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Moët Hennessy España

Ramiro Otaño did not know how to feel. For the past six years, he had been Chief Executive Officer (CEO) of Moët Hennessy España (MHE), the Spanish subsidiary of Moët Hennessy - the wine & spirits business of Louis Vuitton Moët Hennessy (LVMH), the world's leading luxury products group. Since being appointed to the leadership of MHE in late 2001, Otaño had overseen a spectacularly successful run at the company by any financial measure. And yet, some of the company's old-timers were complaining that, in the process of professionalizing MHE and modernizing its managerial practices, the company had lost its "human touch", with the work becoming too structured and interpersonal relationships too dry.

Did it matter, Otaño wondered? Yes, it was true, the push to professionalize his company and capitalize on the fantastic market opportunities that had opened up in Spain in the past few years had happened at the expense of the informal, relational atmosphere that had characterized MHE in the past. And Otaño recognized that a higher degree of teamwork and coordinated action among functional areas at MHE would benefit the company. And yet, he could not help thinking that those who had been at the company for a while were simply whining, wistfully thinking of the good old times that no longer applied in today's business world.

Company History

The Creation of a Global Distribution Network

Moët Hennessy (MH) was launched in 1971 with the merger of two family-owned businesses: the champagne producer Moët et Chandon and the cognac producer Hennessy. In 1987, the spirits group that also included two other renowned champagne brands, Mercier and Ruinart, merged with the fashion company Louis Vuitton to create the luxury group LVMH. At the same time, MH, until then focused on production only, started building its own global distribution network to ensure control over distribution by buying its various distributors around the world. MHE was one of the latest affiliated companies launched by the group.

Before the launch of MHE and since the 1980s, MH products were distributed in Spain by a Catalan wine and spirit distributor, Aferfrans, 30% owned by MH and 70% by a local family. In

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Spain, MH was also producing sparkling wine, Cava Chandon, through its joint venture Chandon SA, in which MH had a 70% stake and its partner Aferfrans 30%. In 1995, in line with MH's strategy to build its own network of distributors and to increase efficiency (both Aferfrans and Chandon SA had recently suffered losses),[i] the French group took over and merged its two Spanish joint ventures and founded MHE.

Otaño explained, "The idea was to look for efficiency. To reduce structural and logistics costs, my predecessor changed MHE's business approach and outsourced distribution to around 60 exclusive regional distributors; only ten big supermarket accounts were directly managed." This allowed MHE to reduce the number of clients from 2,300 to 65. "Our first step was thus to simplify our business," Otaño commented. The new company's offices were placed in the winery where Cava Chandon was produced, in the Penedès region, 50km from Barcelona. Besides producing and distributing the sparkling wine, a key part of MHE business, the company was also distributing MH's champagne brands Moët et Chandon, Dom Perignon and the cognac Hennessy as well as a long list of agency brands.[1] Veuve Cliquot, Krug and Ruinart, three other high-end champagne brands of the French group, had been historically kept separate and were distributed in Spain through another network of distributors.

Otaño commented:

> This downsizing of the business had an immediate impact on profitability due to increased efficiency. On top of that, the years 1995, 1996 and 1997 were some of the best in the Spanish economy. All things put together, the company started growing again. Between 1996 and 2001 Spanish champagne sales almost doubled from around 800,000 to 1.4 million bottles; our volumes as well almost doubled and our net sales grew from €15 million to €30 million.

MHE was dominating the emerging but rapidly developing Spanish champagne market.

MHE: From a Family Business to a Professional Distribution Company

When Otaño was managing sales and marketing at Bodegas Chandon, MH's Argentinean wine producing company, he was asked by MH Headquarters in France to move to Spain and become CEO of MHE in October 2001. His mission was to increase the value of MH's brands and transform MHE into a professional distribution company. "We wanted to build a portfolio with a higher price average and to focus on a specific consumer and a specific profile of trade," observed Otaño. "The objective was to become the most effective marketing and distribution company of super premium products in Spain." This required changes in MHE's business and a reorganization of the company.

In terms of MHE's business, Otaño's first move was to simplify MHE's portfolio stopping the distribution of Cava Chandon, the company's low-end product and by focusing on MHE's most profitable high-end brands: Moët et Chandon, Dom Perignon and Hennessy. Despite Cava Chandon's sales volumes (600,000 bottles in 2001), the sparkling wine had a marginal impact in terms of profits (less than 10% of MHE's profit margins).[ii] In 2003, MHE's offices were moved from the Penedès region to the center of Barcelona.

As a second step, Otaño changed the company's distribution strategy—its 'route to market'. As MHE was supplying distributors and not directly retailers, the company had no control over the brands or the pricing strategies. Thus, the new CEO decided to eliminate these intermediaries and directly supply large volume customers as well as those important for MHE's image, such as wine

[1] These were brands which were distributed through MH's distribution network but were not owned by the LVMH group.

stores. Smaller customers such as hotels, restaurants and bars (hereafter HORECA) were instead left to distributors with a few exceptions (around 50 accounts). Between 2001 and 2007, MHE moved from having 65 direct clients—basically regional distributors — to 440 — wine stores, HORECA's distributors, wholesalers, as well as national and regional supermarkets. The business transacted through distributors was reduced from 71% to 30%. In 2004, MH started concentrating its different worldwide distribution networks into one. By consequence, in 2005 MHE began distributing Veuve Clicquot and Krug. Otaño explained, "This approach, which we call the chandelier approach, allowed us to achieve a comfortable operating margin." Once these reforms were launched, Otaño widened the portfolio again. In 2006, the company added to the portfolio three new brands recently acquired by MH: Belvedere (vodka), Ardbeg (malt whisky) and Glenmorangie (malt whisky).

According to Otaño these changes in strategy and route to market went hand in hand with a total restructuring of MHE to transform it into a more professional company. To support the changes in route to market strategy, the sales department was restructured several times during Otaño's tenure and was the most radically redesigned functional area at MHE. When Otaño joined MHE, the sales department had a hierarchical structure and the sales force was organized by geographical area: each area was covered by one sales manager and two sales people. An employee commented, "The profile of the sales people was: older people, very comfortable in their places, always at a restaurant drinking and eating."

Gradually, Otaño managed to break this hierarchy and to create a professional sales force specialized in volume (large clients) and image (customers relevant for MHE's image) and organized by type of trade channel—HORECA, wine shops, wholesalers, distributors, supermarkets, cash & carry—instead of by geographical region, as it had been before. "We prioritized expertise per channel rather than per region," Otaño explained. The CEO continued:

> In our business we distinguish between the image channels business, which focuses on smaller customers important for our image, such as wine stores (*Caviste*) and on-premise accounts (hotels, bars, night clubs, and restaurants), and the volume channels, made up by large, off-premise customers like wholesalers and supermarkets.[2] In the image channels, the sales approach is tailor-made as it concerns relations, image, and promotion. Thus, you need to know about wine, you need to have public relations skills and you need to know luxury products. It has much to do with personal approach. In the volume channels, the approach is more standardized and regular. If you come from a regular approach to sales it is quite a shock to move to the image channels business.

The latest redesign of the sales function introduced a matrix structure within this basic image and volume channels organization (see **Exhibit 1** on MHE's 2007 organization chart). The volume channels sales people focused on distributors, wholesalers and supermarkets. The image people, based in the main Spanish cities, focused on wine stores and were in charge of image activities (such as brand promotion and communication activities) for the HORECA accounts in the cities they were covering. While wine stores were supplied with direct sales managed by MHE's image people, HORECAs were supplied mainly through distributors and wholesalers, which belonged to the volume organization. An image sales person visiting a HORECA client, therefore, reported to the image organization and worked in strict collaboration with his colleagues managing the volume accounts.

[2] On-premise retailers were points of sale in which customers could buy and consume the product, such as restaurants, bars and night clubs; off-premise retailers were instead retail outlets that sold products to be consumed outside the place of purchase (such as supermarkets) and that did not necessarily sell to ultimate consumers (such as wholesalers).

Finally, Otaño reorganized the marketing department by progressively reallocating below-the-line activities traditionally assigned to brand managers, such as trade activities, and some above-the-line ones like public relations to a specialized "marketing services" unit.[3] Two oenologists[4] were hired in 2003 and 2006, respectively, to educate the Spanish population about champagne and high-end products.

Despite these transformations, the company kept the same number of employees. Between 2001 and 2007, MHE had around 40 employees. Otaño explained:

> In 2001 the company was over dimensioned, particularly the sales department. When I joined MHE we had only 65 clients but a team of around 20 sales people on the road. Honestly it must have been a very nice job. Similarly, even if to a lesser degree, we had too many people dealing with logistics as when we were producing sparkling wine the operations people were in charge of the supply chain from the production and the distribution side. As soon as we stopped production we were over-staffed. Yet this was positive for me because it gave me room for growth while keeping the structure. Today, we reached our limit. Now we are much more efficient.

Otaño believed that the changes implemented to achieve effectiveness were now starting to be harvested. He observed:

> During the last three years, we have witnessed an amazing growth. We are growing at a rate of 25% per year in turnover, and even faster in terms of net profit. The overall impact of these reforms on volume was marginal. When we stopped selling sparkling wine, we increased our sales of champagne and then widened our portfolio. In 2006, MHE had around 75% of both the general and cuvee de prestige Spanish champagne market (see **Exhibit 2** on MHE's champagne market share). Overall, I would say that one-third of our growth was driven by general market trends, one-third by our new route to market and one-third by the restructuring of the sales and marketing departments.

Yet, the process of professionalization, also experienced by other MH affiliated companies, was particularly fast in Spain. Otaño commented, "This had a strong cultural impact. It was a real shock. When we were based in the winery the mindset was that of a production company. This place was 50 km away from Barcelona and, as people from Barcelona did not really want to commute, 80% of the employees were from the countryside. The company moved from being a local, Catalan company, focused on production, to an international and professional distribution company; from a winery in the middle of vines to an open-space office in the center of Barcelona."

Departmental Roles and Interdependencies

In February 2007, MHE had five different departments: finance (nine employees), marketing (ten employees), operations (five employees) and sales (17 employees; see **Exhibit 1**).

The finance department, headed by a French citizen appointed Chief Financial Officer (CFO) in 2006, was in charge of the company's financial tasks and budget. Inside the finance department, there were two people in charge of accounting, and one of the treasury, who did not need to frequently

[3] Trade activities were those marketing activities which required an interaction with clients such as organizing promotions, shop windows and merchandising.

[4] A person educated in the science of wine (such as conservation and tasting) and wine making.

interact with the other departments to do their job. The controlling manager was interacting mainly with marketing—in order to be constantly informed of the company's strategy and thus understand the expenditures—and to a lesser extent with operations. The positions that required major cooperation with the other departments were the assistant to the CFO and the credit and IT managers. The assistant to the CFO was in charge of the financial aspects of human resources (HR) such as pay slips, holidays and sick leaves and was responsible for the sales force's equipment, such as cell phones and credit cards. She thus frequently interacted with her colleagues, especially with the sales force. The credit manager worked in close collaboration with both the sales and the operations people as he was in charge of approving new contracts, establishing credit limits for customers, authorizing orders after checking the clients' credit limits, and visiting clients to collect payments. Finally, the IT manager, the company's IT help desk, was frequently on the phone with, or in the office of, one of his colleagues.

The marketing department was headed by another French citizen appointed marketing director in 2004. The three brand managers, each managing between two and three MH brands, interacted mainly with their respective *maisons* to design brand strategies and follow-up activities. They also worked with the sales force to coordinate work and shared events, and with the operations department for defining products' purchasing needs and for the purchasing, reception, storage and delivery of Point of Sale materials.[5] The marketing services unit dealt mainly with external actors, such as journalists, and with its marketing colleagues, except for the two oenologists who spent most of their time in the field with the sales force and clients organizing tasting events. These two employees also closely interacted with operations.

The main responsibility of the operations department was to manage MHE's warehouses in Spain, where the bottles and visibility items were stocked, and to organize the deliveries of MH's products to customers as well as the deliveries of bottles and visibility items to sales and marketing people for their events and marketing programs (such as shop windows). Since 2001, the department had been headed by a French manager. Two employees of the department were in charge of orders and customer service and were thus working closely with sales and marketing while one employee was dealing with the suppliers and thus interacting mainly with the *maisons* (Inbound responsible). To help with orders, two additional employees were hired on short term contracts at Christmas time—the "hot season" for champagne as 55% of sales was made in the last quarter of the year and 40 % in the last two months. Finally, one person in charge of commercial agreements worked closely with finance and sales and also had accounting responsibilities. The professionalization of the company and particularly of the marketing department, as well as the new focus on direct customers, had increased the workload of this department and extended the "hot period": orders were increasingly coming in at different times of the year. Despite the increasing workload, the department had for three consecutive years won a MH reward as the best performing operations department in forecasting accuracy of LVMH's wine and spirits division in the world.

The sales department was organized in two sub-departments: volume channels and image channels, headed one by a Spanish and the other by a Peruvian director, respectively. The degree of interdependence of sales people on other departments varied dramatically depending on to which part of the sales organization a sales person belonged. The two sales people in charge of large key accounts (supermarkets such as the Spanish El Cortes Inglés) could perform their job with a certain amount of autonomy. In stark contrast stood the image sales people, whose job was tightly

[5] As an employee explained, the concept of "*maison*" was stronger than that of a brand. A *maison* was rooted in a family, a region, a culture and a specific vine. All MHE brands (such as Moêt Chandon, Veuve Clicquot, and Hennessy) were *maisons* that had been operating for centuries.

interdependent with the brand managers. In their dealings with wine stores, which were serviced through direct sales, the image sales people also had to interact frequently with operations.

Inter-departmental Relations

Despite MHE's small size and widespread task interdependence among roles and functions, most employees agreed that the company was missing a common culture and that inter-departmental relationships needed improvement. These relations were hindered by philosophical divides, cultural differences, and different working hours and office locations. Philosophical divides were negatively affecting relationships between finance and operations on one side—the analytical people—and marketing and the sales force on the other—the creative and relational ones. Referring to the differences in mindset between marketing and finance, a manager explained:

> Marketing is the artist and finance the scientist. Finance people are very rational while marketing people are very imaginative and creative. They think out of the box and want to do things differently. The finance person is instead attached to numbers and figures. One plus one in the finance department is always two. In marketing it can be three or four depending on how you look at it. That is at the origin of the problem. For the marketing people to send a report with things that do not tie or to change and report a different KPI than agreed is not a big deal.[6] They will say that they overreached the objectives of the year as the brand did well from an image point of view. A finance guy will challenge the marketing person and ask 'What is the additional marginal income of what you did? What was the return?' The discrepancy comes from a different way of thinking between finance and marketing people.

This added to the difficulty of measuring marketing performance and to the lack of communication on the outcome of marketing activities. One of the marketing people commented:

> I can actually understand the people of the finance department. On one side, you have the marketing people going to really big and expensive parties, while people from finance always stay at the office to control the figures. This could of course generate a bit of jealousy. I think they feel a little deprived! They used to say, 'Why do you call me only when you have a problem?'

According to a marketing employee, both the finance and the operations people were not informed about the outcomes of the marketing events nor about the marketing plan itself. "This puts them in a situation where they find everything marketing does difficult to understand."

Similarly, the operations people were struggling to convince marketing to fill in proper order forms—recently introduced to speed up the process—instead of using simple emails. As an operations employee noticed, "When we receive orders by email, we usually reply saying that they have to fill in the formal order form. Then marketing usually complains as it is easier for them to use emails, but it makes things much more slow and complicated for us."

These kinds of issues also arose in the relationship between finance and sales people, who seemed to be too focused on their sales objectives and did not understand the finance people's focus on figures and procedures. An employee explained:

[6] Key Performance Indicators (KPI) were financial and non-financial metrics used to measure progress toward organizational goals.

> For example, finance is trying to automate payment processes. So we now ask the sales force to rely on bank transfers for their customers' payments instead of checks. The clients operating in the North of Spain tend to use more bank transfers. This is less the case in the South of Spain. When the finance department asks the sales people to use bank transfers, some think that finance is bothering them as they do not want to tackle this issue with their clients.

Another employee from the finance department added, "The sales people are always more hesitant to tell me the problems they caused. They might think that they can just move along and that nobody will know. That is very much a sales attitude. The sales people live in the moment and in the future." On the other side, the perception was that the finance department wanted "to stop the sales force from selling" and that they were "only interested in numbers and figures."

Inter-departmental interactions were also influenced by cultural differences and language issues. Many of the finance and operations people were Catalan, spoke only Catalan and Spanish, and had not traveled much. They were also MHE's employees with the longest tenure as most of them used to work for the company when it was based at the winery. The only exceptions were the CFO, who was French and was learning Spanish, and the credit manager, a German, who was considered "Catalan" by his colleagues as he spoke the language fluently and was married to a Catalan. A manager highlighted, "These guys are coming from genuine Catalonia, from the town were the winery was based. They are not from Barcelona or Madrid. They consider themselves first of all Catalans."

Conversely, in the marketing department only three of nine employees were Catalan. Of the others, three were French, two from Latin America, and one from Greece. The majority had also traveled extensively. The sales department was more mixed, but still quite international: of the 16 employees, eight were Catalan, five from other parts of Spain, one French, one English, and one Peruvian. Most of these employees were relatively new arrivals: job turnover had been high in these departments, especially in marketing. According to an employee, this was positive as the new colleagues tended to be more open minded, more professional, and with a more global vision of the business.

Differences in working hours further hindered cross-departmental relations. As the assistant to the CFO noticed, "Those at MHE who have more field based tasks sometimes have to work until late at night and may be travelling or arrive in the office at other hours than their colleagues who have more office based activities." Some of the sales people where not even based in Barcelona. As an image sales person reported, "We are a bit more isolated. We interact less."

While in general all these divides tended to generate two clusters, marketing and sales on one side and operations and finance on the other, some frictions also existed between the marketing and the sales department. As a marketing person reported:

> Everything—all the information, work guidelines, processes—is going down from marketing to sales. They [the marketing people] decide the action plan, they give the guidelines to sales and then sales have to find a way to implement it, whether they like it or not. Sales people do not like this at all and I think this creates rivalry between these two departments. Marketing predominates because our brands are very strong in terms of image, brand awareness, and advertising. They convey a lot of values; we are not in a rational business, but in the luxury one, a highly image oriented and emotional environment. We need to make the customer willing to pay for our products through the products' image and values. Hence, the relationship between the two departments should be more interactive. I think that any marketing tool or program should be based on the input from both departments. Today, sales and marketing usually talk when there is a problem. It's a reactive relationship not an interactive and proactive one.

Most employees agreed that MHE suffered from a lack of communication. There were a few formal occasions for MHE staff to meet during the year to facilitate information sharing. The most accessible event was the annual company convention in which all MHE employees participated. This was a team building event, such as a trip somewhere in Spain. Yet, it did not seem enough to break MHE's clusters and overcoming cleavages. As an employee reported, "For the annual convention this year we went to Valencia. There, as well, this division in clusters within the company was quite obvious. On one side, you had the sales and marketing people, and on the other side, the finance and logistics people, in the bus, at the restaurants, everywhere."

More restricted gatherings were the commercial committees (three per year) which involved only the sales force and marketing. On these occasions, the sales people scattered around the country gathered for about two days at MHE's headquarters. During these gatherings, the sales force also spent some time with marketing, from just a couple of hours to half a day, depending on the needs. Yet, these meetings were heavily based on presentations and scarcely interactive. Finally the monthly management committee meeting brought together the CEO, the heads of the marketing and of the finance departments and the volume and image channels sales directors. While these meetings seemed to foster communication between managers, they included only the management committee.

To facilitate information sharing and coordination, MHE had recently introduced a new SAP information technology tool, 'Target'. All departments were asked to regularly update the program with information on their daily activities such as new and incoming contracts, field visits, orders, deliveries, and payments. All MHE employees had direct access to the information contained in the program from their computers. The sponsor of the program was the sales department. Yet as the volume sales director admitted, "Target works very badly. You cannot trust the data or the output, and not all the departments put information in the program." A manager observed:

> We need to be a team as a whole, as a company. We need to have an MHE common culture which we still do not have. MHE is a distribution company developing brands of many different *maisons*. As of today, there are very strong cultures from a *maison*/brand point of view, but not from a distribution point of view. A *maison* has a strong DNA, it is something that is rooted into a territory, with a castle, a distillery, and some specific vineyards. Each *maison* has its culture, epitomized by a family. As an example, the person of MHE working on the Veuve Clicquot brands, a *maison* that has operated since 1772, has its strongest and closest link with Veuve Clicquot in France. She talks with the *maison* at least once a day and so do the other marketing people. Marketing people are the *maisons* embedded in the market, in distribution companies. MHE needs a team culture as this is the cement of a company and a company needs it.

In addition to the apparent need for greater coordination and teamwork, some noted that the organizational climate had suffered in the process of modernizing the company. Eva Gallego, an employee in operations since 2001, remarked that, "Organizational processes are now much more standardized, which makes for more efficiency, discipline, and control. But of course the work has become very structured, mechanical." Marcos Comellas, a salesperson who had been at the company for 24 years, commented on the consequences of standardization:

> The company has improved dramatically, in terms of modernization and ability to learn. But there has been a loss of sentiment with the workers. They must be given trust and confidence, to create unity, to allow them to help each other and work as a team.

Salvador Blanco, key accounts manager, elaborated further:

> In the past years the company has become more professional, but logically at the same time it has lost part of the familiar spirit that it used to have. Some of the decisions made, if they had been made from an HR point of view, would have been much slower to implement.

Human Resource Management

HR tasks were shared between the finance department, for what concerned sick leave and payroll, and middle managers. "At MHE, we do not have a person specifically in charge of HR," reported an employee. "For HR issues, the reference person is the employee's direct boss. Depending on the situation, this is not always ideal." Employees' direct superiors were also in charge of evaluating the performance of their direct subordinates. Each year MHE employees were asked to fill in with their direct superiors the Managing of People Performance form (MPP), an evaluation form to assess employees' performance. The first part of the MPP dealt with how the employee performed compared to his objectives set at the beginning of the year, how he rated himself, and where he failed. Then the employee was asked to evaluate his profile versus 16 competencies that LVMH promoted and, in the last part, to state his objectives for the following year and for the longer term. Once the MPP was filled in, the employee would discuss the form with his direct superior to add, eliminate or review objectives and to formalize them.

In theory, all MHE's employees were supposed to fill in an MPP. In practice, the administrative assistants, the accountants, and a few other employees were excluded from the process as some managers thought that "they did not have specific objectives." Yet, according to Otaño, this was a mistake, as all staff should be evaluated. In total, around 35 people presented an MPP.

All MHE staff received restaurant tickets: checks paid in part by the employee and in part by the employer to be used only to purchase lunch. At the end of the year, employees also received a pack of bottles of champagne, spirits or other merchandising materials.

Despite high growth, MHE had lost several employees. Employee turnover in the past three years had been around 20% per year. People left for many reasons. According to an employee, the main cause was that, "Some people are realizing that they have reached the ceiling in the company. As we are very small, people do not see what their future could be at MHE." This lack of mobility was a problem particularly in the sales department. Javier Fuentes, the off-premise sales director, observed:

> In the sales department we have some people who have been here for a long time and some others who just joined and in general are young and starting their career. Most of these young people will probably leave to continue their career. Others in the department, including those who have been working here for a long time, will leave when they discover that they will not be able to advance in their career as only a few of the best will be promoted. This means that the sales base in the company is not stable. Yet the sales base is very important. They have the knowledge of the market, they know the clients, and they know the history of the company, what we did in the past, what worked, and what did not.

Another reason why people left MHE was related to a general feeling of uncertainty due to the fast pace of change of the last years. An employee explained:

> All the changes the company went through generated a general impression of instability. The company is always under change and at risk. You can never relax. This means that you cannot have fun in your job, even though you should enjoy it as we are growing more and more.

Thus, added Fuentes, "Very few people today can say that they have been working for MHE for more than 5-10 years. People feel that this is not the company where they will be growing old. They feel that they will have to leave."

The more international and open minded employees could be offered other positions inside the company or inside the MH group. Some employees could be involved in special projects that would diversify their tasks and contribute to their professional growth. Yet, this happened infrequently.

Social Networks at Moët Hennessy España

Aware of the need for better inter-departmental coordination and teamwork, Otaño turned to a business school professor that an employee had met while attending an executive education program. Otaño asked her to analyze the patterns of interaction among departments. For three consecutive years (2005, 2006 and 2007), the professor administered a survey to elicit the social networks of professional relationships among all company employees. Each employee was asked to indicate (1) how much he or she sought each other employee out for work-related input, (2) how much the interaction with each other employee was required by task interdependence or organizational role (as opposed to chosen based on personal preference for someone), and (3) how energizing the work interaction with each colleague was.

To respect the confidentiality of responses, the professor did not show Otaño the surveys and the individual responses. Instead, the CEO received annual maps of interpersonal relations that identified individuals only by their departmental affiliations. These maps gave Otaño a window into the informal workings of the organization. From these graphs he could see how much the various departments were interacting with each other, and to what degree people found these interactions energizing.

Exhibit 3 shows MHE's informal network of work-related interactions in early 2007. Each node in the graph represents an employee at the company.[7] The shape of the node indicates the employee's departmental affiliation. An arrow between two nodes exists when an employee indicated a strong propensity to seek another employee out for work-related input. As highlighted by the four circles drawn on the graph, the distribution of departmental affiliations across the network shows most employees interacting primarily within their own department, with few cross-departmental connections.

Exhibit 4 shows the network of required work relationships. For ease of comparison, each node in this network is placed in exactly the same position as in **Exhibit 3**. An arrow between two nodes exists when an employee reported that interactions with another employee were required by their formal role or task interdependence. Discrepancies between the graphs in **Exhibits 3** and **4** are rough indications of a mismatch between informal work-related relationships chosen by employees and formal relationships mandated by the nature of someone's role. Specifically, **Exhibit 4** has a higher number of links than **Exhibit 3**, indicating that several required relationships were absent from the informal pattern of work-related connections at MHE.

Exhibit 5 provides additional insight into these patterns. In this network, an arrow between two people exists if one employee reported that interactions with another employee were energizing.

[7] Exhibits 3, 4 and 5 include 38 MHE employees, since 5 of the 42 positions included in the 2006 organizational chart were vacant at the time of the survey.

Each node in this graph is placed in the same position as in **Exhibits 3** and **4**. The network clearly shows the finance department as disconnected from the center of the company's excitement, with the exception of one person. The marketing department had a more mixed profile. A few members of the department showed signs of isolation from the organization's center of gravity. In contrast, four marketing employees were identified by many sales people as highly energizing individuals. These four marketing employees stood out with sales and operations as the subgroups creating the highest levels of excitement and energy at the company.

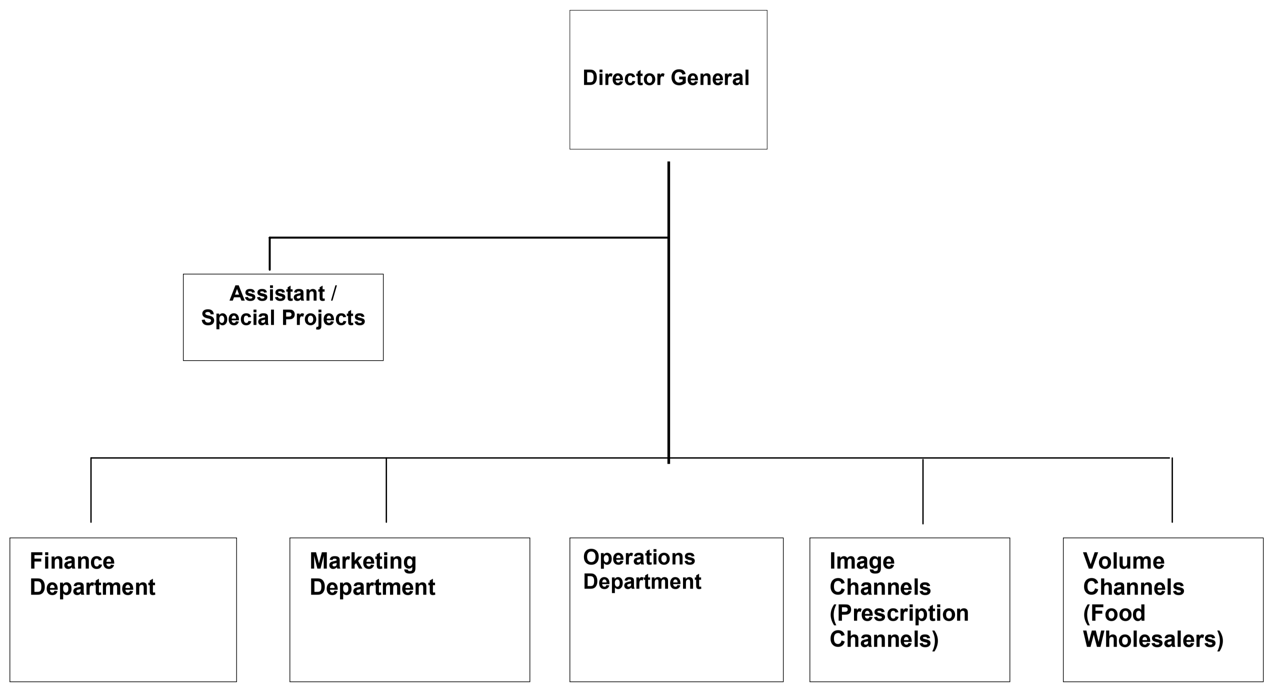
The Future

Otaño knew he had as a detailed set of data about MHE as any general manager could ever hope for. Still, the question loomed before him: with the company's success and unquestionable achievement, how was he supposed to chart the future of MHE? Which priorities should he set? Was he to continue pushing the company toward increasingly modern and professional management practices to aggressively pursue market opportunities, without lingering on "soft" issues such as the quality of interpersonal and inter-departmental relationships? How much of this "soft" stuff was promoting healthy human connections that could make the company more effective, and how much was it allowing personal issues and resistance to change to interfere with the productive work of the organization?

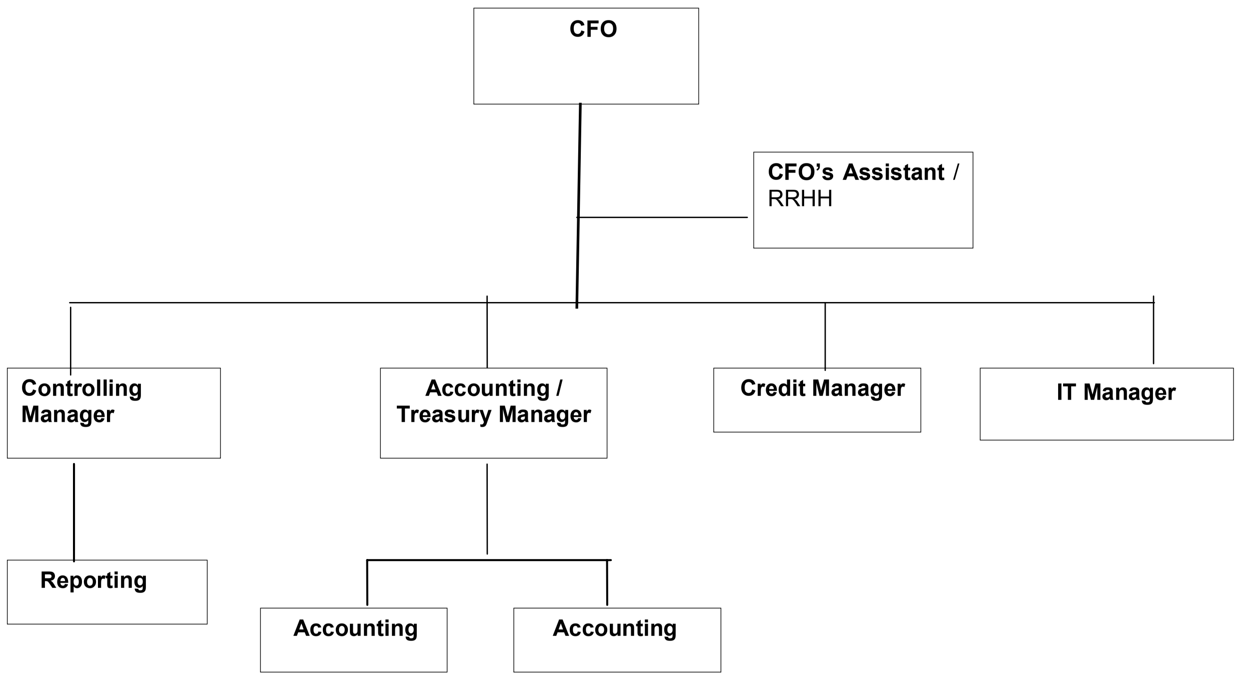
As Otaño liked to put it, "I am a manager, not a shrink." How should he go forward?

Exhibit 1 MHE Organization Chart: February, 2007

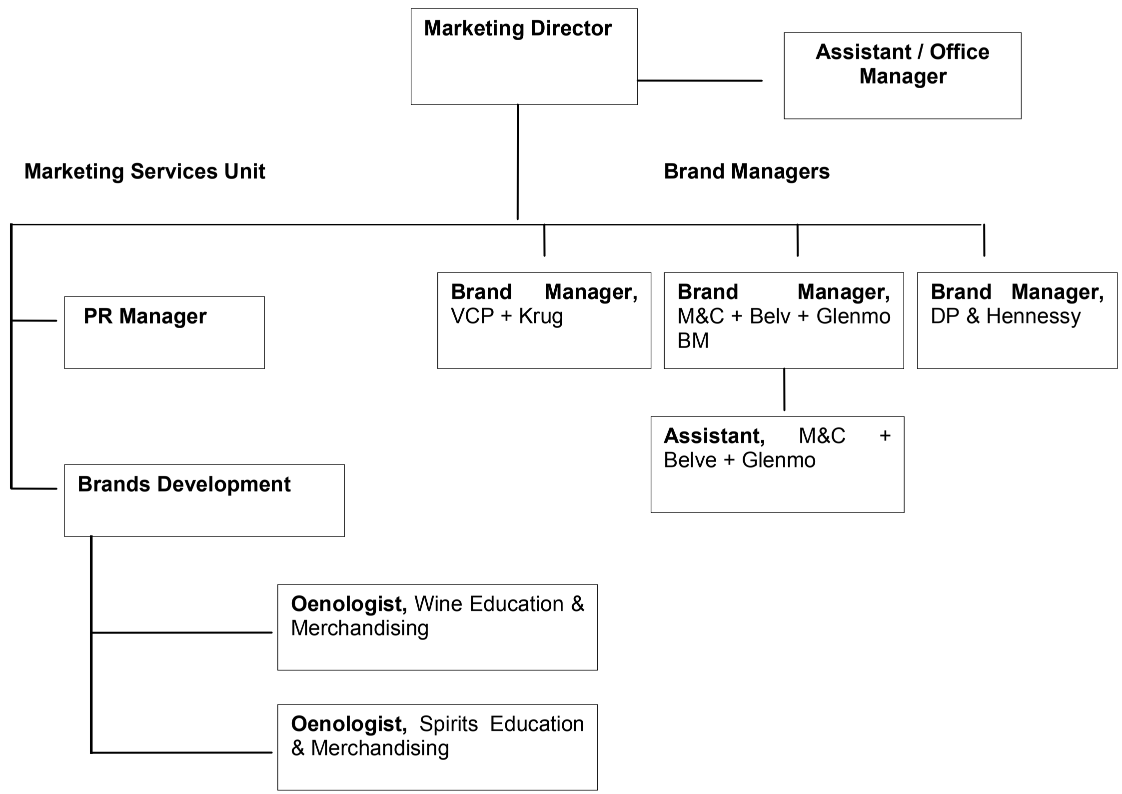
1a) Executive Committee (43 people)



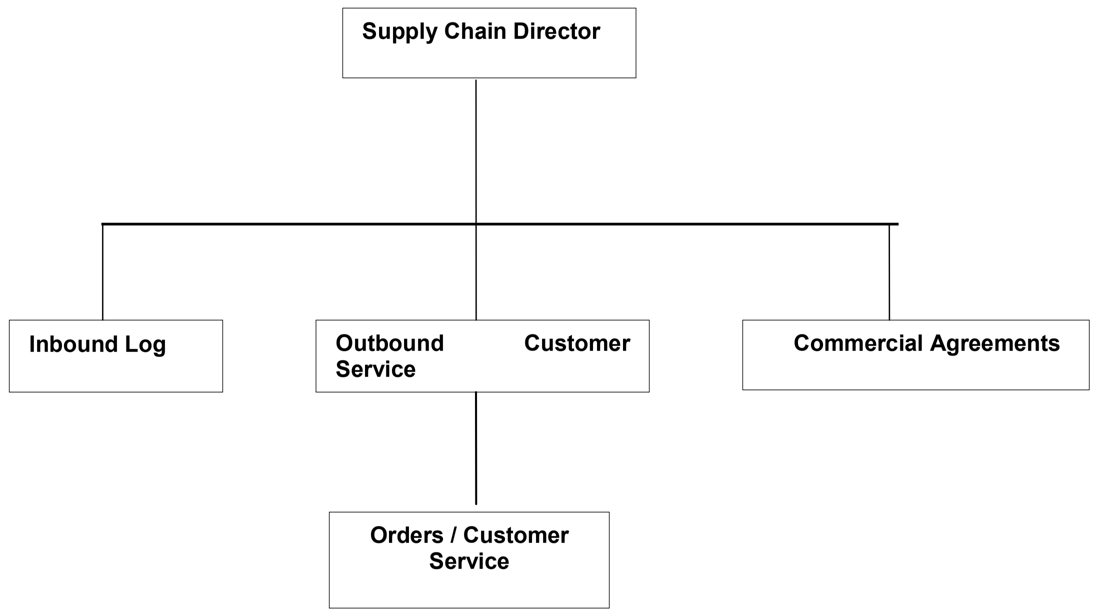
1b) Finance Department (9 people)



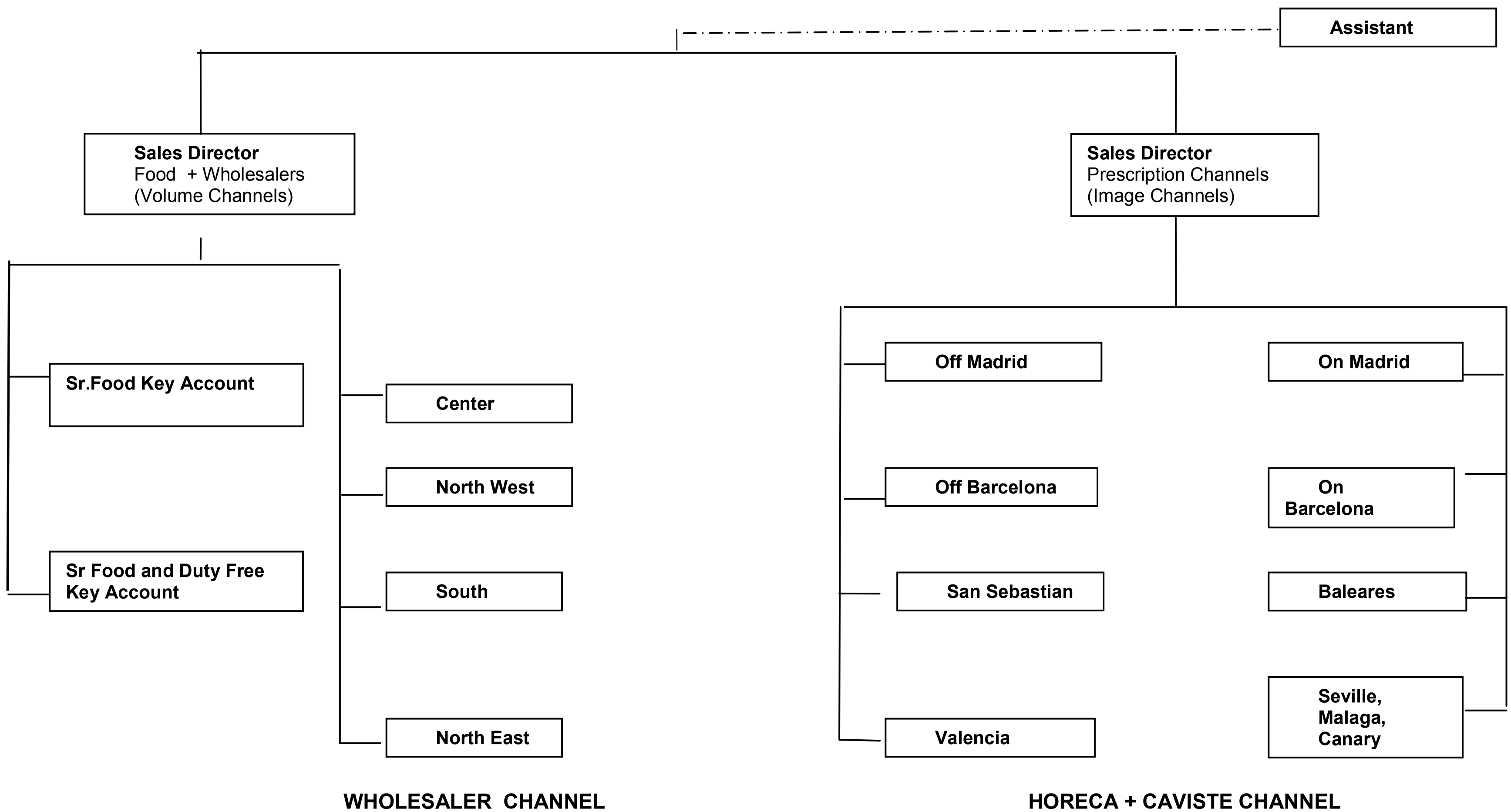
1c) Marketing Department (10 People)



1d) Operations Department (5 people)



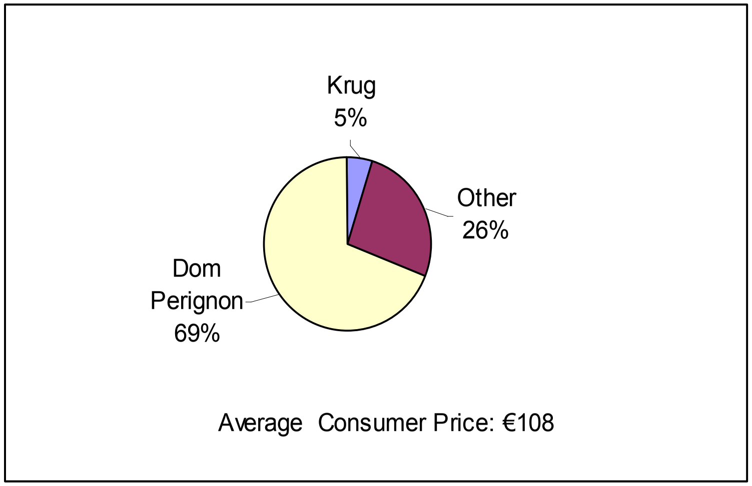
1e) Sales Department (17 People) [1]



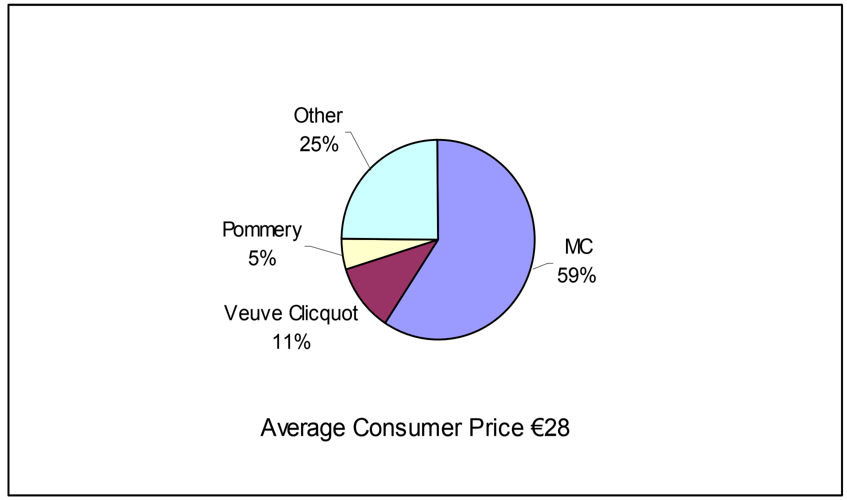
Source: Adapted by Case writer from company data

Exhibit 2 Spanish Champagne Market, Market Share by Brand, 2006

2a) Cuvee de Prestige Segment:

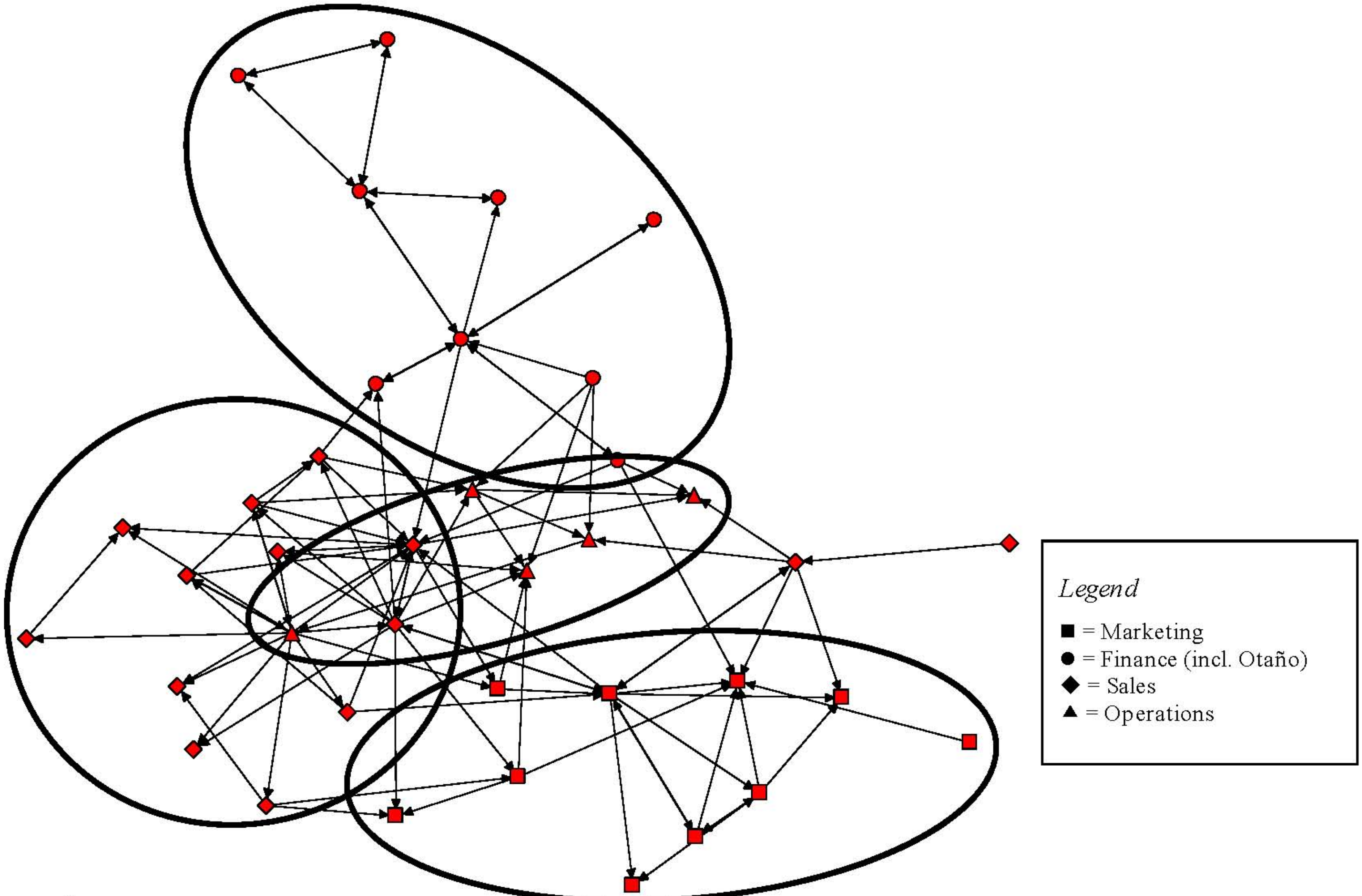


2b) Champagne, General Segment:



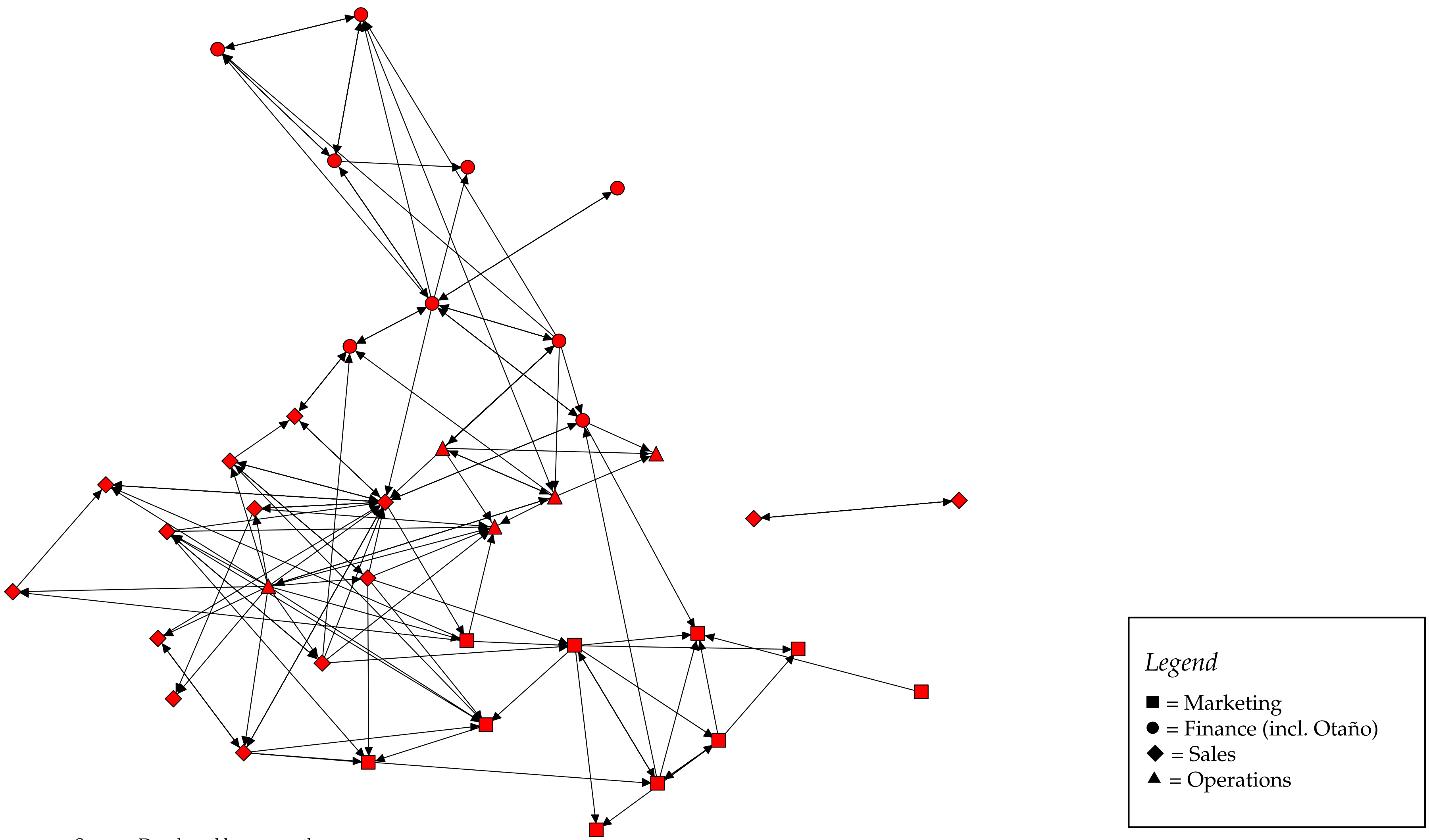
Source: Adapted from data provided by MHE.

Exhibit 3 Network of Informal Relationships of Work-related Input, January 2007[iii]



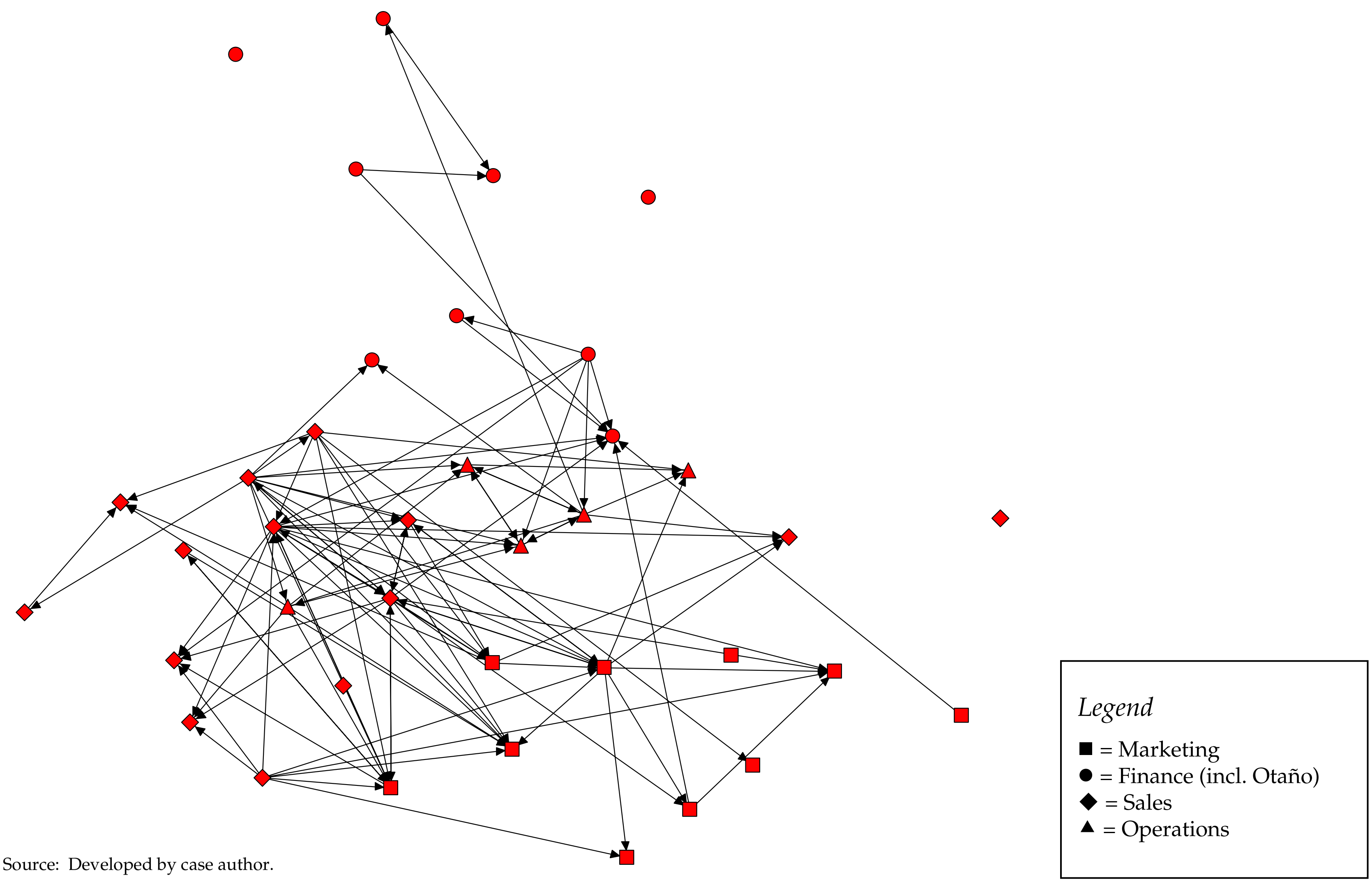
Source: Developed by case author.

Exhibit 4 Network of Work-related Relationships Strongly Required by Job Role or Formal Organizational Position, January 2007



Source: Developed by case author.

Exhibit 5 Network of Highly Energizing Relationships, January 2007



Source: Developed by case author.

Endnotes

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[i] Chandon SA losses reached 160 million Pesetas (USD 1.2 million) in 1995. "Moet et Chandon Buys Remaining Shares in Spanish Subsidiary", *Agri-Industry Europe*, January 19, 1997(accessed through Factiva on April 30, 2004).

[ii] "Freixenet ultima la compra de la bodega de Chandon en España, pero no la marca", *Europea Press*, April 24, 2003 (accessed through Factiva on April 30, 2007); *The International Wine and Spirit Record (IWSR) Report 2006* (London: System Three Communication, May 2006), pp. 43-44. In 2002, MHE sold 54 thousand liters of the champagne Pommery, and 850 thousand liters of the 'best seller' Moët et Chandon (ibid.)

[iii] When Exhibits 3, 4 and 5 were built, MHE had five vacant positions: Reporting (finance department), Assistant to the CEO, and three sales persons.