high investments made. The taxes on tobacco products have been going up on a regular basis resulting in an increase in price at regular intervals. This often results in particular brands becoming out of reach of the average consumer and they have to slide down to lower priced products. With the increasing awareness about health issues caused by tobacco consumption, consumers are moving away from tobacco products and thus its tobacco business could take a beating. Since the tobacco business is the primary source of profit for the company, this change could change the entire landscape for ITC.

ITC: A semi-autonomous arm of the BAT?

While the ITC Chairman Y C Deveshwar has time and again tried to refer to the "Indian soul" that the organization has at its centre in its attempt to create value for society, one must never forget where its roots lie.

The Imperial Tobacco Company had come into being when the British American Tobacco aimed at bringing its India operations under one banner – and they were the pioneers in educating the consumers about the pleasures of smoking cigarettes. After taxes were imposed on cigarettes, their profits fell and as they increased their prices, their market share eroded.

When Ajit N. Haskar became the first Indian chairman of the company in 1969, the line of questioning taken by the senior management of BAT clearly showed that it was mostly concerned with the "perception" of who was it that was actually running the company and whose interests would the incoming Chairman be catering to. The idea was to ensure at all times that the decision makers in India would keep in mind the best interests of BAT in its Indian aspirations.

With the nationalist fervour gripping the country in the 1970s, Golden Tobacco tried to malign ITC by trying to project it as a foreign entity. In such times, ITC tried to enter into segments that involved getting foreign exchange and industries where government regulations would not wreck havoc. It was during the formulation of these strategies that Haskar first noted that the "interests of the overseas shareholder and the national interests" might not be aligned even though there can be areas of mutual benefit.

With the enactment of the Foreign Exchange Regulation Act of 1973, BAT had to reduce its stake in ITC to 40%, however the proceeds were given as loan to ITC for its India investments. BAT however made no efforts to hide their strong reservations about ITC being able to manage these funds. A few years later, when the paper mill was ready, Haskar's letter to BAT using the newly made paper points to the first point of clear altercation between the two entities.

After Haskar stepped down, Jagdish Sapru took over and his initial years were tumultuous due to allegations of tax fraud. Fortunes turned when the tax structure changed from price to length of cigarette. However, ITC's image was tarnished in front of the public and it decided to diversify into agri products, financial services and even bought out BAT's stake in Tribeni Tissues Limited.

A remarkable change can be noted here in the sense that Mr Sapru went on to say that he perceived BAT to be indifferent to ITC's operations and this does not bode well for the company since the BAT link would go a long way in internationalising the ITC brand.

After Mr Sapru, K L Chugh took charge and it coincided with the government's decision to liberalise the country. Soon after however, there was a second point of conflict – ITC wanted to reposition its brands and in an attempt to improve its competitive position it wanted to launch the BAT brands in India; the BAT board however declined the proposal saying that the timing was not appropriate. There however were strong rumours that the decision had more to do with BAT not having a majority stake in ITC than timing being the real concern.

The altercation reached its peak in 1993 when BAT wanted to increase its stake in ITC. The Government of India and ITC had both given an initial nod according to the BAT representatives. At the time of implementation however in 1994, the Finance Ministry declined the proposal and BAT believed it was due to ITC having lobbied with the government to reject their proposal.

While ITC wanted to diversify into other segments and not continue being a little tobacco company, BAT strongly opposed all plans of venturing into core sectors. In 1995, BAT released a press statement accusing Mr Chugh and other ITC leaders of financial irregularities and asked for their resignation. The Chairman responded by falling back upon the Indian-ness of the company in terms of its operations and cultures, and how BAT would not fit the bill.

Even after Mr Deveshwar took charge, there was a lot of turmoil when the two previous chairmen were arrested after being charged with under-invoicing of export deals. BAT took this opportunity again to malign the Indian leadership team and hinted that things can be resolved if BAT took over. The Chairman stood firm and shot back when BAT wanted to the permission from the government to set up a separate subsidiary in the country. The existing regulations required ITC to agree to the proposal and they declined. This proved to be the breaking point and led to intense discussions between the two boards with both deciding to bury the hatchet and move forward.

With the talk of retirement looming and concerns growing over the future of the company, the Chairman fell back upon the Indian ness of the company but referring to it as a national asset, and how all should work together in order to maintain its Indian character[vi].

ITC through the Ages

ITC, previously known as the Imperial Tobacco company, came into being in 1910, primarily to make cigarettes and related tobacco products. With changing tides and increased government regulations, it entered into the hotel business in the 1970s and followed it up with IT, packaging, food processing and dairy industries[vii].

Chairman	Years Active	Salient Actions (or change in Regulation)	Classification of strategy
*Appointed by BAT (Multiple Chairmen appointed by BAT as India Head)	1910-1968	• Single entity for all tobacco operations in India • Packaging and printing business started in 1925 • Taxes imposed on tobacco products in 1948 resulting in decrease in market share	• Logic ordering – Enterprise logic took precedence; chairman was appointed by BAT to serve as its India head, they solely served keeping in mind the interests of the parent organization. • Logic Bridging – Not present
Ajit Narain Haskar	1969-1982	• Entry in to an industry that earned Foreign Exchange and one core industry • With the FERA Act, the BAT share diluted to 40% • Entry into Hotel industry in 1975 • Paperboard industry entered in 1979	• Logic ordering – Domicile logic gained precedence with Haskar entering the hotel and paper industry without BAT's consent. Necessary measure given the then nationalist sentiment. • Logic Bridging – Not present
Jagdish Sapru	1983-1991	• Claims of tax fraud by Central Excise • Setting up Nepal subsidiary in 1985	• Logic ordering – Domicile logic continued with BAT being almost indifferent to ITC's strategies. • Logic Bridging – Not present

		• ITC purchased BAT's stake in TTL in 1989 • Entry into agri-business in 1990	
K.L. Chugh	1991-1995	• Liberalization • Entry into Financial services • BAT refuses to launch its brands in India • ITC opposes BAT's entry into the Indian market with a separate subsidiary in 1994	• Logic ordering – Domicile logic prevailing with complete conflict in ideology. Internal turmoil reached its peak with constant insinuation of wrong doings. • Logic Bridging – Very low
Y C Deveshwar	1996-2017	• Divestment of ITC Classic • In 2000, it entered into IT, Greeting cards and lifestyle • In 2001, it entered the food space • It started selling BAT brand of cigarettes • E-choupals developed • Mass customization through direct interaction with farmers • Dairy products in 2015	• We see a fine transition from logic ordering to logic bridging with ITC getting the rights to sell BAT brand of cigarettes, and BAT accepting ITC's move to diversify • Logic Ordering – Medium to High • Logic Bridging – Low to Medium
Sanjiv Puri	2017-Present	• Trying to enter into every segment that falls under FMCG[viii]	• Logic Ordering – Domicile logic for all FMCG segments • Logic Bridging – For tobacco products

ITC's Performance through the years post liberalization:

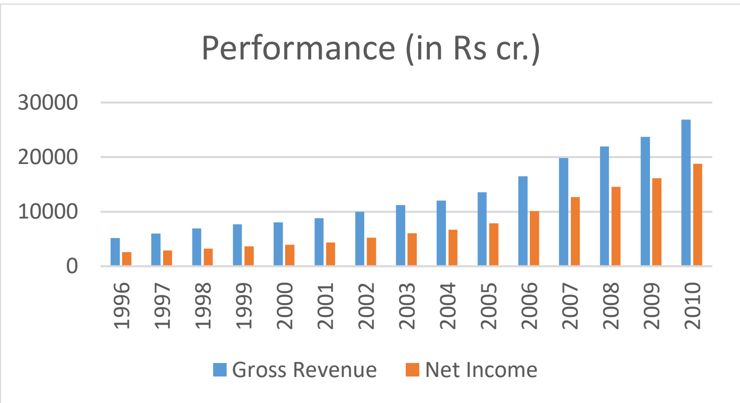

Figure 1: Performance from 1996 to 2010

Unilever and HUL

Competitive Landscape

Unilever

The Anglo-Dutch organization Unilever, headquartered at London, UK, has a dual national identity, in the sense that, it is publicly listed in both Netherlands and the UK. Throughout its operating history, there have been instances where the organizational management has weighed in on the decision to do away with its dual structure. However, in every single of those instances, the decision to retain its dual nationality structure has been upheld. Unilever is constituted of 2 parent companies - namely Unilever PLC & Unilever NV. They are independently headed by their respective chairmen.

SWOT Analysis[ix]:

Strengths: Unilever has always been known as an organization that places tremendous importance on research & development activities. That aspect remains true to this day. Unilever employs an approach of "open innovation" to derive ideas from across the world that it leverages to create advanced products. Its Genesis (long term pipeline to aid innovations facilitated by breakthrough technologies) and Partner to Win (collaboration with suppliers to create better products) programs further aid this process of research. From PAMs (Packaging Materials) to recipes, to PnPs (Packaging & Palletization), Unilever constantly strives to be innovative and it is this spirit of continuous improvement, that has helped this organization achieve the status of a stalwart in the field of research & development. Another critical strength of Unilever has been its ability to make strategic acquisitions that helps it in strengthening and diversifying its scale of operations. As an example, to complement its water purifier business (PureIT), it recently acquired the air purifier business Blueair, which is one of the most premium businesses in the air purifier category in the UK. Similar examples of acquisitions are Murad (skincare), Zest, Camay, etc.

Weaknesses: In recent times Unilever has been battling quality concerns. The most prominent of the issues was the revocation of license of production in Israel, owing to negligence in monitoring quality of the products. In this instance more than 150000 units of cereal were contaminated by the salmonella bacteria, and in spite of repeated Israel's health ministry's repeated claims, that some of these contaminated units had made their way to consumers, Unilever remained unperturbed. After the claims of the health department were confirmed, the license of production was suspended in August 2016. There also have been several instances of product recall wherein packaging has been mixed up, or unknown allergens like almonds have been incorporated into foods without appropriate warnings displayed on the packaging. As a result, there is an increasing chance of consumers losing confidence in the brand, thereby impacting future sales of the products.

Opportunity: Strengthening foothold in emerging markets like India, Brazil, Indonesia, Latin America, South Africa, etc., is the biggest opportunity that Unilever can capitalise on. It is estimated that by 2016, the food & beverage industry in the Asia Pacific region alone will cross the 3 trillion USD mark. Thus, along with strengthening the existing business in these emerging economies, Unilever has the scope of diversifying its brands to cater to the needs to specific markets. Additionally, there has been a significant growth in the health & wellness space, wherein consumers are consciously trying to choose healthy products with higher nutritional value, lower sugar & fat content, etc. In addition to the health & wellness space, the home & personal care market is also set for steep growth in the coming years. As per industry experts, the global market of household products is expected to grow at a CAGR of approximately 5% between 2015 and 2019. This growth is expected to be more concentrated in the emerging economies.

Threat: Abundance of counterfeit products in the markets across the world is the biggest threat to Unilever's business at this present moment. The global economic trends of low spending and the rapid penetration of the internet are factors that have led to the proliferation of the market of counterfeit products. In addition, the rising labour costs in the US and the UK are creating scenarios for Unilever wherein costs are progressively scaling up. This has the potential to hit Unilever's profitability, thus impacting its future strategy of growth.

Hindustan Unilever Limited (HUL)

Headquartered in Mumbai, HUL is India's largest FMCG organization. The company offers a wide range of products in 4 distinct categories: Home Care, Personal Care, Foods & Beverages and Water Purifier. As per a 2016 Nielsen report, of the 100 most trusted Indian brands, HUL owns 27, with the likes of Dove, Lux, Lifebuoy, etc. in their product repertoire[x].

SWOT Analysis[xi]:

Strengths: The diverse product portfolio that HUL offers is one of its key strengths. Over 90% of the Indian households use one or more brands of HUL. Apart from the diverse brands, the various price points of the products that HUL offers helps it in increasing penetration across all segments of consumers in India. For example, in the detergents segment under the Home Care category, HUL offers products like Surf Excel, Rin & Sunlight which are aimed to cater to the entire spectrum of consumers (premium to highly cost-sensitive lower income groups). In 2017, HUL was ranked 7th on the global list of the most innovative companies of the world. Its continuous focus on innovation & customer sensitivity has made it the market leader in almost all the categories that it operates in. Its R&D centers in Bangalore & Mumbai consistently aim at understanding the consumers better and tailoring products based on their perennially changing preferences. The focus of innovation also propels HUL to bring new brands into the market at regular intervals. For example, keeping in mind the needs of the ever increasing segment of working women in India, HUL introduced 'Lakme 9 to 5 Mousse Foundation' in the year 2016.

Weaknesses: HUL lacks scale in terms of revenues when compared to its competitors in India. Its competitors P&G and ITC generated revenues of $76,279 mn and $6368 mn respectively in the FY2015. In contrast, HUL, even with its strong product portfolio, generated only around $5243 mn in the same period. This lack of scale is a weakness that might lead to HUL losing out to its competitors in the near future.

Opportunities: The biggest opportunity for HUL is to grab a larger pie in the growing rural markets of India. With increasing disposable incomes of the people living in the rural parts of the country, there is a perceivable trend in increasing demands of FMCG goods in this segment. By leveraging its robust distribution network and state of the art factories, HUL can ramp up production and enter this less ventured into segment of consumers. Initiatives like "Project Shakti" & "Kaan Khajura Tesan" are examples of HUL trying to establish its foothold in the rural markets. A recent trend in the FMCG sector has been the growth in demand of packaged food products. As per industry reports, this segment is expected to reach revenue figures of INR 45 billion by the year 2017. Apart from packaged foods, the segment of men's grooming products and hot beverages is also on the trajectory of growth in India. All these segments offer HUL with an opportunity like never before to leverage its brand equity, and increase scale and profits.

Threats: As with all industries, the threat of competitors is a constant for any organization operating in the FMCG segment in India. Though HUL has predominantly been the market leader in India, companies like P&G and ITC are aggressively increasing their brand portfolio and aiming to capture nascent markets across the country. With certain companies having considerable greater financial prowess, the threat will only get more profound with time, with aggressive pricing strategies becoming the norm of the industry. Apart from threat from competition, the threat from counterfeit products in the market is becoming increasingly grave. It has been estimated that the Indian government lost $6.6 billion in revenue owing to presence of counterfeit products being sold in the market. Without strict vigilance in place, HUL may lose out on revenues owing to counterfeit products becoming more commonplace in the markets across India.

Hindustan Unilever Limited or Unilever (India)?

The organization Unilever came into being in the year 1930 when two organizations – Lever Brothers (British soap company) and Margarine Unie (Dutch margarine company) merged. Through the years, Unilever has operated as an organization with two parent companies – Unilever NV & Unilever PLC. Both these organizations continue to hold distinct legal identities and stock listings to this date.

From its very early days Unilever believed in the philosophy of decentralization when it came to its interactions with its subsidiaries. It was truly a multicultural multinational that respected the power of local cultures influencing business outcomes. Thus, as a parent organization, it never tried to impose its capabilities and knowledge on its subsidiaries.

However, as the 90's approached, it became clearer, that the organizational growth had become somewhat sluggish, and there were way too many businesses that the organization was involved in, many of which were not profit centres. In 1990 The Economist labelled Unilever as an organization that was "bit Sleepy" - owing to the culture of bureaucracy that had crept in the organizational practices.

Niall Fitzgerald and the organizational metamorphosis

Niall Fitzgerald became the Chairman of Unilever PLC in 1996. He started to focus on building the FMCG business portfolio of Unilever, which meant that even well performing businesses were divested if they did not fit the profile of the company. Starting with brand rationalization (wherein a wide range of brands were reduced to a portfolio of only well performing strong brands), he reduced employee strength in the organization by closing down 100 of its 380 factories worldwide. As a part of his brand rationalization initiative he also separated brands as "Power Brands with worldwide popularity" & "Local Jewels" with local/regional appeal.

Path to Growth

In the year 2000, a five year plan with strategic objectives was set into motion. It was named "Path to Growth". His vision of divesting non-core businesses & brand rationalization gained stronger form in this strategy. With the cash generated by divesting the non-core businesses, Fitzgerald started a round of acquisitions of companies that he felt would strengthen Unilever's brand portfolio. Knorr, Hellman's, Ben & Jerry's, Slim Fast Foods were among the ones acquired. He also went on to create a new management structure with two separate global units for Home & Personal Care (HPC) & Foods. He believed this structure would increase focus on these two businesses.

By 2003, the "Path to Growth" strategy had started exhibiting its effectiveness. The brand portfolio had been reduced from 1600+ brands to only 540 brands, with the leading brands accounting for 91% of the sales in 2003 as opposed to 75% in 1999. In 2004, Unilever made "vitality" the core operative word in all its businesses. It unveiled a new logo that was to slowly but consistently appear on all the products in its portfolio. Additionally, they came up with mission "One Unilever" to consolidate &

standardize the operations of all its local subsidiaries under the brand Unilever. Thus, by 2004 it was clear that Unilever, in order to leverage scale, was on the path of gradual centralization of command & operations.

After Patric Cescau succeeded Niall Fitzgerald as the chairman of Unilever PLC, Unilever witnessed a period of heightened competition and lower than average performance. It was during this time that P&G acquired Gilette. With a 640 million Euro write-off on the SlimFast business, annual turnover dipped by 6%. Amidst the rough winds there were speculations that the dual nationality structure was at the core of all problems. However, after much deliberation, it was decided to carry forward with the dual nationality structure, albeit with more management integration in operations. The earlier 26 member senior structure was disbanded, and a new 8 member UL Executive Team (UEx) came into being. Under the new management regime, the country teams reported to the Presidents of their respective regions, whereas the brand developers and category managers reported to the Category Presidents of their respective units (Vindi Bangra – Foods and Ralph Kugler – HPC). There were plans that in the future, Sales structures of HPC and Foods would be integrated.

HUL Strategy post 1996

In line with Unilever's strategy, HLL followed suit and started exiting its "non-core" businesses. However, it simply did not ape Unilever's strategy for sustaining growth in the long term. In spite of UL divesting its specialty chemicals business, HLL chose to retain its chemical business. This kind of flexibility was the manifestation of the highly decentralised nature of control that UL exerted on HLL. However, that is not to say the HLL did not follow the strategies that Unilever emphasised on, in its Path to Growth model. HLL, like Unilever, started focussing more on growing the Foods business in India, by aggressively marketing its food products and introducing cheaper variants of products in the market to capture more market share. These included launching Brooke Bond AI, Lipton Tiger, etc.

Project Millennium

In order to sustain the growth trends into the new millennium, Project Millennium was launched in HUL in year 1998-1999, wherein 42 highly skilled managers were chosen to shape the organization for the dynamic future that lay ahead. The main goal of this project was to strengthen the company both in term of internal expectations and external competencies. These managers were scattered all across the country and their expertise could be leveraged in the 3 domains that came to be the focal points of Project Millennium:

- A Category structure that was more aligned with consumer focus.
- Identifying 9 new business segments within the organization that had the potential to proliferate in the future. These would then act as individual units which would deploy resources of their own business to achieve growth
- Recruiting and retaining talent within the organisation.

It should be noted however, that throughout this period, HLL remained loyal to the vision of Unilever by divesting non-core businesses like animal feeds, seeds, mushrooms, etc. In face of the market becoming more mature each passing day, and growth opportunities becoming constricted, HUL employed a concurrent strategy of increasing profitability of its Foods business, increasing the shareholders' returns in non-FMCG businesses and achieving overall profitability in the FMCG sector. Brand rationalising was underway (just like Unilever's approach to segment brands into Power Brands and Regional Jewels). Acquisitions of companies that fitted the vision of Unilever continued. However, there were instances wherein HLL made decisions that did not really bear fruits, like the acquisitions of Modern Foods. To facilitate integration of the vast distribution network of HUL with the aid of I.T, *Project Leap* came into being.

In the recent past, there have been local players who have turned out to be more competitive than the established multinationals. Thus the Unilever-HUL control structure had to adapt and become somewhat more decentralised (though not to the extent that was prevailing in the early days of HUL). It became apparent over a period of time, that in order to be responsive and agile to the local business environment, a more decentralized approach was required. Thus came into being the concept of *Country Category Business Teams* (CCBT), wherein 15 CCBTs were identified and they were to have their individual targets to achieve in innovations and sales. These CCBTs were headed by managers in their early 30's. As of today, HUL is working towards its end goal of increasing market share by using the CCBT structures.

Apart from these initiatives, in order to tap the vast potential of Rural India, HUL started projects like "*Project Shakti*" & "*Kan-Khajura Tesan*". These initiatives were aimed at increasing penetration of HUL in rural areas by infusing entrepreneurial spirit in the rural population, and help in bettering the lives of the people living in rural India[xii].

The point of highlighting all these aspects is to signify the autonomy that HUL has, in spite of being a subsidiary of a multinational, which has a very strong presence worldwide.

Hindustan Unilever Limited (HUL) through the Ages

Hindustan Unilever, previously known as Hindustan Lever is the Indian subsidiary of Unilever. HLL was born in 1956 when 3 subsidiaries of Unilever namely –Lever Brothers India Limited, United Traders Limited & Hindustan Vanaspati manufacturing company merged[xiii].

Indian Chairman	Years Active	Salient Actions	Classification of strategy
Prakash Tandon	1961-1968	• Positioning of HUL as a marketing entity in line with Unilever's vision • Orientation towards development of indigenous market • 191 of 205 managers are Indian • Diversification in animals foods business & convenience foods business (indigenous)	• Logic Ordering – Enterprise-moderate(positioning HUL as a marketing company, in line with Unilever's vision) • Logic Bridging- moderate (domestic development orientation, leveraging the Indian talent pool)
Vasant Rajadhyaksha	1968-1973	• Import Substitution • Focus on R&D (Mumbai R&D center starts operating) • Launch of Rin bar • Launch of Bru • Launch of Clinic shampoo • Diversification into chemicals business	• Logic Ordering – Domicile-high (owing to changing regulatory landscape in India, products launched to suit the Indian market) • Logic Bridging – medium (increasing penetration by focussing on rural markets and diversification into product categories to cater to Indian market needs)

T Thomas	1973-1980	• 51% stake of UL in HUL, provided 60% output was in the core sector • Launch of Close-up toothpaste • Launch of Fair & Lovely • Diversification into fertilizers business	• Logic Ordering – Domicile – high (holding structure *negotiated* to 51% for UL, positioned itself as a core sector firm & a technology firm) • Logic Bridging- medium to low (diversification into industries previously not forayed into, in keeping up with the commitment to the Indian government)
Dr. Ashok Ganguly	1980-1990	• Heightened competition from Nirma. • Operation STING launched • Launch of Wheel brand to counter Nirma's growing presence • Ul emulates Wheel model in other emerging nations • Launch of Tipton Taaza tea, foray into agri business	• Logic Ordering – Domicile – high (holding structure comes down to 51% for UL, venture into foods & agri business to suit local business context) • Logic Bridging - medium to low; in continuation of the policies taken up by the previous chairman (diversification into industries previously not forayed into, in keeping up with the commitment to the Indian government)
S M Datta	1990-1996	• Acquisition & alliance strategy post liberalisation • Acquired TOMCO • Alliance with LAKME • JV with Kimberly Clark Limited • Exiting non-core businesses except specialty chemical business	• Logic Ordering – Domicile – high (Post liberalisation organic growth, restructuring of operations in India – 10 business divisions, each headed by a director) • Logic Bridging – medium to low (selling away the fertiliser & chemicals business in line with Unilever's vision but retaining the specialty chemicals business in line with performance & opportunities in India)
KB Dadiseth	1996-2000	• Bought out Tata's stake in LAKME and made it its own brand • Strengthening Foods business • UL "Path to Growth" launched • Project Millennium launched	• Logic Ordering- Domicile – high (strings of M&As continue to strengthen the Indian business presence) • Logic Bridging – medium to high (Project Millennium – developing local talent to prepare the organization for robust future growth, focussing on strengthening business by leveraging the

			understanding of the local cultures, becoming a multinational that is truly *multi local*)
M.S Banga	2000-2005	• Brand rationalization from 110 HUL brands to 30 Power Brands and 10 Regional Jewels • Divesting non-core businesses continue • Leveraging IT To scale and strengthen operations • Employee Stock options unveiled; dividends paid to shareholders • Brand Ayush launched	• Logic Ordering – high – Enterprise Logic (Path to growth vision- brand rationalization, divesting non-core businesses) • Logic Bridging – medium to low (several businesses exited in line with global vision, however local requirements still a focus of operations, local Power brands designated to keep in line with UL's rationalization but not ignoring Indian preferences – launch of Ayush)
Harish Manwani	2005-Present	• Embracing UL's model of separating execution roles & brand development • Power brands strengthened • Divestment of Nihar to Marico Inc. • New management structure unveiled • PureIt business launched	• Logic Ordering – high – Enterprise Logic (divesting non-core businesses continue aggressively, UL model for role separation adopted) • Logic Bridging – medium (new management structure adopted by employing local talent – making business directors responsible for P/L, functional directors responsible for delivery excellence)

Alignment and Control

Based on our understanding of the relationship between the head office of a multinational organization and its international subsidiaries, we came up with a chart that maps the control exercised by the central authority on the subsidiaries with the alignment that is seen between the strategy of the local and the central authorities.

The graph has three distinct segments which corresponds to a certain degree of control and the corresponding alignment that is expected to be present:

1. **Region A** – This region is characterized by extremely low control exercised by the central authority. This could be due to the fact that the local subsidiary is doing very well, or it has a very strong leader who is focused on driving the local ideas to execution. This area corresponds to Logic Ordering wherein the strategy of the local entity takes priority.

2. **Region B** – This region corresponds to the part where the central entity exercises a moderate amount of control on the subsidiary, and we see that the extent of alignment between the central and the local entities is the maximum. This leads to Logic Bridging wherein both the entities find a middle ground to compromise on certain aspects of their own strategies in order to formulate a strategy best suited to the country. This also corresponds to the region where the relationship between the two is expected to be the most stable, and promotes long term growth.

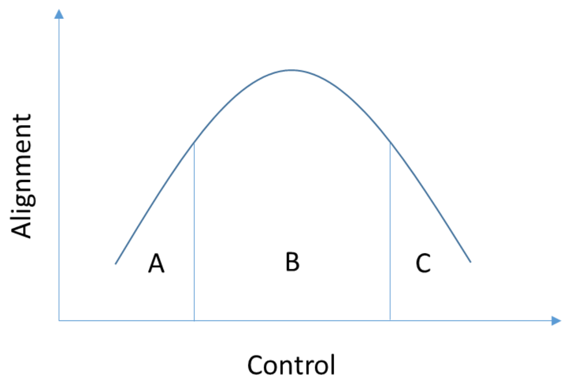

Figure 2: Alignment of Objectives vs Control exercised by central agency over subsidiary

3. **Region C** – This part of the graph is characterized by extremely high control dictated by the central body. This can be due to the fact that the local organization had not been doing very well and as a result the central institute forces their strategy on the local body. This again corresponds to Logic Ordering where the strategy of the head office takes precedence. This can also due to a weak manager at the helm of the subsidiary.

Strategy Formulation and the Local Business Climate

After analysing the relationship between control and alignment of the central and local organizations, we devised a framework that places an organization in a domain depending on the ease of doing business in the host nation and whether the organizations are strategizing using Logic Bridging or Logic Ordering.

This 2x2 matrix looks at the rationale and the end goal that the organization is trying to achieve through the position of the firm in the host country. We shall look at the individual quadrants and try to justify the reason for the same.

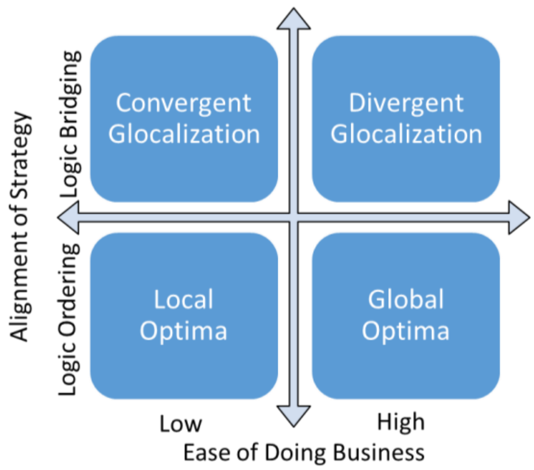

Figure 3: Strategy Alignment vs Ease of Doing Business in the host nation

- **Local Optima** – This is the case when the Ease of Doing business is low in the host country, and the head organization and the subsidiary has decided to for logic ordering. The fact that they have gone for logic ordering implies that the host nation has been doing well in its business, and since the ease of doing business is low, it continues doing so and this leads of achieving the local optima, where the global strategy might be neglected.
- **Global Optima** – When the ease of doing business is high, and the organization chooses logic ordering, it indicates that the local organization was not doing too well and/or has a weak

leader. This allows for the central organization to come in and ensure that their strategy takes precedence. This leads to global optima.

- **Convergent Glocalization** – This happens when both the companies have chosen Logic Bridging but the ease of doing business is low. It is therefore difficult for the parent organization to start a separate entity of their own in the country, and therefore there is convergence between the strategies of both the companies which are manifested through the singular strategy doled out by the local organization.
- **Divergent Glocalization** – In case the ease of doing business is high and the companies have agreed to align their strategies through logic bridging, there is a scope of the parent organization to open a new line of business (or maybe even a separate entity) without disrupting the functionalities of the local business which is doing well in the host country. Therefore, there is alignment in the strategies of both the organizations but it is manifesting through two separate entities or separate lines of business, leading to divergent glocalization.

Conclusion

Based on our study of the two multinational companies along with their subsidiaries, we came up with a plot of strategic alignment and control, and a framework which relates that strategic decision taken based on the ease of doing business (or, Government support) in the host country. While our analysis is based on the literature review and interviews with senior executives of the aforementioned companies, we believe that this will stand true for any multinational organization with a holding structure similar to theirs. However, it is imperative to note that while we have taken into consideration the climate of the host nation and the performance of the subsidiary for our analysis, we have assumed the health of the parent organization to be in good shape and the social factors in its country of operation to be conducive for business.

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