Career Management of Highfliers at Alcatel

Case 4.1

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:atel-Alsthom

Alcatel is a quintessentially French company. Its corporate offices have always been in Paris, and for years all of its main subsidiaries were French. Until October 1995, most of its top managers were also French. In many ways, Alcatel provides a perfect case study of the French methods of managing highfliers.

Recently, however, Alcatel has diversified and established subsidiaries in several different countries. A large number of non-French executives now work for the corporation, and these executives come from widely differing cultural, organizational, and national backgrounds. At the same time, following a decade of steady growth during the 1980s, major technological and market shifts have forced the Group and its subsidiaries to undergo radical restructuring and rationalization. Current business conditions require new areas of specialization and competency in managers—skills that are sometimes lacking in the top managers who led the firm so successfully until 1992, when it achieved a record profit of 7 billion francs (about $1.4 billion). These recent challenges have raised crucial questions about how best to identify high-potential employees and prepare them to assume top management positions.

Alcatel-Alsthom is France's third largest employer, after the Postal Service and the national water company (La Générale des Eaux). There are about 45,000 managers in Alcatel, 23% of the approximately 104,000 employees. It's the second largest French exporter, with more than 110 billion francs in profits earned abroad in 1994. The Group's profits rank 44th internationally, 21st in Europe, and 4th in France, after Elf-Aquitaine, EDB and Renault. Alcatel's main activity is telecommunica-

Table 1. Alcatel's Profit and Employees

Total 1994	France	Rest of Europe	Rest of World
Total Profit: 336 million	27.6%	39.4%	33%
Employees: 197,000	41.2%	45.5%	13.3%

tions. In 1994, 67.3% of Alcatel's business was in telecommunications, while only 17.2% of its business was for GEC-Alsthom (energy and transportation), 9.2% for CEGELEC (electrical engineering, 2.4% for SAFT (accumulators) and 3.9% for services and miscellaneous.

As the above table shows, the Group maintains a strong Franco-European character. But it's important to note that Alcatel ranks as one of the top three international telecommunications equipment groups, next to AT&T and Motorola. Alcatel is unquestionably a leader in this industry, with dominant market shares in most European countries and a significant reputation in technology.

Challenges Facing Alcatel

Technological Transformations in the Industry

Ever since the telecommunications environment began to destabilize in the 1980s, the international telecommunications equipment market has been mushrooming. Technological innovations, American and European deregulation, and a growing split between the private and public sectors have all affected the industry, which grew at a rate of about 3.6% per year between 1989 and 1995. In 1995, the industry achieved about $545.5 billion in international profits related to goods and services.

The technological revolutions in the telecommunications industry require that competitors cope with new market patterns and new competitive challenges. One major industry change is the merging of the formerly separate fields of data processing, telecommunications and electronics. In fact, with the development of digital networks, the distinction that used to exist between vocal communication and data transmission is rapidly disappearing.[1] The number of computer engineers hired by Alcatel—several hundred per year over the last five years—and the growing importance of such subsidiaries as Alcatel TITN Answare are a clear indication of the new alliance between data processing and telecommunications.

New technology and services for information transmission—including cables, satellites, optical fibers, telephone lines, digital networks, and Hertz transmission equipment

with powerful mainframes using software that greatly enhances the performance of telephone exchanges. Miniaturization of electronic components has reduced production costs. At the same time, the ever-increasing demand for efficient data exchange between international firms and their markets has greatly increased global demand for information processing within the telecommunications industry. The growing, relatively new market for cellular telephones—which were originally only convenience products—is a perfect example of this development. The cellular telephone industry has grown beyond its traditional markets and has become extremely competitive. Alcatel has not done well in this area, however; its international market share was only 10% in 1995, which represented only 4.5% of its profits.

The push for standardization, combined with the increasingly rapid spread of basic technologies, creates new concerns for firms like Alcatel. Alcatel, which has never been strictly regulated—nor shielded against competition by protectionist legislation—now faces new competitors. Computer firms like IBM, integrated circuit and semi-conductor manufacturers, and even software firms like Intel and Microsoft have all entered the market with competitive low-cost products. Alcatel, with its higher labor and overhead costs, is suddenly at a disadvantage.

Given these new market conditions, investment in research and development has become critical to survival. Yet innovation is complex and expensive. Nor can it be done in isolation from other research efforts within the industry. Alcatel has signed a number of technology transfer and standardization agreements to avoid this isolation, and also to help it stay abreast of unexpected changes in international standards.

The most important consequence of all these developments is that an industry that once relied on technological superiority alone must now become an industry able to supply "custom-built" solutions for increasingly demanding customers. The integration of data-processing and telecommunications, the growing importance of customer services and marketing, the need for flexibility and rapid reaction to increasingly specific demands, and the push for new innovations done in cooperation with competitors, have all become real challenges. Engineering logic once reigned supreme in this industry, but new challenges now require a revolution in corporate mentality.

Foreign Subsidiaries

Because of a virtually uninterrupted series of takeovers and mergers, the Group has become a kind of shifting jigsaw puzzle that includes about 200 companies and holdings in France and about 700 abroad. As a result, Alcatel faces several difficult challenges. It must integrate the different centers of the Group and establish a common corporate cul-

skills required for these new market conditions—as well as the skills needed to cope with the changing environment within the more mature markets.

The management style of the head office is not management by formal authority, but rather by informal influence. Teamwork is important, and is used to arrive at compromises acceptable to the subsidiary managers. However, that management style hasn't been very effective in achieving integration between foreign subsidiaries, which are closely tied to their own national cultures and to the markets within those cultures.

A couple of examples illustrate the difficulties and risks of isolating the subsidiaries within the Group. In one case, Alcatel SEL, the German subsidiary that Alcatel acquired from ITT, changed its domestic strategies and performed badly for two years. Even though Alcatel normally allows its subsidiaries a large degree of autonomy, in this case general management requested that SEL change its strategy. SEL managers resisted. In response, Alcatel dramatically changed its approach, and fired most of the managers at SEL.

Isolation also hurts research and development. For instance, at one time five subsidiaries were conducting very similar research on ATM terminals; all five, in fact, were developing new state-of-the-art technologies. When this type of duplication has occurred, subsidiaries have often resisted abandoning their research projects in favor of another subsidiary in another country. This leaves the final decision to the head office—a decision that is made more difficult when each subsidiary points out the national specificity of its market.

A similar situation arose during lengthy negotiations to make subsidiary names uniform. CIT, for example, was changed to CIT-Alcatel and finally to ALCATEL CIT. A similar process occurred with ALCATEL SEL. In each case, a difficult process proved how strongly each company was attached to its own history and background.

The unification of brands and names took place after the Group was renamed Alcatel-Alsthom from CGE on January 1, 1991. The purpose of this name unification was to make the structure of the Group more clear to its customers and to help the subsidiaries understand that, though they were often in competition with each other in the global market, they had to speak with the same voice. But "home-town thinking"—a national subsidiary + a national market + a national culture + a unique history—is dying a hard death. In 1995, the head office resorted to shuffling groups of products around the subsidiaries in an attempt to make their product-activity matrix less dependent on local fiefdoms. But the strategy wasn't particularly effective.

The autonomy so dear to the subsidiaries plainly poses a couple of questions related to issues of coordination and subsidiary independence: how far can the parent company intervene in the choice of local