The Legacy of Misalignment at Fertilchem: The Inadequacy of Internal Reforms Under Conditions of Competitive Crisis

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ABSTRACT

FertilChem, Ltd. (FCL), an agro-chemical multinational corporation (MNC) faced an organizational crisis when its global market share dropped from 70 percent in the mid-1990s to 50 percent in 2001. An assessment of company's performance during the late 1990s revealed weaknesses in its operational cost-structure, dwindling financial resources, stagnant responses to the dynamic changes in its markets, and loss of market share to several new competitors. When FCL executives finally acknowledged the crisis, they designed and implemented a strategic plan for realigning the firm's organizational structure and marketing strategy. But a reluctance to depart from a pioneering legacy and internal conflicts within the firm combined with growing misalignments between organizational aims and actions undermined FCL's capacity to respond quickly or effectively to the crisis.

Multinational corporations (MNCs) face constant threats of losing their competitive edge in global markets. When external threats endanger a company's revenues and market position, executives must quickly make difficult decisions about adjusting internal operations through restructuring, downsizing, or modifications in corporate culture; by repositioning the firm through divestments or mergers; by reformulating marketing and sales strategies; or by changing internal and external business practices to address emerging challenges. Ideally, managers will seek information from throughout the organization and employ accurate assessments of external changes to determine the most appropriate options for optimizing the firm's market position and potential for growth. Many multinational corporations make poor decisions, however, by failing to consider the real causes of emerging crises.

Formulating and implementing a strategy for recovery from crisis creates strong pressures on managers and on investors, employees, customers, and suppliers as well. In spite of the complexity of the challenges and the diversity of pressures for restructuring an organization and its business procedures, tightening budgets, and reducing production costs and cutting the size of the labor force, these and other such measures must be implemented rapidly and effectively when a firm faces a crisis. Taking decisive action requires managers to obtain information and feedback from throughout the organization, establish clear and coherent objectives, and create strong coordination mechanisms.

Managers who formulate strategic plans in crisis situations must clearly identify business practices that, no matter how successful they may have been in the past, no longer effectively achieve corporate objectives. A strategic plan must coherently integrate all of the organization's resources and options to facilitate recovery. Maintaining alignment among an organization's goals, business strategies, operational structure, and management processes is not only imperative for MNCs during periods of global expansion, but especially so in a period of crisis (Bartlett and Ghoshal, 1998). The impacts of crises can be exacerbated by management decisions that create new, or intensify existing, misalignments. Realigning the firm is not likely to succeed merely by exerting stronger control from the top. Successful strategies are strongly influenced by organizational history and internal culture as well as by complex external factors over which a firm may have little or no direct control.

In this paper, we explore the causes of strategic misalignment at FCL*,* a multinational corporation that was a pioneer in the chemical fertilizer industry that established a near global monopoly position in the production of potassium nitrate for agricultural application. In the late 1990s, however, FCL saw its market share decline substantially when it could no longer respond effectively to the entry of new competitors into the market. We describe how this multinational corporation lost market dominance when top executives lost sight of FCL's competitive advantages and ignored changes in the global markets for its products and how internal conflicts and management failures weakened FCL's ability to respond effectively to external challenges and to coordinate internal operations across national boundaries when global market changes adversely affected its expansion strategies. We show how obstacles to strategic realignment arose from the firm's legacy as a pioneer in its industry and from methods of operation that accounted for its success during a period of global expansion. We conclude that its intially successful centralized top-down decision-making later inhibited an agile response when external conditions changed. As FCL expanded and fell into crisis, managers failed to recognize that the firm succeeded in its early expansion because of the lack of market competition and not because of its control-oriented top-down style of internal management. As a pioneer in a newly launched industry, FCL expanded easily and profitably to maintain strategic alignment between its goals and top-down decision-making and centrally-controlled operating procedures. With the growth of competition in international markets, FCL's internal management practices weakened its ability to realign its strategy and create new relationships with its regional divisions and local sales and distribution branches. The company's efforts to reclaim its position as a pioneer by reforming its organizational structure failed to address external demands for improving marketing and sales activities. Its slow response to exterbak threats reflected endemic conflicts within the organization that exacerbated existing misalignments and created new ones.

We first describe our research methodology and discuss the theoretical framework we used to collect and interpret information. We then assess FCL's history of expansion and decline and explain how a once successful multinational corporation missed opportunities to respond effectively to strategic misalignments during a period of crisis. We conclude by reviewing the managerial lessons that can be learned from FCL's experience.

METHODOLOGY

We conducted research on FCL between 1997 and 2002 using interviews with company executives, discussions with operational and regional managers, and surveys of customers and employees, archival data, external consultants' reports, and participant observation. The firm provided access to internal documents and personnel to one of the researchers who served as an in-house consultant and to the others as external observers. The in-house consultant worked closely with the general manager and the vice president for human resources on assessing proposed changes in the organization's structure and culture, developing human resource strategies for improving staff morale and effectiveness, and facilitating communications between headquarters and divisions. The general manager also hired external consultants to assist with team-building, reformulating marketing strategies, and leading workshops on human resources issues, vision and marketing. Professional assignments enabled the consultant-researcher to visit and meet with management staff at corporate subsidiaries and offices in Spain, the United Kingdom, Belgium, France, Italy, and the United States. Discussions were conducted with office managers from Latin America and Asia (mainly Thailand and China) in marketing seminars in Israel.

Such intensive engagement with the organization's key executives and managers generated in-depth knowledge about the organization, its structures, processes, and strategies. Such an insider's role and status, while facilitating access to "thick" information, also created a set of research dilemmas and problems. The most obvious of these arose from a researcher serving in a dual function as a consultant, which makes it difficult to systematically collect data or ensure objectivity. We attempted to mitigate these potential weaknesses by using the case study as a generator of theory (Eisenhardt, 1989) and collaborative research between the researcher-consultant and co-researchers who were not associated with the firm and who acted as impartial external observers. The co-researchers conducted *in situ* separate open-ended interviews with the managers that focused on various aspects of alignment such as the relationships between headquarters and field offices and priorities guiding processes of restructuring. Guided by widely-recognized procedures of document analysis (Lincoln and Denzin 2002), the research team jointly screened a collection of internal documents, marketing and employee surveys, and management and consultancy reports. We categorized data in accordance with grounded theory procedures (Strauss and Corbin 1990), which led to the development of two key conceptual categories: 1) the pioneering legacy, and 2) internal conflicts. We constructed a framework with which to study strategic misalignment in an MNC in crisis from analyses of these categories and from a review of the literature on strategic management.

FRAMEWORK OF STRATEGIC ALIGNMENT

One potential explanation of why a pioneering company that had sucessfully expanded in global markets to attain a near monopoly position could not effectively respond to external market changes can be found in the concept of strategic alignment. Bartlett and Ghoshal (1998) argue that creating and maintaining strategic alignment must be a continuing process for companies when they manage across national borders. All aspects of the firm's organizational structure and management processes must be consistent and reinforcing in order to sustain competitiveness, develop flexibility, facilitate learning, legitimize diversity, manage complexity, and build commitment. Although all of these decisions are related and should, ideally, complement and reinforce each other, Fiegenbaum and Lavie (2000: 93) contend that in making international expansion decisions "…most companies seem to ignore the long-term perspective and concentrate mainly on the entry decision itself."

The importance of alignment is also emphasized by Porter's (1990) contention that a firm's competitive advantage rests on its ability to organize, perform, and coordinate discrete activities so that they add value for customers. Porter (p. 41) observed that a firm's value chain "is an interdependent system or network of activities, connected by linkages." As firms expand internationally they must realign components of the value chain through reconfiguration and coordination. Porter argued that location decisions determine configuration; in deciding whether or not to expand internationally and where, corporations either concentrate activities within or disperse them across national boundaries. Coordination requires sharing information and allocating management responsibilities to achieve alignment.

Henderson and Venkatraman (1991:72-73) define strategic alignment as strategic fit and functional integration. "Strategic fit recognizes the need to make choices that both position the firm in an external marketplace as well as decide how to best structure internal arrangements of the firm to execute this market positioning strategy." The concept of strategic fit addresses issues of business scope, distinctive competencies, and business governance. Functional integration seeks consistency and reinforcement among managerial functions within a corporation's organizational structure. One of the key factors in alignment is the close linkage of functional operations and business strategy (Reich and Benbasat, 1996; Henderson and Venkatraman, 1993). Alignment facilitates acquisition and deployment of resources that are congruent with the organization's competitive needs rather than maintaining engrained patterns developed in the past. Alignment requires a shared understanding of organizational objectives by functional managers and the need to change functional objectives as corporate strategy evolves.

Flamholtz and Aksehirli (2000) contend that successful companies align six essential capabilities. These include the ability to develop: 1) viable market niches; 2) products or services for the chosen market niches; 3) resources required to operate the firm; 4) day-to-day operational systems; 5) management systems for long-term functioning of the organization; and 6) the organizational culture needed to guide the firm. Although firms often react quickly to changing external conditions and challenges, the results can be disappointing or, in some cases, damaging to the company's overall performance if they do not do so strategically. Fuchs et. al (2000:118) note that "problems usually arise because the responses are not and cannot be integrated into a coherent strategy." This occurs when the corporation does not "take into account how the organization's direction, product market focus, and execution capabilities must *fit together*." Perhaps most importantly, alignment requires mutual understanding and a common dialogue between functional managers and senior managers regarding processes and performance (Reich and Benbasat, 1996).

From a review of the strategic management literature, we concluded that alignment is an essential condition for operating successfully in international markets and that the essence of alignment is the integration of four major componenets: business strategy, market penetration decisions, organizational structure, and management processes. These, in turn, integrate various organizational factors and components that influence the capacity of the organization to operate in locations with different economic and social environments (see figure 1).

[Insert figure 1 about here]

As figure 1 indicates, the process of alignment is multidimensional and requires synergy among critical aspects that shape the capacity of an MNC to grow and expand in international markets. These organizational components reflect top management's ability to orchestrate activities aimed at strengthening all of the organization's other capacities to establish and retain a leading market position. The alignment process eventually establishes a balance among key factors that contribute to an MNC's ability to respond effectively to changes in its external environment.

THE GROWTH AND DECLINE OF A PIONEERING CORPORATION

PlantNutrients International (*PNI*), a U.S.-based privately-owned holding company operating through independently managed and financed subsidiaries, grew rapidly during the 1980s and 1990s.* *PNI* was formed to purchase controlling interest in the Israeli state-owned enterprise, *FCL* Ltd. (FCL), in 1986. In 1988, *PNI* acquired 100 percent of FCL for $58 million. FCL had been established in 1966 as a state-owned corporation after Israeli scientists discovered a new synthetic means of producing potassium nitrate and

* *PlantNutrients International* (*PNI*) and *FertilChem,* Ltd. (*FCL*) are fictitious names chosen to disguise the identity of the actual firms described in this article. The actual firms requested that their real names not be used. Any similarity between the firms described here and others by the same name is purely coincidental.

phosphoric acid for an agricultural fertilizer that would improve crop production and increase yields in an environmentally-friendly manner. The company combined natural resources in Israel – potash from the Dead Sea and phosphate from the Negev Desert – with its expertise in science and agronomy to create a new fertilizer industry to supply Israel's rapidly expanding arid-agriculture sector. The financing of the acquisition was highly leveraged, requiring PNI's owner to position FCL almost from the beginning as a premium producer of potassium nitrate in order to obtain strong revenues to pay off the debts incurred in its purchase.

FCL quickly became the world's largest producer and distributor of potassium nitrate for agricultural and industrial uses. It supplies potassium nitrate as a fertilizer for growing fruits, vegetables, flowers, tobacco, other high-value agricultural products as well as a chemicals for industrial and pharmaceutical applications. FCL and FCL South, Ltd., an Israeli corporation, account for the largest percentage of *PNI*'s production and revenues.

During the 1970s and 1980s, FCL operated as the dominant player in the world potassium nitrate fertilizer market. FCL gained its comparative advantage from the discovery by Israeli scientists of a synthetic process generating a reaction of ammonia derivative, nitric acid, and potash. The only other known process was one used in Chile that leached nitrate from mined caliches ores and mixed sodium nitrate with potash to produce potassium nitrate and sodium chloride by-products. This process required access to caliches ores found only in Chile, extensive mining operations to leach its low concentrations of potassium nitrate, and shipping the fertilizer over long distances to markets in Europe. FCL's synthetic process produced potassium nitrate fertilizer at lower costs and at higher quality (FCL's product did not "cake," as did the Chilean product) and it could be shipped and distributed in major markets more economically. The need for access to Chilean caliches ores or to the type of experience with complex chemical processes developed in Israel created significant barriers to entry for other potential competitors. For nearly two decades FCL was the dominant supplier of potassium nitrate fertilizer, with a Chilean company the secondary supplier of a higher cost, lower quality product.

Although FCL was created originally to provide fertilizer for Israel's growing agricultural sector, PNI's executives began to see demand for its product in other countries during the 1980s and expanded both its production and its sales network internationally. But *FCL* expanded with no real strategy. The managing director during the 1980s simply traveled overseas meeting distributors and giving them free potassium nitrate to test, allowed them to send agronomists to Israel to learn how to use it, and then developed distribution agreements with those that found customers for the product. The managing director did not think formal marketing and branding was essential because FCL sold most of its fertilizers in bulk. He relied on early experience indicating that once farmers learned about the product and used it, they would see the benefits and simply order more. Indeed, for most of its history, *FCL* sold all of the potassium nitrate it could produce. It did not plan ahead or develop the market because it had no serious competition. Most of FCL's sales force prior to the mid-1990s was composed of agronomists with no formal training or experience in marketing or market development.

Much of PNI's international expansion was driven by the need to increase production capacity. PNI acquired a chemical company in the United States, production facilities in Mississippi and Arkansas, and a plant products company in Canada to supply the North American and South American markets. PNI also began to diversify its product lines as it expanded internationally. It became the sole U.S. provider of nitrogen tetroxide, an aerospace fuel additive used by the U.S. Air Force, and began to use its production capacity and manufacturing expertise to provide contract-manufacturing services for other chemical companies. In 1997, its U.S. subsidiary and a privately-held Cayman Islands corporation formed a new company to market combination rice herbicides and other rice-related non-fertilizer chemicals globally.

During the 1990s, *FCL* expanded its sales offices in Europe, Asia, and Latin America to sell both potassium nitrate in bulk for agricultural uses, and specialty mixtures for application in gardening and value-added crop production. It purchased international subsidiaries in Spain, Italy, Belgium, the United Kingdom, and Mexico. In 1998, *FCL* Ltd. purchased a 45 percent equity interest (which it later increased to 77 percent) in an Israeli company that developed, manufactured, and marketed drip irrigation systems.

By 1999, FCL had developed global sales, marketing, and distribution networks. It had 165 direct sales personnel, world wide geographical distribution with offices in the US, Europe, Latin America and Asia and more than 150 independent agents, distributors, and brokers in 95 countries. FCL sold its products to blenders, distributors, retail dealers, professional growers, chemical companies, government agencies, and multinational manufacturers. The company supported its sales network with agronomists and technical staff who worked with customers to demonstrate the performance of its products under specific climate, soil, and growing conditions and to develop new products responding to customer needs. It posted development and technical support staff in the United States, Israel, Italy, Spain, France, the United Kingdom, Greece, Hungary, Mexico, South Africa, China, Japan, Thailand, India, Canada, and the Benelux countries. *FCL* used its warehouses and distribution facilities throughout its global network to provide services to customers.

Revenues came from three general product categories -- specialty plant nutrients (about 57 percent), industrial chemicals (about 29 percent) and organic chemicals (about

13 percent). Nearly three-quarters of all revenues are derived from the United States (34 percent) and Europe (40 percent); Asia accounted for about 7 percent, Canada and Latin America for about 8 percent, Israel for about 4 percent, Australia for about 2 percent, the Middle East and Africa about 5 percent. There is little evidence that *PNI* was sensitive to cultural or business differences in these countries. Its expansion strategies were determined largely by its own internal goals and practices.

After many years of generating strong revenues from potassium nitrate fertilizers, FCL and its parent, PNI, began to see market conditions change drastically and new competitive forces emerge. Beginning in the mid-1990s, PNI's net income became more volatile and the corporation began experiencing net losses. Underlying these losses were changes in the international market for FCL's products and tensions within the company resulting from international expansion. Facing increased competition in world markets, FCL was still hampered in the early 1990s by a labor force dominated by the same Israeli labor unions that organized its workers when FCL was a state-owned enterprise and that imposed strong constraints on FCL's management. FCL also faced increasing costs of operation, new environmental and regulatory constraints, and internal conflicts arising from management attitudes and practices that reflected hierarchical, command-and-control procedures. These pressures along with an organizational structure that reinforced hierarchical controls rather than coordination among and participation by its international subsidiaries and sales and technical support staff resulted in increasing misalignment within the corporation.

Rapid expansion around the world was not supported by a managerial infrastructure that empowered country and regional managers to respond quickly to market changes in their regions. Accordingly, alignment between market conditions around the world and marketing strategy that was formulated at headquarters gradually slipped. At the same time, frustrations among regional marketing managers increased.

By mid-2000, PNI was still losing money-- $23 million for the first six months of the year on revenues of $273 million. The corporation attributed losses in 2000 to excess supply of potassium nitrate, lower sales volumes and price deterioration for both its potassium nitrate and phosphoric acid specialty products, and rising energy costs. Exchange rates on the Euro were falling against the US dollar along with other European currencies generating more than $4 million in losses. A weak farm economy in the mid-western United States lowered sales and operating income of the horticulture division.

As it entered the 21st century, FCL and PNI faced a new world of global commerce. As its European office managers noted, FCL would have to shift from operating "in a world of monopolies to a competitive world." PNI and FCL would have to develop a new vision for competition and allow more participation by managers and employees. It would have to invest more in developing a corporate image, product branding, and providing new solutions for customers. Late in 2000, PNI's owner called in an international management-consulting firm to assess FCL's situation. The external consultants recommended drastic cutbacks in budget, production, and employment, moves likely to set off a new round of worker discontent.

As part of its growth cycle, PNI experienced many challenges, disruptions, and setbacks. Capitalizing on unexpected opportunities for international expansion, battling competitors for market share, taking full advantage of research and development breakthroughs, absorbing new acquisitions, and managing labor costs were among the many issues FCL encountered as it grew from a state-owned enterprise to an MNC. Each opportunity or threat evoked a significant response from the company. In some instances the company shifted its deployment of human resources. In other instances, the company changed its marketing and pricing strategies, diversified its product line, and renegotiated its labor agreements. Each response, however, created a ripple effect throughout the company, often solving one problem while creating misalignments across other functions. In particular the burden of the legacy of pioneering, and the top-down management style with FCL, triggered friction within the company over the future directions of business strategy.

THE LEGACY OF PIONEERING

FCL became a pioneer in the chemical fertilizer industry when Israeli scientists found a way to streamline the complicated process of producing potassium nitrite-based chemical products for plant nutrition. But the company also pioneered in creating a market, first in Israel and later globally, for the application of potassium nitrate for agricultural and horticultural uses. The firm primarily sought to create demand for potassium nitrate among farmers, and a team of agronomists provided technical information and practical advice on the uses of their products while working with sales agents who oversaw marketing and distribution.

Misalignments Between Products and Markets

FCL's General Manager from the late 1980s and mid-1990s described the company's early strategies. "We tried to maximize our sales efforts by pushing our products as much as possible. We asked our distributors and agents to invest in marketing efforts and devote time and energy to sales, extending the product distribution into more and more end-users and agricultural market segments, such as greenhouses, open fields, and special crops." FCL's sales partners received exclusive distribution rights, although in many countries they sold a variety of agricultural inputs and supplies and many "saw our products as merely one of several, and not necessarily a major one. This was one of the reasons why we decided to open our own offices, first in Spain and then in Belgium and Italy."

FCL's history as a pioneer in developing a new industrial sector and building a market for its products shaped its business strategy for years to come. A company that started as a state-owned enterprise seeking to accelerate Israel's economic development by exploiting its natural resources grew into a privately-owned worldwide manufacturer of chemical fertilizer. Its innovative chemical production process, once successfully tested and established, launched the company into a worldwide search for new markets for potassium nitrate. As a pioneer in the production of potassium nitrate, FCL initially held unique competitive advantages in terms of knowledge, presence, and sales volume.

However, after concentrating, during its formative years, on market development, FCL encountered increasing difficulties maintaining its global market presence. In the 1980s, the company emerged as a leader in the market, with widespread recognition of the unique quality of its products. Rapid growth increased demands on its organization and logistics systems, on quality and inventory controls, and on sales and fiscal management. In order to expand its sales force, the company established local offices in major markets. These offices had two main tasks: to facilitate quality service and to track local market trends for changing needs and growth opportunities.

FCL's agronomic orientation placed its primary product, potassium nitrate, at the center of all corporate strategies. To add to its core business, the company developed other product lines that mixed or modified potassium nitrate in ways that could be applied for other uses. The first, for horticultural use, included various types of soluble, controlled release, and organic fertilizers; and the second, for industrial markets, included potassium nitrate processed specially for the manufacture of glass, ceramics, and detergent products, along with various blends and derivative phosphate salts for the food industry.

As a pioneer in new commercial applications of potassium nitrate and its derivatives, FCL enjoyed a near-monopoly position for over two decades. During this period, the company successfully generated stronger demand for, and established itself as the dominant supplier of, specialty agro-chemical products. Its owner and general managers also saw its role primarily as a manufacturing company offering its products to agricultural distributors as part of their agricultural input package. One of the veteran marketing managers described FCL's entry into the market: "We had the ingenuity to invent revolutionary processes of making potassium out of sediment, but in marketing, we contracted what we called "reliable agents," those agents that Israeli companies who worked in the agricultural sector in various countries recommended. We enforced the condition that each agent hire an agronomist dedicated to our product. This is how we grew, with sales people who were agronomists."

He noted that during the first 20 years of the company's history, FCL promoted only one type of branded potassium nitrate. "In the late 1980s, we opened our first regional office in Europe, to oversee the work of our distributors and agents. It was like moving from your neighborhood shop to the supermarket, increasing the number of distributors, and diversifying our line of potassium nitrate products to brand approximately thirty different types for various agricultural niches."

It was during the late 1980s, a period of market and product expansion, that FCL encountered its first real competition -- a Chilean company that produced potassium nitrate fertilizer in conventional ways. But in marketing, the FCL manager pointed out, "They imitated us, 'one to one.' We never bothered to change our strategy. We developed products or services and they followed suit without having to bear our costs. We didn't change our strategy; neither did they, so until recently we all operated in a fixed *modus vivendi*." He reflected that "now [2000], the market has changed, [consumers] have matured, become more sophisticated and at the same time, more cheap. Distributors and growers want more quality and diverse services. They are looking for cheap replacements. Some of them, like calcium nitrate, are critical, but we don't have it yet. We are still possessed by the curse of having been "pioneers" [and we are] arrogant, comfortable, and reluctant to change."

As a producer that began with no marketing ties or knowledge, FCL initially found it cost effective to allow distributors to promote and oversee the sale and delivery of its products. The entry of Chilean competition prompted the board chairman to comment: "*FCL* developed the product and its utilization, the distributors sell and the Chileans get a free ride." However, for almost two decades, the market grew comfortably and steadily in value, volume, and capacity from a few hundred thousand tons to almost two million tons in 2002. As competition increased in the mid-1990s, FCL executives recognized the need for product diversification and the segmentation of marketing efforts for horticulture and other specialized applications.

However, the company had limited influence on the pace and magnitude with which markets responded to these new developments. Its excess capacity resulted in slower growth and declining prices from approximately $450 per ton of soluble potassium nitrate to around $400 per ton in 2002. FCL had not invested in building and leveraging its deep understanding of end-users because of its near monopoly position until it encountered dramatic decreases in its market share during the late 1990s.

Furthermore, the distribution channels that FCL had previously used successfully inhibited its attempts to gain access to end users, so the company did not pursue the development of its own marketing capacity. FCL's only marketing activities were in the form of technical assistance and support given by agronomists. The expansion of the company was spurred initially by the distributors' leading position in the market, and by encouraging consumers to apply products to a wider range of crops.

FCL's distribution system made it dependent on a network of established sales partners around the world. Although these distribution channels facilitated the successful introduction of potassium nitrate to the market, later they became an obstacle to FCL's ability to market its own products. One of its marketing directors explained: "FCL consciously decided not to challenge the distributors and remained removed from the end users. It promoted its products mainly by providing promotional technical material, conducting training courses, and participating in professional exhibitions and trade shows."

Interactions with agricultural consumers were limited to activities focused on the agronomic aspects of potassium nitrate, for example, engaging in joint field experiments to test and develop new applications of FCL products. Through its field agronomists, the company accumulated information about growers' needs and practices, while spreading awareness and demand for potassium nitrate, but it never directly dealt with sales issues, which were left to distributors.

FCL's only check on the power of distributors' exclusive rights to market the company's products was its control over supplies and prices during the period when it was a near-monopoly. However, when FCL lost its proprietary hold on potassium nitrate and its competitive position weakened, its influence over distributors' priorities and practices diminished. Lacking direct links to end users, FCL found itself dependent on its distributors' knowledge of changing consumer trends and of market competition. This hindered FCL's capacities to respond effectively to changes in market conditions and to formulate proactive and pre-emptive strategies.

As a production-oriented company, *FCL* failed to recognize the importance of keeping up with changes in the market, and maintained its conventional methods of promoting itself to both distributors and end-users. Niches in the market were easily filled by Chilean and later, Northern European, competitors who entered by forming strategic alliances. A Spanish marketing manager recounted:

> The Chileans attacked in those areas that we had invested tremendous efforts to develop demand for potassium nitrate. They offered not only potassium nitrate at sometimes lower prices, but also baskets of products. They came with additional services such as training and computerized fertilization models. An alliance of North European and Chilean competitors introduced liquid solutions. Although these liquid products were expensive to use, they subsidized costs, and many growers shifted to the use of their liquids.

Initially, FCL's company name was almost synonymous with the product. This reflected the distinctive reputation the company gained as the leading manufacturer of potassium nitrate fertilizer. More recently, however, company-conducted customer surveys showed that the dominance of FCL's brand name had been diffused. With the growth of competition, the differentiation between FCL's products and those sold under competing labels had become less clear.

Economic and social trends also negatively affected FCL's profitability in major markets. In Europe, where sales account for approximately 50 percent of FCL's total revenues, stricter environmental regulations brought new limits on the use of its products. Agricultural reforms introduced in 2002 reduced subsidies for European agricultural produce and also led to declining demand for FCL's products.

Because *FCL* successfully introduced an innovative product to the market, the company's top executives emphasized the inherent value of a unique product. Organizational goals and practices maintained emphasis on the historically pioneering qualities of the product rather than on the changes that had to be made in order to respond to dynamic changes in the market, including the emergence of competitors that had greatly reduced the distinctiveness of FCL's products. Its inability to control the practices of distributors weakened FCL's ability to implement new strategies that might increase profitability.

Misalignment Between Headquarters and Regional Offices

In its formative years, FCL's organizational structure was functional and centralized. The General Manager had complete decision-making authority and control over both production and sales. In 1995, the company adopted a three-division (specialty, horticultural, and industrial products) structure. The aim of the reorganization was to provide clearer marketing strategies for a more diversified range of products. However, continuing emphasis on maintaining high production levels and top-down management control offset any gains that might have been achieved through a new organizational structure. In 1999, an internal report stated:

> We expect the reorganization to force a cultural shift—transforming a company operating as if a monopoly to one with the attributes of a competitive company. While some progress has been made, most of the managers still seem to think they are in a one–product, production-driven company in a near monopoly position. With the exception of the industrial division, they rarely talk about new applications, customer needs, new products, and other issues that should be important in a competitive environment.

The same report noted that the strong production-driven mentality among top executives in the corporation and division managers persisted even as external market changes were devastating FCL's sales and revenues. "All the managers still talk about "tons" of production, rather than about dollars of sales. When you ask them how much they have sold, they begin to multiply tons produced by average prices…. 'Tons' are relevant in a one-product, production-driven company. 'Tons' should not be the focus for a diversified, customer-seeking company supplying a range of products to several different markets."

Although many marketing and division managers were aware of the emerging problems, their limited influence on production priorities and marketing and sales channels generated internal conflicts and frictions. Conflicting interests in customers and resources fueled rivalries between the company's regional offices and distributors. Tensions between field offices and divisions were reinforced by management practices aimed at increasing the headquarters' visibility and control in the face of its deteriorating influence on the market.

The field offices' central function is to serve as the logistical and service arm of the company's sales and marketing operations. The offices are responsible for monitoring and distributing product supplies, documenting financial transactions, and responding to distributors' complaints and needs for technical and service support. Field office managers are also expected to expand business in their territories by seeking new market niches and partners. The interdependence between the offices and distributors always ensured that coordinating each party's role in marketing would involve delicate negotiations. As the headquarters pressured field offices to suddenly take a more direct marketing role in ways that local distributors resisted, bitter frictions arose among field offices, divisions, and FCL headquarters. One of the division managers remarked:

> The office managers don't understand their position. They should serve the division and implement its strategy and not the opposite. But they think that they know better, and try to impose their strategy on the division. The don't have a comprehensive view of what's going on, and see only their little God's parcel without regard for the rest of our operations. I have my own considerations; I have sixteen offices to deal with . . .

Field office managers thought that those in the divisions had a limited understanding of the market, and this was apparent in headquarters' cumbersome operational directives and rigid strategies, which led to missed business opportunities. As one field office manager complained:

> I was contacted by one of the biggest European producers and distributors of fertilizers for home and garden products. They were willing to give me exclusivity in certain products that we specialize in. Although not promising large quantities in the first year, I knew that this was a strategic customer. I went to the division and asked them if they can supply my customer with the specifications of the products. I waited and waited for a reply. … Although I urged them to respond, they were too busy and failed to recognize the significance of the customer.

These conflicts between field offices and headquarters contributed to internal tensions that slowed FCL's potential growth. Whereas headquarters emphasized maintaining high production levels of potassium nitrate, regional offices saw the need to blend potassium nitrate with other chemicals into a wider range of products. For example, the Italian office attempted to pursue a strategy of promoting plant nutrition more generally and continued to promote potassium nitrate, but not exclusively. The manager of the Italian office described the fruitlessness of these efforts:

> Every year, we speak about how to defend potassium nitrate from competitors' attacks. For the last five years, we have agreed on the need for a different approach to convince growers to buy potassium nitrate in a declining market. We agreed that we should grow in the area of plant nutrition. This plant nutrition strategy entails a different distribution structure, a redefinition of our market sectors and customers, new offerings, better presence, accessibility to end users and increased marketing spending. Headquarters acknowledged these needs in every marketing meeting where I have presented them. It is in my yearly plan. Whenever I am presenting these views, the management says, "Go for it," but later, they won't dare to implement changes at the expense of [decreasing production levels of] potassium nitrate.

As this manager pointed out, the misalignment between top management's business strategy and the demands of the market confused and frustrated the sales force.

> We need to make a decision. Are we going to continue to be a product-allocation company, regulating potassium nitrate? Or a plant nutrition company to enter into new fields such as biological agriculture? We have the infrastructure, support and service system, but never address market development—we are too dependent on the major distributors who will not allow us to work freely in the market. We open doors and the others enter to keep us out. So we dream and don't do. Every year the ritual is repeated, we speak about the importance of a new marketing strategy, but in practice, we do almost nothing. I feel we mortgage our future.

Local offices were under the authority of the various divisions, each with their own priorities and agendas. The emphasis on selling potassium nitrate limited the capacities of field offices to set priorities to suit local markets. Market opportunities were thus subjugated to the static production-oriented priorities of the company. The centralized culture in *FCL* inhibited direct communication and timely responsiveness to problems. Cumbersome bureaucratic protocols required communications to pass through top-down channels, needlessly slowing communications between the departments and units most directly concerned. Time was also wasted, according to participants at an internal meeting in Madrid (December 2000), with excessive demands of reporting to headquarters.

In the mid-1990s, field office managers began advocating for increasing FCL's responsiveness to local demands, including, for example, allowing regional development of new product blends and flexibly designed packages of products, support and services. Such demands posed threats to headquarters staff that would face the challenges of changing organizational priorities, strategies, and budgets. More fundamentally, such changes also required shifting power and authority from headquarters to regional offices.

The regional and field offices had relatively limited decision-making power to take actions that might have improved their market positions and increase FCL's sales. They were bound by the headquarters' emphasis on the production and sale of potassium nitrate. Potassium nitrate accounted for approximately 70 percent of the company's sales and, despite declining revenues, top management continued to give this product the firm's highest priority. The Belgian office manager complained:

> The attitude is top-down. They do not take us into consideration. We are close to the market and see the trends, and they are far from the market, but they do not want to listen to us. This experience also makes us indifferent to their decisions. Sometimes we know that they are making bad decisions, but nobody from the offices raises a protest. We have hands-on knowledge about the market. *FCL* is far away and wasting time on control.

> Ultimately, we see them as our supplier and producer, and we are developing business independently. The company didn't like this and kept telling me that I was making decisions without consulting them first. But for me, customers are more important than products or divisions. I don't work according to orders and products but according to customers and markets.

The headquarters' tendency to ignore changing market demands for potassium nitrate and increasing levels of competition, and the exclusion of regional offices from company decision-making processes, contributed to FCL's crisis. In an urgently called marketing meeting with managers, the chairman of the board declared:

> We all fell asleep while guarding the camp. The enemy has entered in. It has penetrated our organization and it is still in our organization. It doesn't mean that we have spies. It doesn't mean we have terrorists. It means that something has penetrated into our souls. It means that something has happened so that we accept this idiotic, horrible situation. I think I woke up. When I felt that I was waking up, I decided I have to help you wake up with me. We understand that [the situation] is bad. We know it is bad, but we accept it. What the hell? This company invested $200 million in the last two years to create a capacity of production of 850,000 tons. Why are we now asking how we might sell 300 or 500 thousand tons? Why are we not attacking it from the top? We have 850,000 tons of capacity, so we must sell 850,000 tons. Now let's see how we do it. . .Come with the ideas, even with the most unconventional ideas. . .It is our children and your families and my family who depend on this operation. We cannot go on like this.

The lack of integration and poor communications between the headquarters and regional offices resulted in mismatched and often conflicting views regarding the company's overall strategies. The manager of the Spanish office described this incongruence between the headquarters and the offices: "The strategy of FCL is to promote selling volume. They produce around the clock and they should take care that they do not have too much stock left over. So they push us to sell volumes of products. But sometimes the market is saturated and we have to reduce prices, and then they push us harder to increase volume to cover profit losses resulting from low prices." As a result of the differences between headquarters and field offices, the latter began implementing their own strategies. The same manager pointed out " We found out that if we develop and promote baskets of products—we have our own blending operation—we are able to increase the contribution of these products, which sell at a higher price, and generate greater profitability."

As a consequence of such divided views, relations between FCL's headquarters and field offices are characterized by rivalry, distrust, and low morale. One of the most divisive issues between divisional and field offices concerned alliances and partnerships. The field offices saw alliances, joint ventures, and cooperation to be essential for achieving competitive advantage -- access to more distribution channels, market segments, and customers within their regions. The divisions saw such reliance on alliances, which did not translate into short-term increases in sales of the main products, as detracting from other more important objectives. As a result, there were many arguments over appropriate forms of diversification and the amount of flexibility to be given to the offices.

The headquarters' dominance over field office activities also constrained *FCL*'s ability to respond with locally-suitable decisions. The frustration which sometimes resulted from this was seen in a fax sent by a field office manager to the Chairman of the Board in late 2000: "The control of the headquarters is suffocating me. They think that they know better than me, even though they are in Israel and I am here in Asia. They try to control through frequent visiting, but believe me, 90 percent of their travel budget is unnecessary, does not add a single ton to sales, and worse than that, represents us in a ridiculous light to our customers, who see us as squanderers. They bring people all the way from Israel for two days without good cause."

The conflicts between field offices and headquarters was complicated by gaps in communications. A division manager explained that "there is an acute need for more effective communication and coordination with the field offices. Many of the offices feel that they are 'step-children'." Field office managers complained about poor communication and coordination with FCL. They felt constrained by central bureaucratic procedures and by conflicts of interest between divisions and units of FCL. "Furthermore, they perceive themselves to be subjugated to FCL's needs and priorities, at the expense of local business," the division manager wrote.

> The offices also complain about unsatisfactory transfers of information and knowledge regarding the professional aspects of products. They complain that the benefits of agronomic knowledge at FCL are not easily accessible. I agree that there is an acute need for much more effective communication and coordination with FCL, but most of the offices' complaints suggest that they feel they know better because they are in the market. They hide behind this to cover for their inability to meet budget targets. Maybe it is also cultural gap. We Israelis are trained to reach targets first and then recall difficulties. They focus on difficulties and these guide self-fulfilling prophecies [of failure].

The pressure to meet potassium nitrate sales targets sometimes caused division managers to abandon their strategic plans. Because field offices often have their own agendas, they find it difficult to respond to headquarters' sudden demands for increasing sales of potassium nitrate. The focus on outputs at headquarters frequently clashed with the process orientations of field office managers. The manager of the Spanish office described the consequences of such interference:

> Sometimes the division's sales and marketing managers come to my area and meet customers without my participation. A vivid fiasco which arose as a result of this practice was seen when the marketing manager of a division met a key customer, and in the heat of negotiations, lowered the price because the customer promised to buy larger quantities than usual. When my other customers heard about this deal, I was put under a lot of pressure to reduce their prices as well. We lost a lot of money because of this 'great' deal.

A marketing manager of another office recounted his experience:

> I was sitting in the warehouse with one of the distributors trying to convince him that our products are of better quality than those of Kemira. I was arguing for keeping prices up, claiming that this was a point on which we could not compromise. A few days later, the division told me that they sold, to this same distributor, at a lower price than I was offering. Add a sin to a crime—the same day I was there, the marketing manager from the division visited this distributor, and he manipulated the two of us and was able to lower the price. I didn't even know that immediately after I left, my colleague had arrived. I was never told about his expected visit. It was the most humiliating experience in my professional career.

Thus, the control at headquarters limited the autonomy of the local offices. The managers of field offices did not have the authority to hire personnel, raise wages, or reallocate resources from predetermined budgets. All of this resulted in very rigid arrangements with little flexibility to adapt; any attempt to circumvent or change standard operating procedures entailed cumbersome bureaucratic approvals. Because there were no criteria for assessing or evaluating the performance of a field office apart from those based on meeting budget targets, top management placed strong emphasis on short-term achievements.

The culture of centralization limited the dissemination of information and lessons of experience. Although field offices were familiar with market complexities, threats, and opportunities, there was little incentive or means by which they could share their perspectives with headquarters. One of the field office managers stated, "We sent endless reports analyzing the markets, the competition, and opportunities. It seems that no one at headquarters took any of it seriously, as nothing was done with it. The headquarters valued it merely with the status of 'nice to have'."

Central executives overlooked long-term interests and focused on short-term targets and actions. Consequently, FCL failed to keep up with changes in its markets and with developments in its industry. Its headquarters staff became increasingly defensive and conservative, emphasizing traditional ways of doing business while competitors adapted to new market conditions. The lack of innovation, product development, and close relationships with consumers made the company more dependent on its distribution channels and hindered the development of more direct marketing activities. Because the organization was geared to doing business in bureaucratic ways, it lacked the resources, know-how, coordination, and flexibility to take advantage of new market opportunities. An office manager explained: "If we want to establish our own blending business, we need to know if we are generating enough profit, but this is difficult to calculate because the division usually sells us the raw materials with relatively high transfer prices. This makes it difficult to make an educated decision on how to invest to develop our market."

Finally, the overall marketing budget was centrally controlled, so each local office had to negotiate with divisions for its share of limited financial resources. This created considerable friction and a widespread belief that headquarters was discriminating against the field offices.

DISCUSSION AND CONCLUSION

As the case of FCL illustrates, a legacy of pioneering and internal conflicts that resulted from strategic misalignment were reflected in an ethnocentric approach to management at *FCL*. Headquarters' strategic priorities were assumed to be more important and relevant than those of field office managers who were more directly faced with rapidly changing market opportunities and risks. When top managers finally acknowledged the crisis that FCL faced, there was little time to reflect on alignment issues. Yet, failure to maintain strategic alignment contributed to a variety of negative outcomes for FCL, including minimal synergy among operating divisions, duplicative or conflicting efforts, low morale among middle managers, diminishing profits, and loss of market share.

The legacy of pioneering led executives at central headquarters to give the highest priority to production targets and to neglect external changes in the market that shaped demand for FCL's products. In the face of crisis, FCL'*s* central management sought, first and foremost, to concentrate its reforms on reinforcing central control and conventional business practices that enabled the company to achieve earlier success. Such measures ignited latent frictions between the field offices and headquarters. These conflicts exacerbated the effects of internal misalignments and weakened the company's ability to respond quickly and effectively to changing external conditions. The lack of coordination in realigning the four main organizational components responsible for growth and expansion illustrated in Figure 1, resulted not only in continuing losses of market share but also in weakening FCL'*s* capacity to develop new products and build on its technological advantages and capabilities.

The company's crisis also resulted from diminishing customer loyalty and increasing market competition. Between 2000 and 2002, measures to increase productivity and efficiency, and the downsizing of its labor force, brought about $30 million in savings. This allowed executives to absorb temporarily some of the adverse effects of stagnating profits. However, it also allowed them once again to postpone facing the complex and difficult challenges required to realign the company's business and marketing strategies (Rondinelli, Rosen and Drori 2001). As the case of *FCL* shows, inadequate and ineffective responses to external changes simply exacerbate frictions within the organization and hinder the firm's capacity to develop and implement a coherent strategy with which to maneuver itself out of a severe and potentially damaging crisis.

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Figure 1: Components Of Strategic Alignment