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How to organize for the new realities

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A well-chosen global operating model is critical to growth in today's markets. What a model emphasizes, however, is likely to vary with a company's goals, experience and home-country origins. Here's how two successful emerging-market multinationals are executing their global strategies, with important insights for both developing- and developed-market companies.

• Consulting • Technology • Outsourcing

“Are we properly organized and aligned to execute our strategy across geographic borders?”

“Do we have we the right mix of global scale and local responsiveness?”

These are among the difficult questions more and more executives are asking as they organize to meet the new realities of doing business in a multi-polar world. Indeed, a recent Accenture survey revealed that 95 percent of senior executives in multinationals headquartered in developed markets worry that their companies don't have the right recipe for managing (or extending) their global footprint.

In past decades, the prescription for going multinational was relatively straightforward: Grow from a solid foundation in one's home country and replicate well-established rules and processes across a larger geographic area. Adapt to local conditions but resolve conflicts in favor of the home-office culture. Reduce complexity by maintaining a relatively homogeneous leadership team.

More recently, however, the playing field has changed. Developed-market multinationals now find themselves competing with upstarts from emerging economies. Competition in many industries is now truly global. Emerging-market multinationals in automotive, IT and energy have gained a significant presence in developed economies. Established multinationals struggle to outfox nimble local competitors in the consumer products sectors of emerging economies.

There seems to be a consensus that an effective global operating model—the means by which executives coordinate a corporate center with geographic units as they pursue international growth—is critical to successful growth in a multi-polar

world. (Accenture has developed a model consisting of four essential elements; see sidebar, page 5.) Makes sense—but how do companies, from developed and developing economies alike, create the right combination of global coordination and local responsiveness?

In a search for answers, researchers at Accenture's Institute for High Performance and professionals in the field have launched an investigation into the practices adopted by emerging-market multinationals, asking, in effect, whether they have discovered a different organizational formula for the new global economy. In this article, we report on findings from extensive interviews with the top leaders in two successful companies (see “About the research,” page 7). What we found suggests that there may be a new approach to global organization—one in which emerging-market multinationals have valuable lessons to teach to all global companies.

The new wave

At the heart of our research are the leadership teams from two companies regarded as exemplars of a new wave of emerging-market multinationals. One is an energy and chemicals company that has grown rapidly through successful joint ventures. The other is a telecommunications company that has expanded through a strategy focused on value-added services and international diversification. (At the request of both companies, we have changed their names for the purpose of this article.)

We found that despite differences in industry and strategy, both of these emerging-market multinationals seek to maintain flexibility and nimbleness even as they grow in revenue, product diversity and organizational complexity. They follow conventional wisdom, but only up to a point. For example, as they extend their reach to new and

distant locations, they consciously introduce standardization in the form of business processes, technologies, organizational structure and metrics. However, despite conventional wisdom, they place

a high priority on employee engagement, on collaborative networks and personal ties, and on active but dispersed leadership as keys to the successful management of geographic expansion.

EnerCo: Harnessing people power

EnerCo was founded as the national oil company of an emerging-market country nearly 60 years ago but has since been privatized. In recent years, it has sought to profit from its proprietary technology by expanding internationally; its preferred method has been the joint venture. The company has also developed a robust chemicals business. Meanwhile, its oil and gas and its chemicals business units have each sought out their own opportunities.

Extraordinary effort by its people and a bullish, long-term-oriented leadership are vital elements of EnerCo's story of growth and innovation on a global scale. Great pride is taken in the can-do spirit of its people—the optimism, technical competence, resourcefulness and resoluteness born of the home country's pioneer heritage.

In interviews, executives expressed this spirit in different ways. As one put it, "People in our country don't like to be defeated by anything." Another explained that "you can put our people in very difficult and remote places, and they will make things work." As soon as a need is identified, he added, "you will find people across the company who will start contributing or will make others available to go and fix it."

Despite the company's size and global footprint, an entrepreneurial ethos pervades the organization. According to a company veteran: "People go out there and set up

something and get started. And it's mostly those who haven't done that before at all. Many don't have a full appreciation of business process systems or anything like that. And you see this ambitious engineer with an attitude of 'We can do anything.' "

Executives believe this attitude is a great selling point to potential partners because EnerCo doesn't hesitate to send its nationals abroad to imbue foreign operations with the same spirit and ethic. However, they stress that home-country expatriates must cultivate that spirit abroad, not impose it through centrally issued directives.

Building trust

At the leadership level, the company has built the trust with host governments and local partners that is essential to business success in a foreign country. EnerCo is also willing to go where others are reluctant to invest, and even to meet on partners' home turf. "We are prepared to invest where risk is very high," noted one executive. "Places like Mozambique, Iran, Nigeria and Papua New Guinea."

According to another EnerCo executive, a government minister once complained to him that "when I do business with Western companies, they don't come to my country. I have to fly to another country to meet with them." And perhaps its own emerging-market roots give EnerCo an edge in these areas over developed-market competitors.

Executives recognize that their focus on people and leadership—the so-called “softer” elements of a global operating model—may be essential, but they also know it’s not enough. For example, we were told about the growing sense that the company’s energy and chemicals businesses lacked “coherence.” They were expanding into new countries without coordination; once there, they operated autonomously. Worse, executives worried that the company was starting to lose the opportunity to learn from new operations. As one executive explained, “There’s no way of bringing back

the knowledge or the lessons learned after each process or project.”

Executives sense that EnerCo’s can-do spirit, while admirable, needs to be backed by more standardized and repeatable processes. Noted one: “We have to convince our people that when you start up a new business, you need at least things like payroll and sales and marketing.” But even as they contemplate further expansion (and with it, greater need for standardization), they remain resolute in their belief that “soft-side” management needs to be the highest priority in EnerCo’s global operating model.

CommCo: The harmonization solution

CommCo is a 23-year-old emerging-market telecommunications company that, until recently, enjoyed a local monopoly and offered mostly voice services in its domestic market. After CommCo was privatized and lost its monopoly, it diversified into value-added services such as data and launched a series of acquisitions that dramatically expanded its ability to reach and serve large global enterprise customers. Today, the company operates multiple data centers in Europe, Asia and the United States. More than 50 percent of its sales come from overseas operations.

CommCo, like EnerCo, attributes its success in growing its international footprint to the strengths of its leadership and its people. For example, the executives we interviewed underscored the importance of having leaders who maintain a visible presence in each of the company’s diverse geographic markets.

As one of them told us, “You want to be present in all your markets and set key directions. You want to show you are there, that you’re

supporting each of your overseas markets in the same way you do in your own home-country market. It’s very demanding for the leadership team.” He went on to argue that visible leadership is crucial to success in emerging markets, where processes are not as well developed: “You have to be there when they start their operation to help them build their own and to act as a true partner.”

Three principles guide the approach CommCo’s leaders take to their global operating model: an emphasis on harmonization over standardization; the importance of a geographically distributed leadership team; and “global-local” talent management.

Harmonization consists of a framework of simple rules about what should be local, what should be regional and what should be global in the operating model. CommCo executives insist that harmonization provides them with the benefits of standardization without the loss of flexibility.

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What is a global operating model?

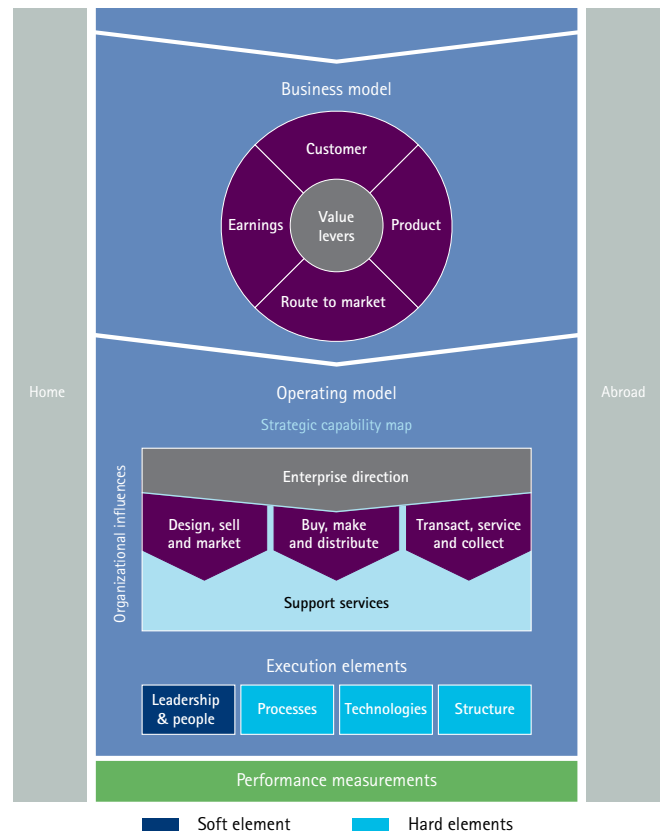
A global operating model is the vehicle through which a company executes its business model and international growth strategy.

A core requirement of a global operating model is that it enables multinational executives to coordinate operations between the corporate center and the geographic business units and to form an end-to-end strategic value chain. Four organizational elements underpin these capabilities. One element (leadership and people) is more intangible—or “soft.” The other three elements (organizational structure, processes and technologies) are more formal—or “hard.” Performance measures tie all aspects of the operating model together (see chart at right).

Leadership and people. Leadership consists of the senior team that substantially influences the organization and serves as an example for how it should operate. Of particular importance to an operating model are an organization’s leadership style, its degree of diversity and the way its leaders make decisions. As for people, the key aspects are the company’s approach to talent management, its emphasis on employee engagement and the way it fosters networking. Also included is the organization’s cultural dimension—the beliefs and shared values that bind its members together.

Organizational structure. Within this element is the way responsibility, reporting and accountabilities are defined. It includes the structural and control mechanisms used both to integrate and differentiate units and businesses.

Processes. This element consists of the clusters of activities that produce measurable outputs. It includes all the management processes that help coordinate input-output activities in the value chain across geographic units. Some examples of processes are strategic planning, resource allocation, knowledge management, innovation management, customer relationship management and supply chain management.



Source: Accenture analysis

Technologies. This includes the physical equipment, software and tools that underpin the processes. For example, enterprise-resource-planning software and intranet portals can help effect financial control, knowledge management and innovation processes.

Taken together, the content and the relative importance given to each organizational element characterize the global operating model configuration. Each element can be thought of as a dial that can be set at different levels; the configuration is the unique combination of these dial settings. To achieve high performance, the organizational elements need to work together in a good internal fit.

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A small number of rules helps determine which processes, technologies and metrics should be standardized across geographic locations and which should be allowed to vary locally.

In other words, a small number of rules helps determine which processes, technologies and metrics should be standardized across geographic locations and which should be allowed to vary locally. Harmonization does not necessarily mean that standards are based on home-country practices. It is possible (perhaps even probable) that the best processes, technologies and metrics will emerge from the network of foreign and domestic operations.

An example of harmonization through simple rules: Activities or decisions that have a direct impact on customers are left to business units rather than to the corporate center. So while the company has chosen a standardized framework for credit, within that framework different regions or countries can develop local processes, provided they are approved by the global comptroller.

The second key to CommCo's success internationally is its distributed leadership. There is no real headquarters; high-profile leaders collaborate from different places around the globe. One executive explained that "the top 50 people in the business . . . are distributed across 12 [world] cities. And less than one-third of them are from the home country." The purpose of this structure, he continued, is "to allow us to be as close to our customers and markets as possible. We hold on to this structure very passionately because we believe that the mix of the people and their location reflect our thinking" about how best to serve customers in each market.

The dispersed nature of the top team, however, doesn't slow the company down. "Even though we are a large company with people around the globe," one leader told us, "the leadership team acts very fast. We can get together with 10 minutes' notice, we can get on the phone wherever we are, and we are there to take decisions."

The last distinctive property of CommCo's global operating model is its approach to talent management. Across the entire company, the importance of common values and employee engagement are emphasized; the human resource function (a shared service) has crafted a common induction process and a global program to train employees to improve virtual team working skills and virtual team management.

Still, the company depends on local teams to respond to customers effectively and quickly. According to one top manager, "The underlying principle is that you need local people to work effectively in local markets, and therefore we have been very strict about adhering to that and building a local talent base."

Control versus flexibility

Several valuable insights can be drawn from the experiences of these two companies.

Most important, these case studies demonstrate that emerging-market multinationals can grow successfully by emphasizing the soft elements of a global operating model—leadership and people. Strong, visible leadership and an entrepreneurial workforce have served CommCo and EnerCo well at home but also have given them an advantage in adapting to the particular market conditions and customer traits often found in emerging markets.

Even as they expand into developed markets, executives in these emerging-market multinationals take pains to avoid stifling what brought the company success in the first place. A top EnerCo manager expressed it this way: "You need to drive standardization on its own merits without cutting back on the can-do culture." A colleague echoed this admonition: "[You need to] balance control versus flexibility, or else you will discourage innovation."

About the research

Because little research has been done on the global operating models of emerging-market multinationals, Accenture devised a case study methodology to explore them in detail. We built the cases by triangulating three data sources: face-to-face interviews with top company executives, external experts' accounts and published material. Interviewees had either operational or central function responsibilities. We chose the oil and gas and the telecommunications industries because companies in both face similar pressures to achieve efficiency

across borders while, at the same time, retaining a high degree of local adaptability.

At the request of both companies, we changed their names for the purposes of this article. "CommCo" and "EnerCo" were selected for their leadership positions within their industries and because their global footprints in emerging and developed markets place similar constraints on their global operating models.

Indeed, too heavy a focus on standardization would undermine EnerCo's joint venture approach to internationalization. Since each venture has distinct goals, and therefore needs distinct management processes and metrics, flexibility is essential.

Looking ahead, top executives at both EnerCo and CommCo recognize that the "hard" elements of their respective global operating models need to be addressed to more effectively leverage their global scale across emerging and developed markets. CommCo, for example, wants to improve internal communications processes, which are essential to the durability of distributed leadership and employee empowerment across time zones. This has led executives to identify the lack of unified technology platforms and formal knowledge management processes as a potential constraint on their ability to leverage the talents of a globally distributed workforce.

Moreover, CommCo is working on clarifying lines of accountability and decision making. This isn't because conventional wisdom calls for greater formalization as a function of increased size but because the company discovered that in the absence of simple rules and common technology, customer-facing employees had begun

to defer to managers halfway across the world, causing long response delays. (For a related article, see "Is this any way to make a decision?" *Outlook*, January 2009.) Once again, standardization—in this case, standardization of decision procedures and communication technology—is taken most seriously when it enables something essential to competitive success: flexible teams of people and empowered leaders.

This brings us to the third lesson these case studies present: Even as emerging-market multinationals seek a balanced global operating model, they put leadership and people first. To put it another way, the hard elements of the model—structure, processes, technology and metrics—should ultimately be seen as supporting those soft elements critical to the effectiveness of a global operating model. As one CommCo executive observed, "With the best processes in the world, if your management is not visionary, your best processes will not help you."

One important facet of visionary leadership is the ability to know when to standardize and when to disrupt the standards. The balance between formalization and flexibility is a dynamic one for these emerging-market multinationals. It is not static, at least not for long.

One thing is clear: If multinationals intend to operate in both developed and emerging markets, they can't lose sight of the potential for people and leadership to be critical drivers of success in a multi-polar world.

Operating models that focus on short-term performance, managing uncertainty and reducing complexity may be well tailored for competing in developed markets, but they may not be suitable for success in emerging economies. Developed-market multinationals may need to shift from a formalistic, standards-driven global operating model—one in which the strengths and potential of leadership and people are limited by an excessive emphasis on standardized and centralized processes, technologies and structure—and embrace a more flexible model.

Some companies will undoubtedly struggle to resolve this tension. In deference to the culture of the home-country market, they may attach too much value to the legacy elements of the model that brought them success in the past. The truth is that companies need not make this an either-or proposition.

Over time, emerging-market multinationals will begin to put more emphasis on the hard elements of the model: processes, technologies and organizational structure. They will also place a greater emphasis on performance metrics. Yet if the experiences of EnerCo and CommCo are any guide, the best emerging-market multinationals will ultimately prove to be both comfortable and adept at bringing a dynamic balance between the "hard" and the "soft" to their global operating models.

In fact, it's a lesson that all companies would be wise to learn: Those that emphasize the right balance of elements in their global operating model will be best positioned to execute successful multi-polar strategies.

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