MANAGING

Theory & Practice/*By Phred Dvorak*

Big Changes Drive Small Carpet Firm

Hong Kong's Tai Ping Sets Global Growth on Overhaul In Management, Marketing

THREE YEARS AGO, Tai Ping Carpets International Ltd. embarked on a radical globalization strategy. The small Hong Kong carpet maker hired an American chief executive who had never been to Asia and installed him in New York. It revamped its executive team, centralized marketing and acquired a high-end carpet maker in the U.S.

The plan seems to be working. Last year, Tai Ping for the first time generated a majority of its 755.6 million Hong Kong dollars ($97.2 million) in revenue outside Asia; in the first half of this year, non-Asian sales reached 59%, compared with 44% in 2003. Profits are up, too. The U.S. will likely displace Southeast Asia as the company's biggest market this year, Chief Executive Officer James Kaplan says.

Tai Ping still has its headquarters and is listed in Hong Kong, and all of its directors except Mr. Kaplan are based there. But top managers are dispersed, with the marketing chief in New York, the operations head in Singapore and the chief financial officer in Hong Kong.

"We're trying to create a minimultinational," says director John Ying, who helped push Tai Ping in its new direction.

Tai Ping's story is a reminder that small companies can—and sometimes must—globalize as much as big ones. Governments are making it easier to span borders, while the Internet and inexpensive communication services make it more convenient. As a result, Mr. Ying says, even little companies such as Tai Ping can be global players.

It is rare for companies to move as drastically as Tai Ping. Many established companies balk at ceding control to overseas units and struggle with long-distance management. Sony Corp. CEO Howard Stringer jokes that he lives on an airplane while roaming among company headquarters in Tokyo and bases in New York and London. Mr. Kaplan says he is out of the U.S. two weeks a month.

Implementing such a radical makeover is tough, says David Teece, a professor and specialist on multinationals at the Haas School of Business at the University of California, Berkeley. Restructurings are costly and time-consuming, requiring support from directors and investors. It is hard to find managers with global expertise who are also adept at working with the home culture. And executives may face opposition in directing far-flung operations.

As evidence, Mr. Teece cites his own experience as director and investor in rugby-apparel maker Canterbury of New Zealand. Six years ago, Canterbury's board sought to expand beyond its home base. The company went through three CEOs, replaced 80% of its management and moved its center of operations to Manchester, England, from Christchurch, New Zealand. Those moves have boosted Canterbury's sales by about 15% annually for the past two years and led the United Kingdom to displace New Zealand as Canterbury's largest market, according to the company's CEO, who is based in the U.K. Still, Mr. Teece says, the transition has been "excruciatingly difficult and complicated."

Tai Ping's global makeover was prompted by a 1990s influx of U.S.-educated directors like Mr. Ying, who got a master's degree in business administration at the University of Pennsylvania's Wharton School of Business and worked for Merrill Lynch & Co. and private-equity giant Carlyle Group. The new directors decided that Tai Ping, founded in 1956, needed to rethink its business. The company was minimally profitable, and its main carpet business was in the red. Sales growth in Asia was slowing; outside Asia, Tai Ping was largely selling carpets on the cheap under other brand names.

Together with consultant **Bain** & Co., Tai Ping directors decided to seek a unified global brand and a new CEO who understood international marketing. In 2003, Tai Ping approached Mr. Kaplan, a marketing and sales specialist who was running a division of U.S. furniture maker Knoll Inc. Mr. Kaplan, 50 years old, had never been to Asia. But Tai Ping's directors wanted someone who knew the U.S. and thought they could help him overcome cultural barriers in Asia, Mr. Ying says.

Mr. Kaplan agreed to take the job as long as he could work in New York. The board agreed. The directors also assured Mr. Kaplan that he would have both authority to reorganize the company and money to invest outside Asia.

Mr. Kaplan hired a new global marketing team based in New York. He created a global logo and standardized marketing materials. He made the heads of Tai Ping's previously independent regional operations report to a new global management team, which confers by phone twice a month. Mr. Kaplan developed common management yardsticks—such as sales, profit and expense management—to replace regional targets. He also standardized the company's bonus plan, sold some small units and bought carpet maker Edward Fields in the U.S.

Some changes met resistance. In Paris, managers complained about reporting to the new U.S.-based marketing chief, and they protested everything from the new logo, to the choice of paper for global brochures. Mr. Kaplan politely insisted. "I kept explaining we're building a global brand," he says.

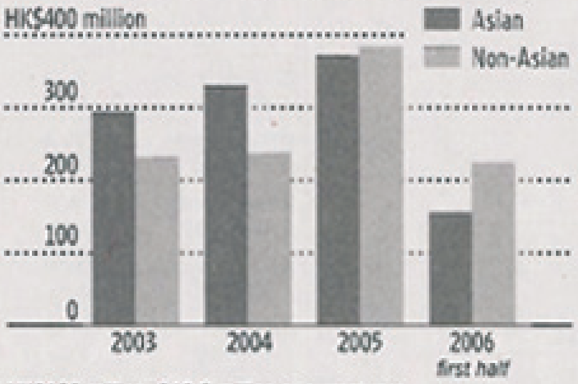
The manager of Tai Ping's important Thailand operations initially ignored Mr. Kaplan's directives to sell some real estate and to seek approval from the finance chief for equipment purchases. Mr. Ying and other Tai Ping veterans advised Mr. Kaplan that in Thailand, persuasion would work better than orders. It has taken a few years, but Mr. Kaplan says the Thai manager now cooperates.

Overall, Mr. Kaplan says Tai Ping's global remake has gone relatively smoothly. He handles marketing and strategy from New York but left important corporate functions such as finance and technology in Hong Kong. Mr. Kaplan expects the carpet business to make a profit this year or next.

Mr. Kaplan says he succeeded partly by introducing new practices and posts, rather than struggling to change old ones. "It's easier to create than to transform," he says.

Carpeting the Globe

Tai Ping's global sales, in Hong Kong dollars



HK$100 million=$12.9 million at current rate

Tai Ping CEO James Kaplan's tips for globalizing:

- Make sure the board backs what you want to do
- Create common goals for top managers, no matter where they are
- Adapt management style to different cultures
- Keep close communications between top managers

Source: the company

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