

Quantifying External Relations: A Useful Model

With the outside world continually impinging on international companies, firms have begun to pay more attention to the external environment in which they operate. This new focus includes the development of external information systems to find, process, and disseminate data essential to the firm. Such systems generally have been confined to formal sources of information—internal company reports, publications, and so on.

Now, a new management tool to audit informal sources of information—employee contacts inside and outside the corporation—is being used by several Swedish companies. The results of these audits enable management to evaluate the firm's contact network, to make it available to more people within the organization, and to use it in the corporate planning process.*

As one manager at Perstorp AB (whose experience is detailed below) noted, "Contact measurement quantifies the infrastructure of ideas just as sales analysis quantifies the infrastructure of buying and selling. Managers can now know and not merely guess what a company's relations are with the total world."

Perstorp AB is a manufacturer of plastic resins and finished plastic products with sales of Skr665 million (Skr4.32:\$1) for the year ending August 1974, a 64% increase in sales over 1973. In addition to its Swedish headquarters and manufacturing facilities, the firm has plants in the UK, Austria, Brazil, and the US. Since a new managing director was appointed in 1970, Perstorp has been actively expanding its international business. It started a program of employee contact auditing in 1972-73 to obtain a quantified overview of its position vis-a-vis customers, suppliers, unions, competitors, and governments, and to clarify its priorities and overall corporate direction.

How the audit was done

During two three-day periods, about 200 salaried employees recorded in special diaries all personal, telephone, or written contacts with people inside and outside the firm. Each contact was assigned a separate page, on which specific contact information was detailed (see box). The entire recording process took a maximum of 50 seconds per contact. During

* Developed by Prof. Bertil Thorngren of the Stockholm School of Economics. Information on the system can be obtained from Prof. Thorngren, or from Dr. John Goddard of the London School of Economics and Dr. Martin Elton of the Communications Studies Group (London), who are collaborating on the further development of these techniques.

the six survey days, some 4,000 contacts were recorded and the entries processed (manually, although computerized methods are available) to show where information 1) enters the organization, 2) moves within it, and 3) leaves it. Contacts and the activities to which they led were also correlated.

What Perstorp found

Perstorp discovered that the number of contacts was growing, requiring too high a proportion of management time. The company's effort to expand its international business was highlighted by the finding that while only 30% of all contacts were abroad, these represented 50% of new contacts. If the desired internationalization of the firm was to continue, certain cutbacks in the firm's Swedish contacts would have to be made to avoid the mushrooming of staff services and personnel. (Perstorp notes that while this finding may seem obvious, only the existence of figures enabled management to recognize the situation, discuss it, and plan for shifting manpower out of domestic and into international activities.)

The firm also found that its informal links with other companies on a wide range of R&D and marketing subjects were well developed. As a producer of semi-manufactured items for a number of industries, Perstorp is in a strong position to learn of new developments and problems in many fields

Filling in the Contact Page

Each page required answers to 12 basic questions (plus five more where the contact involved more than one respondent), with multiple-choice answers. The question on subject matter of the contact (No. 7) had the choices shown below, and each one was further broken down into several specific areas.

1. What was the form of the contact? (Personal, phone, or written)
2. How long did it last?
3. Why did it occur? (To give, receive, or exchange information)
4. How many subjects were covered?
5. What period of time did the subject cover? (Past two years; up to three years out; or over three years out)
6. How many persons participated, excluding yourself?
7. What was the primary subject matter? (Social policy, marketing, production, R&D, administration, or structural problems)
8. To which organization does the respondent belong? (Perstorp; central government ministry or agency; regional/local authority; research organization; trade group; retail/wholesale firm; consultants, etc.)
9. How often have you previously been in touch with this person's place of employment?
10. Where is the contact located?
11. What is your evaluation of the long-run importance to the company of this contact?
12. Please state the name of this person's place of employment.

that may be beneficial to the company.

On the negative side, the survey revealed that Perstorp's contacts with public authorities, research institutions, universities, trade groups, and professional associations were thin. Since these are sources from which environmental changes are often initiated, the firm decided that remedial action was required over the long term. And two immediate steps were taken: the firm's research fund was reorganized, and a new manager was appointed to develop contacts with outside organizations.

The firm also found that while its recent reorganization into several product divisions made possible the reduction of time-consuming internal coordination, it had incurred the risk of losing valuable ideas somewhere between divisional borders. Similarly, there was the risk that outsiders dealing with only one division might get an incomplete picture of the company, and information coming from outside the company might never reach

the right division or staff unit. These findings pointed up the need for at least moderate cross-divisional coordination.

Of immediate use to Perstorp's executives was the finding that junior managers and secretaries have extensive contact networks of their own. As a group, senior executives felt that the survey extended their own effective circle of information sources from less than 50 to 500.

Although Perstorp retained an outside consultant to conduct the survey, other Swedish firms are using consultants to train their own personnel. One firm, which is training a manager in the survey techniques, intends to analyze contact networks continuously as a permanent part of the company's information and planning system. Such continuing analysis can be an early-warning system, since a stable and apparently balanced contact pattern over a period of time may indicate a narrow approach by the company to its business and a lack of dynamism.

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Is The OPEC Epidemic Spreading? Other Raw Material Producers Try Cartelization

INTERNATIONAL firms must face the fact that the new trend in setting raw material prices worldwide is for the producers to try and establish a political price rather than a market price, and to enforce that political price through cartelization.

This politicization of prices—fundamentally distorting and potentially destroying the marketplace as the basic mechanism for determining the value of economic goods—is of enormous significance, since it introduces an entirely new scale of measurements for valuing products. It holds three major dangers: As a political mechanism, it tends to heighten nationalism, even chauvinism. From a purely economic point of view, it undermines economic rationalism by infusing it with noneconomic criteria. Most ominous in the long run, it subtly but definitively alters the global geo-political climate by legitimizing a kind of economic terrorism, which inevitably must undermine world peace.

The most devastating example of the new tactic is, of course, the Organization of Petroleum Exporting Countries (OPEC) cartel, which has succeeded in setting—and enforcing—a price for petroleum that averages upward of \$10 per barrel, with a production cost of about \$0.15 per barrel.

While the petroleum industry is *sui generis* in several aspects, a number of other raw material producers are currently engaged in efforts to copy the OPEC pattern, or at least segments of it. Their success, and the techniques they devise to achieve their goals, will affect international firms everywhere.

At present, mini-OPECs are in the making for four major raw materials: copper, bauxite, iron ore, and sisal.

► **The copper situation.** Apart from oil, furthest down the primrose path toward cartelization and political pricing are the copper producers, of which there are four major ones: Chile, Peru, Zaire, and Zambia. Together, these countries account for 50%

BI's Executive Briefing

LATEST ON THE MONEY FRONT . . .

The Swiss Government acted this week to stabilize the chaotic situation on foreign exchange markets. Wild swings during the last three weeks caused the Swiss franc to strengthen markedly, essentially at the expense of the US dollar. Triggered by the Swiss announcement in mid-October that Swiss banks would be permitted to pay interest on nonresident Swiss franc deposits, an enormous inflow of funds (estimated to have reached \$1 billion to \$1.4 billion) raised the Swiss franc to Sfr2.59:\$1, an upswing of about

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