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# Japan Tobacco International (JTI): Achieving Excellence Through Diversity

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Four years after the acquisition of Gallaher, the integration was considered successful. The total headcount at Japan Tobacco International (JTI) increased from 12,928 in 2007 to 25,000 in 2011. The level of diversity in JTI increased further (see **Exhibits 1** and **2**). However, the top management at JTI was wondering whether diversity had been fully leveraged, and how JTI could unleash the innovative potential of its people to face new challenges.

## Company Background

Japan Tobacco International (JTI) is the international tobacco division of Japan Tobacco Inc. (JT), and is currently the world's third largest tobacco company with a global market share of 11% and a market capitalization of approximately $32 billion. The headquarters of JTI are in Geneva, Switzerland. The company was formed in 1999 when Japan Tobacco Inc. paid $7.8 billion for the international tobacco operations of the U.S. multinational R.J. Reynolds (RJR).

From the very beginning, the objective was to make JTI an international company. As Bill Schulz, senior VP of the global supply chain, said:

> "I do remember in the very, very early days of the integration, the CEO of JT at that time, Honda-san [Katsuhiko Honda], came into our big factory in Trier, Germany. He spent time with the people that night. We went out for dinner and had a few beers. He was quite vocal that he didn't want to create a Japanese company. He wanted to create an international company."

Currently, the Executive Committee consists of 17 members, of 12 nationalities. JTI considers itself a truly international and multicultural business.

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This case was prepared by Professor Yih-teen Lee and Steven Poelmans, Professor at EADA, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. July 2015.

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JT fundamentally shaped the culture of JTI with long-term thinking. While the former RJR culture focused very much on short-term quarterly earnings with a lot of pressure to deliver immediately, JTI focused from the beginning on long-term results with an emphasis on investment in people and infrastructure that would bring benefits in five to 10 years. Now, people started to see the fruits of such long-term thinking. "If I look back at what JT said they would do, they really did it," said Heinz von Allmen, head of corporate training and development. "And today we are the fastest-growing tobacco company in the world."

Certain managers observed the influence of Japanese culture on JTI. For example, people often attribute the long-term vision and the notion of quality to its Japanese heritage. Moreover, decision making in JTI may also be subject to such influences in that there tends to be a kind of consensus-seeking process - people really bring everybody on board and look at issues from different angles, making sure that everyone is more or less aligned before making a final decision. However, instead of being a typical Japanese company, JTI embraces many of the other cultural elements in the company and remains highly international.

## The Acquisition of Gallaher and Its Integration

In 2007, JTI acquired Gallaher, an FTSE 100 business, for £9.4 billion and further consolidated its position as the third largest cigarette manufacturer in the world. However, integrating two business entities of such a size is no easy task. One of the key challenges for JTI was to handle the huge differences between itself and Gallaher. For example, people in Gallaher's tobacco leaf section "are entrepreneurs, and they're quite flexible," said Paul Neumann, senior VP of global leaf. "When they took a look at JTI, we had this reputation of being very structured, very slow to change, very bureaucratic. And how do you convince this function and these individuals to move into this organization?" JTI needed to address such differences and convince former Gallaher people that "living in a structure is not bad," in the words of Neumann. Also, the two companies had very different business models. Whereas JTI developed clear business standards and processes, and strived to achieve long-term and quality results, the Gallaher model tended to be "very optimistic and seek aggressive cash flow benefits, at the expense of maybe a longer-term view," said Bill Schulz. Furthermore, the structure and composition of the two companies differed significantly. For example, Heinz von Allmen found that the European works council at Gallaher was mainly British-based and dominated by a British background and style. The works council of JTI, however, was multinational and rather dominated by Germans. Hence, JTI also needed to address such differences in mentality in its structure.

A related challenge was retaining Gallaher's key talent. Faced with radical changes in work style and culture, certain Gallaher people considered leaving the company. JTI managers sensed that some of the good things of Gallaher (e.g., speed to market and entrepreneurial skills)[1] seemed to have been lost after the integration. The JTI integration team had to treat people with respect and avoid causing talented people to leave. Finally, because the operations of JTI and Gallaher were not totally complementary (i.e., in some countries both had plants or operations but only one would be needed after the acquisition), JTI also needed to deal with the emotional issue of job loss and let certain people go with dignity.

[1] JTI Internal Document, *Deal and Integration Summary*, p. 73.

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Despite these challenges, the acquisition was regarded as successful not only because of its financial results but also for what it had achieved in terms of integration. The main success factors were:

1. *Very careful preparation before the acquisition.* JTI leveraged the knowledge and experiences obtained from its acquisition of RJR in 1999 when it was preparing the integration with Gallaher. An integration handbook had been compiled even before the deal. Heinz von Allmen explained: "If we want to address the key questions of integration, we're going to have to be prepared beforehand. So we addressed all these questions in the handbook: What would a compensation package look like? How do we design an organization?"

2. *Utilization of JTI processes.* As JTI was quite successful with the tools and processes it had, it was decided that JTI processes would be the main framework for the new company after integration. However, the JTI team also remained humble and granted the freedom to adjust to local circumstances.

3. *Speed of integration planning and implementation.* JTI decided to move very quickly and used the 80/20 rule to focus its energy and attention on the integration process. As Bill Schulz said: "We weren't going to dig for the last detail. We tried to move as fast as we could, and we communicate and even overcommunicate with our teams."

4. *Integrating diversity and fair treatment of all employees.* According to Guergana Andreeva, HR vice president for the "CIS plus" region:

   > "Our objective was to make the maximum out of integration, which meant we needed to integrate also the diversity, and take the best of both companies... So in every market, we have actually imposed rules that we cannot have a management team that was formed only by the representative of one of the companies. And by doing that, we've actually brought the perspective of both companies in each marketplace." People were treated with respect and fairness.

A postimplementation audit was conducted after the acquisition, and a book called *Deal and Integration Summary* was published. This book not only presents detailed milestones of the acquisition but also offers deep reflections on the drivers for success and items with the potential for improvement across all stages of the integration process.

## Diversity Within JTI

One of the key values of JTI is to create synergy through diversity.[2] "In the company we have 104 nationalities, 31 different languages. So it's good that we all speak NVG (i.e., not very good) English as a common language. In headquarters alone, we have 55 nationalities," Heinz von Allmen explained. In fact, diversity is an inherent part of JTI since its creation resulted from JT's purchase of RJR, where east met west. The acquisition of Gallaher further enriched the diversity within JTI. See **Exhibits 1** to **4** for the global distribution of JTI's headcount, offices and plants around the world.

[2] JTI Internal Document, *HR Integration Handbook*, p. 20.