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# HIGH PERFORMANCE

## Corporations Need a Global Mindset to Succeed In Today's Multipolar Business World

By Catherine Bolgar

**I**n physics, the world has a North Pole and a South Pole. In economics, it's much more complicated — it's a multipolar world.

The economic world's true north — the U.S., Japan and Europe — is losing its magnetic pull as new hot spots, such as China and India, grow. The multipolar world is characterized by multiple centers of economic power and activity.

"The change is dramatic," says Jean-Pierre Lehman, professor of international political economy at the IMD business school in Lausanne, Switzerland, and founding director of the Evian Group think tank. "It's not an evolutionary change; it's a revolutionary change. It defies the economic law of gravity that had been in existence before."

The gross domestic product of the developing world has grown to 49% of global GDP, up from 39% in 1990, and it is likely to surpass the developed world in the next two years, says Mark Foster, group chief executive for management consulting and integrated markets at Accenture, the global management consulting, technology services and outsourcing company.

Big, new markets are sprouting up in places long dismissed as the developing world. It also means big, new competitors from those same places. Emerging-market companies now account for 61 of the Fortune Global 500 list of biggest corporations.

Achieving the long-term success that characterizes high-performance business requires competing across significant changes in the business environment, Mr. Foster says. And probably no change is as important as the emerging multipolar world.

The world "fundamentally changed in 2006, and 2007 is a year of transition," says Mark Spelman, head of strategy for Europe and Latin America at Accenture.

Last year was pivotal because of energy, he says. "With energy demand and supply so tight, a small disruption in Venezuela or Nigeria could have a major impact on oil prices. People began to realize that small countries count as much as big countries. It's a wake-up call that we've moved into an interdependent world."

### Three Kinds of Capital

In such an environment, how do you make your company excel rather than just survive? Accenture has broken down the key areas for winning at the globalization game: human capital, intellectual capital and financial capital.

With talent a global commodity, companies need to focus on recruiting and retaining the best people in the field. But that's only part of the task; they must also integrate these diverse employees into a unified, if far-flung, team, Mr. Foster says. Accenture, he notes, has added 30,000 people in India. "We are evolving to recognize a diversity of insights while a common company culture keeps us glued together."

Diversity is important for customers, too. That's where innovation comes in, to come up with new products and services and to refine them to local tastes, Mr. Foster says. People around the world might want to buy a car, but the kind of car they choose will depend on the local price of fuel, the quality of roads, the size of families. Companies need to get inside the heads of their new customers, because their needs and desires won't be the same as for the consumers they already know.

In capital markets, too, the equation is getting turned around. Emerging economies used to receive foreign direct investment from developed countries. And they used to export investments such as stocks and bonds to more sophisticated and secure developed countries. Now, the inverse is occurring, Mr. Foster says.

### A History of Change

How did so much change occur so quickly in so many fundamental areas?

It's the happy coincidence of such historic events as the collapse of the Iron Curtain in 1989; the creation of the European Union in 1992; and the birth of the World Trade Organization in 1995, says Peter Sutherland, chairman of BP PLC in London and the WTO's first director-general.

The fall of communism "brought basic acceptance that economic efficiency requires open markets and that a command economy wasn't sustainable. That was important for countries like India and Brazil, which had, in significant measure, import-substitution economies," Mr. Sutherland explains.

The rise of institutions such as the WTO and the EU provided an excuse to privatize and cut off state aid to vested interests where they interfered with competition. "Governments have an easier time liberalizing when they have an ogre to blame for doing it," Mr. Sutherland says. "In China, liberalization was taking place ostensibly to meet requirements

for accession to the WTO. Policy makers could use that as a means to reduce protectionist fears."

The cumulative effect of these changes "created a massive new dynamic for investment by major corporations," he says. "Investment was no longer required to be in the place where goods were sold, but could be in developing economies with a view to exporting back to the country of origin."

In those early days, the West was the end-consumer. The factory workers in China, Vietnam, Mexico and other cheap-labor countries couldn't afford the goods they were producing. Globalization was a one-way street of low-cost imports into developed countries.

No more. A middle class has finally gained critical mass in emerging economies around the world, a middle class with disposable income and aspirations. By 2010, there will be 83 million middle-class households in China, and an additional 40 million in India, more than the total for the U.S.

"In the old world," Mr. Spelman says, "developing countries tended to save and export. Now, as incomes rise, people in these countries want to consume." Trade has become a two-way street.

### A Prescription for Success

A world in which nothing is straightforward holds both opportunity and threat, says Mr. Foster of Accenture. "There are more risks in the multipolar world than the world dominated by a few economic leaders."

Accenture's study of companies that have maintained high performance through numerous economic cycles shows they have certain characteristics in common, Mr. Foster says. They have a clear market focus and position; they concentrate on distinctive capabilities to differentiate themselves from the competition; and they have a performance anatomy of people, values and culture to support the differentiation.

In a multipolar world, high performers adjust their market focus and position in response to the shifting locations of comparative advantage. The best market today — for selling, for buying supplies, for setting up production — might not be so hot tomorrow. High-performance businesses anticipate such shifts to gain competitive advantage, Mr. Foster says.

High-performance businesses also recognize that the classic corporate organization by geographic regions makes less sense in a multipolar world. Companies that want to focus on value creation will look at the world differently. They may group mature markets together — such as Germany and Japan — and sources of future growth together — such as China and Brazil — despite the geographic distances, Mr. Foster says.

Companies' organization must change in other ways, too. Huge companies don't need to be hugely complex, Mr. Foster says. Companies must streamline their global operations



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internally. "The inside of the company — the back-office operation — is the place to harmonize processes and look for cost savings. Companies need to be simple on the inside," he says.

By contrast, companies need to be distinctive on the outside, Mr. Foster says. Customers around the world have very different wants and needs, and high-performance businesses will accommodate and create value from those differences.

In essence, "high-performance businesses manage the inherent conflict between globalization and customer-centricity," Mr. Foster says. They exploit global opportunity by extending supply chains, expanding the franchise, finding economies of scale. At the same

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time, they shrink the distance between themselves and their markets by gathering insight into individual consumers and tailoring the customer experience — no one-size-fits-all.

Part of the secret is recognizing that differences do matter, but they matter to different degrees, says Pankaj Ghemawat, professor of general management at the IESE Business School at the University of Navarra in Barcelona and author of the upcoming book "Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter."

Differences vary by industry. But although experts have devised laundry lists of which differences matter more, Prof. Ghemawat says it's more important for companies to develop their own global mindsets and skills for adapting not only to differences between markets but also to change. These global mindsets and skills also help companies to reinvent their three core capitals ahead of the curve — the kind of critical change needed for achieving high performance in a multipolar world.

### Human Capital

A global mindset starts with a company's executives and work force, and "it's not straightforward or built overnight," says

Accenture's Mr. Foster. Global on-the-ground experience is a key element. "People get a real understanding of customers and needs by actually working in these markets," he says. At the same time, cross-border team building can leverage skills from across the world. Corporate "leaders need to have a far higher degree of global awareness and global experience to join the dots," he says.

At all levels, the hunt is on for the supernatural worker. Those with "highly global, highly mobile skills" will be in demand, says Mr. Spelman of Accenture. Some will be highly specialized tech-

increase in world energy demand.

"China and India in particular have worked very hard to set up bilateral deals with the second-tier players in Africa and Latin America," says Accenture's Mr. Spelman. The paradox, he adds, is that with the smaller producers in long-term arrangements, the West is even more dependent on Russia and the Middle East for energy. One side effect is the dash to develop renewable energy, to diversify supplies.

### Intellectual Capital

Biofuels are one kind of renewable energy, and the world leader for their innovative development and use is Brazil. It's an example of how research and development clusters are turning up in new corners of the globe.

China today has 12% of the world's nanotechnology patents. Singapore is a key destination for biotech research and clinical trials. U.S. companies such as General Electric and Microsoft are putting R&D centers in Bangalore.

"In the old world, you had advanced design in developed economies and low-tech work in developing economies," says Mr. Spelman. "It's a much more interdependent model now. Increasingly, companies have networks of focused and specialized R&D facilities around the world. How they make networks work together will be critical in going forward."

Also critical for R&D will be how much governments spend on higher education. In Europe, the U.S. and Japan, education for the young is becoming harder to sell to aging taxpayers. "Economies that haven't invested in skills aren't going to enjoy very high standards of living," warns Prof. Ghemawat.

By contrast, countries that have invested significantly in education, like India, are starting to reap the benefits. They are feeding a virtuous cycle, by improving the skills of their work force, thus attracting more and better-paying jobs and boosting the economy as a whole.

Globalization has brought "probably a billion people out of poverty in the last 15 years," says BP's Mr. Sutherland. Many people who opposed globalization "have at last woken up to the fact that the WTO and international rules are vital to the interests of the poor."

The poor may be the big winners in this global expansion, but any transition also has losers. Some of the West's well-paid, stable careers of the early 1980s, such as computer programming, shifted overseas in the late 1990s. It can be hard to tell a worker in a sector that has suddenly changed that it's all for the greater good of society, Prof. Ghemawat adds.

Others that suffer are companies blindsided by unpredictable risks. Danish-Swedish dairy giant Arla Foods had become so successful in the Middle East that its name became a generic term for butter, says Prof. Lehman. Then, last year, a Danish newspaper published cartoons of the Prophet Mohammed and an ensuing consumer boycott in the Middle East of all things Danish had Arla's business there in ruins. Within five days, sales in the region that had represented 5.6% of the company total had stopped. An appeal directly to consumers helped sales to return to 70% of 2005 levels by the end of last year, and Arla expects to be back to 2005 sales volume by the end of this year.

"They were doing everything right by the rulebook, but there's a new rulebook," Prof. Lehman says.

Despite the risks, globalization can be a win-win game — that is, for anybody willing to keep working, improving and competing.

"Competition is the only way to ensure efficiency and innovation," says BP's Mr. Sutherland. "The U.S. focus on it has kept its economy vibrant. Competition is good for the economy, good for consumers and good for companies."

Of course, competition in the big leagues is also scary. Instead of one supplier, a company might have dozens, with no two in the same country. Instead of one big market, it might have several, and more lucrative ones keep appearing. Instead of serving a set of customers it understands, it must learn the needs of new consumers.

The amount of data to process in this global market means companies "have to cut through the noise of this potentially interesting information to focus on the stuff that's going to make a difference," says Accenture's Mr. Foster. "High-performance businesses will be able to work out the right market positioning and their differentiated capabilities. They will align themselves around that, be bold and keep their antennae up for risks."

