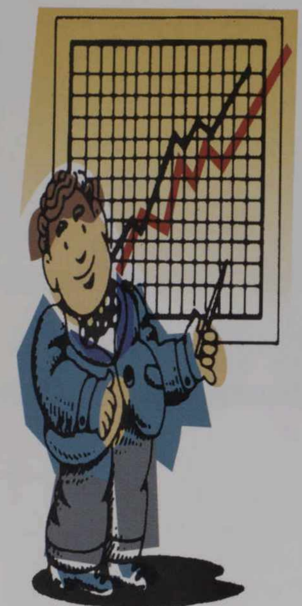
The Challenge of the Distributed Company: Bridging the Gaps

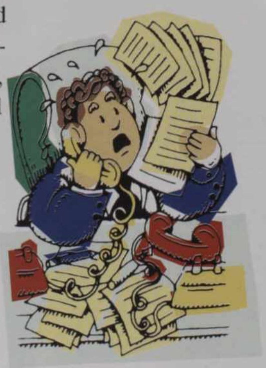
by Paul Held



The "distributed company" is prevalent in today's world economy and a fixture of the business landscape in Asia. Distributed companies have operations that are geographically diverse andlines of communication that cross national and cultural boundaries. Hong Kong abounds with examples of companies based in North America or Europe with extensive "mission-critical" operations here, or Hong Kong-headquartered firms with major operations in North America or elsewhere in Asia. We work with companies of this nature frequently. Some of the problems we have experienced with these companies include:

CULTURAL TENSION

Obvious cultural differences manifest themselves each day in distributed companies. For example, a medium-sized Japanese manufacturing client, with extensive Hong Kong and mainland China operations, faces continuous internal challenges with respect to business styles, management approaches, and staff communication (which defaults to English, with which neither side is comfortable).



Another common cause of friction in Hong Kong, of course, occurs between expatriate and local Chinese management. Cultural differences can sometimes prevent the changes necessary to cope with new competitive pressures.

LONG LEAD TIMES AND CYCLE TIMES

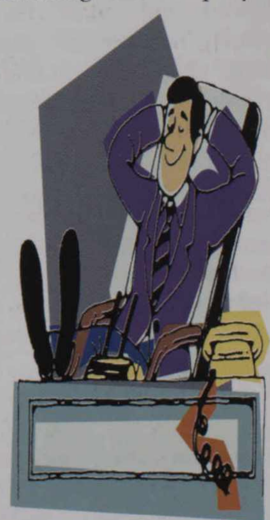
Weak, cumbersome internal infrastructures and ineffective business processes create excessively long or uncompetitive order fulfillment times. A U.S.-based electronics manufacturer, with its sole manufacturing capability in Hong Kong, suffers from order lead times 50-100 per cent longer than its direct competitors. Although it competes well from a quality standpoint today, the situation will potentially worsen when the company further distributes some of its operations to mainland China.

We have observed these types of problems in companies of all industry sectors, including banks, insurance companies, and manufacturers.

MULTIPLE POWER STRUCTURES

Power structures, other than those formally created to manage the company, grow to fill "power voids" in other parts of a distributed company. A Hong Kong-based manufacturing company with a U.S.-based direct distribution organization has watched the costs of its U.S. "child" grow disproportionately to their contribution. The Hong Kong owners have repeatedly attempted to "reel in" the subsidiary, with little success. Strong personalities can easily dominate the balance of power in distributed organizations.

The fundamental benefits of distributing companies in the first instance — proximity to markets, cost advantages, material and skill availabilities, etc. — can be defeated by problems at the root of these symptoms. In response, too many organizations take a narrow, "local" view of the problems and their potential solutions, and miss true underlying causes which relate directly to the distributed nature of the company. A broader integrated approach to improvement, which considers management objectives, business processes and technologies, human resources, and organizational structures, is required to best assess problems and develop pragmatic solutions. For example, cultural diversity can be turned into an advantage if local aptitudes and strengths are exploited by teaming local management and staff with head office "imports" at all levels. Next, lead and cycle times can be dramatically shortened by evaluating and simplifying business processes, many of which were formalized when communication and technology infrastructures were crude. Finally, a distribution of formal power can give companies the advantage of local decision-making capability and help build the confidence "distributed" business unit managers need to take on greater responsibilities.



Paul Held is a Senior Consultant with Deloitte Touche Tohmatsu Management Consultants in Hong Kong.