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High-Performance Business

Brave new world

By Paul F. Nunes and Mark Purdy

Large multinational companies from emerging markets have started to assert their clout, fundamentally altering the shape of globalization. This shift in economic power means that companies seeking to achieve high performance in a multi-polar world need to rethink many basic assumptions about customers, talent and innovation.

In 1983, in a now legendary *Harvard Business Review* article, marketing sage Ted Levitt announced that the future belonged to "the global corporation." That future is now.

But *which* global corporations will it belong to? This has become increasingly uncertain. In the 1980s and 1990s, globalization was driven by the economies of the developed world, and it was primarily companies from the United States, Western Europe and Japan that sought opportunities to fully attain and exploit global scale. But more recently, large multinational companies headquartered in developing countries like China and India have started to assert their clout, fundamentally altering the shape of globalization.

The rise of these newer multinationals means that the global economy is no longer dominated by a few developed countries. Already, the combined GDP, at purchasing power parity, of the emerging economies (as defined by the IMF) is roughly equal to half that of the developed world—48 percent in 2007, a ratio expected to shift to 54 percent by 2015 and 60 percent by 2025. Today, we all live and work in a multi-polar world characterized by multiple centers of economic power and business activity.

This shift in the balance of economic power brings new opportunities for all businesses. But at the heart of the multi-polar world there is also a crucial challenge. Regardless of where they're based, companies will increasingly have to compete globally for the same ingredients that are critical to high performance: talent at all levels, consumers with new-found affluence, natural resources essential to steady operations, capital for new investments and the innovative ideas that are the lifeblood of long-term growth and profitability.

In this environment, success will require important refinements in the way companies approach the three building blocks of high-performance business—market focus and position, distinctive capabilities and performance anatomy. In particular, companies must recognize that doing business in a multi-polar world will require them to rethink many basic assumptions about customers, talent and innovation.

Global integration

Three forces have given rise to the emergence of this multi-polar world. The first is the increasing spread and power of information and communications technologies, which have eroded time and distance as barriers to trade and capital flows. Economic liberalization—both within and across borders—has been a second key element, bringing China and many other countries into the global economy by reducing protectionist barriers. The third force is the increasing number, diversity and influence of multinationals, from developed and developing countries alike, that constantly scan the globe for new markets, new sources of labor and capital, and new economies of scale.

The result is an unprecedented integration of the global economy that has knit emerging and developed economies tightly together as they compete, often as equals, throughout the world for the same assets and resources. This competition is especially visible in five particular battleground areas.

1. The globalization of talent

The war for talent, especially for people to fill knowledge worker positions, has gone global. And for good reason: Various estimates put the global shortfall of qualified people to fill these positions at between 32 million and 39 million by 2020. The global search for talent has accelerated to the point where Taiwan has established an office in Silicon Valley specifically to encourage expat high-tech workers to return home.

The developed world is particularly likely to suffer from this shortfall because of demographic trends. Fertility rates across much of Europe and in Japan, for example, have fallen below the rates needed to maintain working-age population levels. In these generally affluent societies, retiring workers are making the skills shortage worse. Japan’s working-age population is expected to shrink by more than 15 million between 2005 and 2030, a decrease of 18 percent.

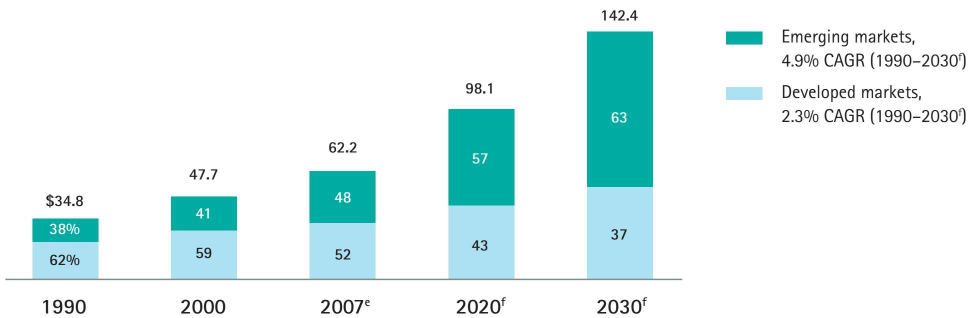
On the other hand, over the same time period, countries such as Brazil, Mexico and India are expected to see a dramatic expansion in their working-age populations; in India, for example, this cohort will increase by 46 percent. So companies expecting continued growth need to expand their workforce sourcing horizons by looking to places where the workforce is growing rapidly or by considering new ways to keep an aging workforce engaged longer.

But the talent shortfalls are about skills, not just bodies, making it an issue in developing economies as well. For example, India faces a predicted shortage of 500,000 skilled IT workers by 2010. A number of nations are finding fewer workers trained in such disciplines as engineering and the hard sciences, while declining academic standards in some countries are producing university graduates that industry leaders fear are inadequately prepared to deal with the rigors of global competition.

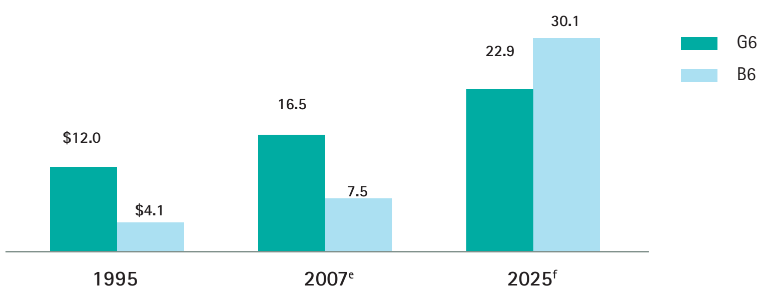
Growing clout

Within 20 years, emerging economies are projected to overtake the largest developed economies in both share of global GDP and real private consumption.

Real global GDP, 2005 prices at purchasing power parity ($ trillions)



Real private consumption, 2005 prices at purchasing power parity ($ trillions)



G6 = France, Germany, Italy, Japan, the United Kingdom and the United States; B6 = Brazil, China, India, Mexico, Russia and South Korea
Source: Economist Intelligence Unit

Other countries, however, have excelled in producing highly trained employees. South Korea, for example, produced more engineers in 2005 alone than France and Germany combined, despite having one-third of their total population.

For nations to remain competitive, businesses must see an educated citizenry as part of their responsibility. They need to participate in a new, coordinated agenda among governments, business, educational institutions and philanthropic organizations to raise the general level of educational preparedness among their nations' citizens.

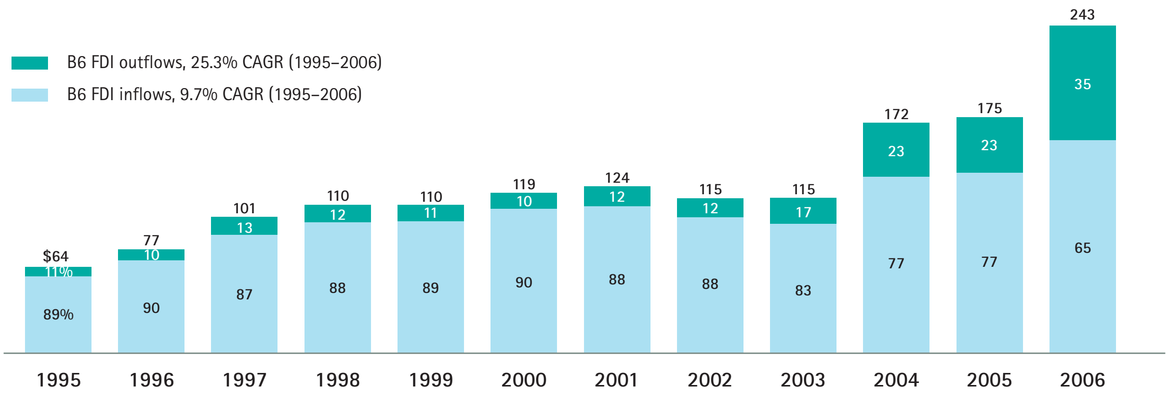
2. The flow of capital

As the pattern of global investment flows shifts in a multi-polar world, companies will be competing for financing from more diverse sources of capital. In 2006, emerging economies provided about 16 percent of the world's total foreign direct investment—a steady increase since 2003—with much of it going to other emerging markets (Indian and Chinese investment in Africa, for example). These "emerging-to-emerging"

More diverse sources of capital

Although B6 foreign direct investment inflows and outflows have both been growing, the outflows have been growing more quickly.

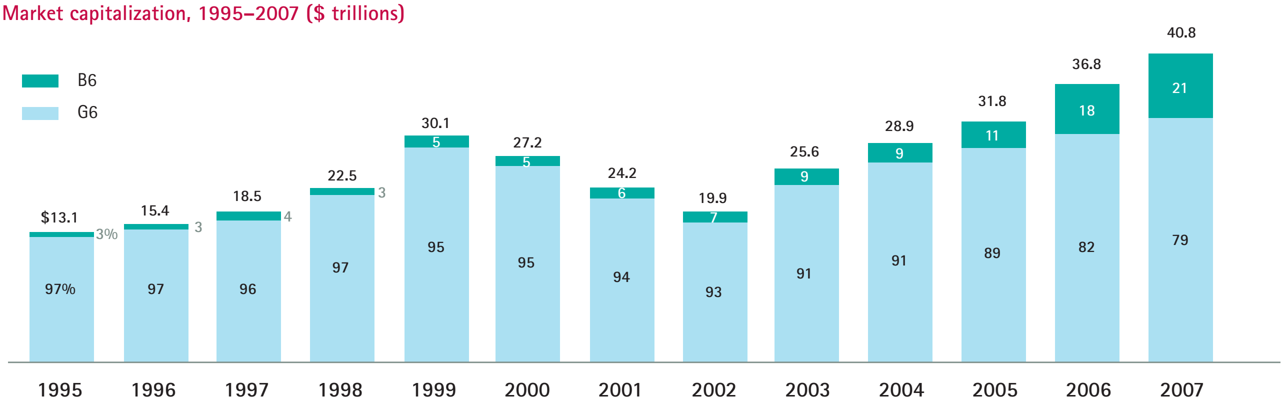
B6 inflows and outflows of FDI, 1995–2006 ($ billions)



Source: Economist Intelligence Unit

Meanwhile, local equity market capitalization in key emerging economies has been growing as a percentage of the total market capitalization of G6 and B6 countries.

Market capitalization, 1995–2007 ($ trillions)



G6 = France, Germany, Italy, Japan, the United Kingdom and the United States; B6 = Brazil, China, India, Mexico, Russia and South Korea
Source: Euromonitor

capital flows provide companies in those markets with an alternative to the developed economies as a source of funding. In emerging economies, companies seeking financing closer to home will also benefit from burgeoning local equity markets.

This rise in outward direct investment from developing economies is being driven in part by the growing number of multinationals from emerging markets. The Fortune Global 500 now includes more than 70 companies from these economies, up from just 20 in 1995. They are a diverse group. In addition to 24 Chinese multinationals, these new global heavyweights include companies from such countries as South Korea (14 companies); Mexico (five); and

Malaysia, Saudi Arabia, Singapore, Thailand and Turkey (one each).

Investment by emerging-market multinationals isn't limited to developing economies. From 2000 to 2006, the combined value of the 10 largest acquisitions in Western markets by these companies was nearly $80 billion, in sectors including oil, healthcare, banking and telecommunications.

Emerging-market sovereign wealth funds—state-backed vehicles with a mandate to invest overseas—are also buying significant stakes in well-known Western brands. With these moves, the funds are diversifying beyond the safe but unspectacular returns of US Treasury bills and into the potentially higher returns of equity investment. At the same time, they're gaining market knowledge and opening the door to a share in the future know-how and perhaps customers of developed-market multinationals.

The growth of outward investment from emerging markets can be viewed by companies in developed economies as a potentially rich source of capital and market opportunities (as demonstrated by the sigh of relief heard on Wall Street after recent investments by sovereign wealth funds in the troubled US financial sector). But such investments are also emblematic of the heightened competition in the global financial markets.

3. The battle for resources

As emerging economies become more prosperous, their energy needs are growing rapidly. For example, between 2001 and 2006, China accounted for 46 percent of the growth in global primary energy demand—compared with developed economies as a whole, which accounted for just 10 percent of the increase in energy demand over the same period. And the global use of energy, as measured in BTUs, is expected to rise from about 420 quadrillion in 2003 to 722 quadrillion by 2030. In the absence of the significant development of alternative energy sources or the discovery of substantial new sources of fossil fuels, this rise in consumption will lead to ever-higher prices and greater global competition.

Competition will also be keen for minerals, metals and even water. Demand will only increase. Under these circumstances, serious conservation efforts across a broad spectrum of resources and materials will be essential. In particular, companies will need to reduce their reliance on carbon-based fuels by diversifying their sources of energy and by innovating to become more efficient users. (For a related article, see "The business case for a greener IT agenda," *Outlook*, May 2008.)

4. The emergence of new consumers

Within emerging economies, consumers at all levels have been improving their standard of living, and trends suggest the continued rapid growth in consumption. In China, for example, the number of households classified by Accenture as affluent more than quadrupled from 1997 to 2007, from 5 million to 24 million, and is projected to reach 129 million by 2017. Likewise, the number of middle-class households in China is expected to rise from 52 million households today to 130 million by 2017.

The location of major consumption growth is changing as well. Consumer expenditures in the six leading developing economies—Brazil, China, India, Russia, Mexico and South Korea (a group Accenture calls the "B6")—are expected to outstrip expenditures in the G6 (United States, United Kingdom, France, Germany, Italy and Japan) by more than 30 percent by 2025. In 2007, by contrast, B6 consumer expenditures were less than half those in the G6. This new global buying power will be hard fought for by both developed-market companies looking for growth that surpasses GDP growth in their home countries, and by new entrants seeking to use rapid market growth as a quick route to global prominence.

5. The new map of innovation

Governments in emerging markets are stepping up their research and development efforts. An early leader was South Korea, which launched its Frontier 21 R&D initiative in 1999 to fund 10-year programs aimed at meeting specific market or technological needs. The country now devotes about 3 percent of its GDP to R&D, a higher percentage than the United States or the European Union.

Centers of R&D excellence have developed in many other emerging markets—for biofuels in Brazil, for software engineering in Russia, and for the high-tech and automotive industries in Poland, to list a few examples. These developments reveal a clear message: Developed economies can no longer take their lead in innovation for granted.

Implications for high performance

Accenture defines a high-performance business as one that outperforms its peers consistently over the long term. Our ongoing High Performance Business research program, which covers more than 6,000 companies, along with our observations and experience in the marketplace, have established that these businesses differentiate themselves by balancing, aligning and renewing three essential building blocks of high performance:

- **Market focus and position:** the business strategy decisions regarding where and when to compete
- **Distinctive capabilities:** the hard-to-replicate capabilities that define how businesses compete
- **Performance anatomy:** the common mindsets relating to culture, leadership and the workforce that drive performance

While creating and maintaining the proper balance among the building blocks remains critical to achieving high performance in a multi-polar world, our research and client work point to significant changes in how high performers, driven by the trends that are reshaping globalization, will achieve this. These changes inform a new agenda—a global to-do list for all companies, if you will—for achieving high performance in a multi-polar world.

We have broken out just a few of the key agenda points here, organized by high-performance building block.

Market focus and position

Expanded markets—both in terms of size and geographic distribution—will compel high-performance businesses to:

Rethink the customer

Global high performers will need to target and capture the hearts and minds of consumers in more regions and countries and with greater cultural variety. Doing so will require knowing where your company's brand is strong, and where it is weak.

Consider how Kingfisher—Europe's leading home improvement retail group and the third largest in the world, with leading market positions in the United Kingdom, France, Poland, Italy, Turkey and China—anticipates customer needs in emerging markets. Through its B&Q unit, the company adapts its stores to local market needs. For example, in many markets, B&Q employs a self-service model. But in China, where knowledge of home improvement techniques is not extensive, Kingfisher views staff training and customer advice as critically important. Employees at B&Q's Chinese stores typically receive 36 hours of training a year, and vendor representatives are brought in to give specialist advice.

Since the new apartments purchased by typical first-time homeowners in China do not include even minimal decoration, B&Q offers a full installation service, including painting the walls and installing kitchens. In 2007, it provided this service in more than 30,000 apartments.

Globalize the operating model

To remain competitive, companies must operate in new ways that go beyond taking advantage of low-cost sourcing opportunities around the globe, to create fully integrated global supply and demand chains.

Some high performers are already achieving this through a multi-pronged approach combining best-practice use of outsourcing, web services, third-party logistics and more. Key to their success will be supply chain mastery. This will include procurement excellence that becomes strategic, featuring partnerships with suppliers that deliver tangible value to end consumers, and nearly flawless fulfillment capability, characterized by an uninterrupted flow of goods and services to customers that have become accustomed to high levels of service availability.

Follow the market shift to sustainability

For the moment, growing consumer awareness of and sensitivity to the impact of business operations on the environment is a trend limited largely to developed economies. Nonetheless, high performers will become increasingly responsive as market demand for sustainable offerings grows. Already we have seen backlashes against genetically modified foods in the United States and Europe and, on the other hand, the tremendous success of organic food grocery chains.

This focus on sustainability will become more widespread as the growth of global consumption continues to strain the global environment, accelerating climate change, the loss of biodiversity, and the buildup of a wide range of harmful contaminants and waste. These challenges will create new opportunities for savvy companies to change not just their operations but their offerings and target markets as well.

Distinctive capabilities

The accelerated pace of global innovation will require high performers to:

Innovate to new levels of distinctiveness

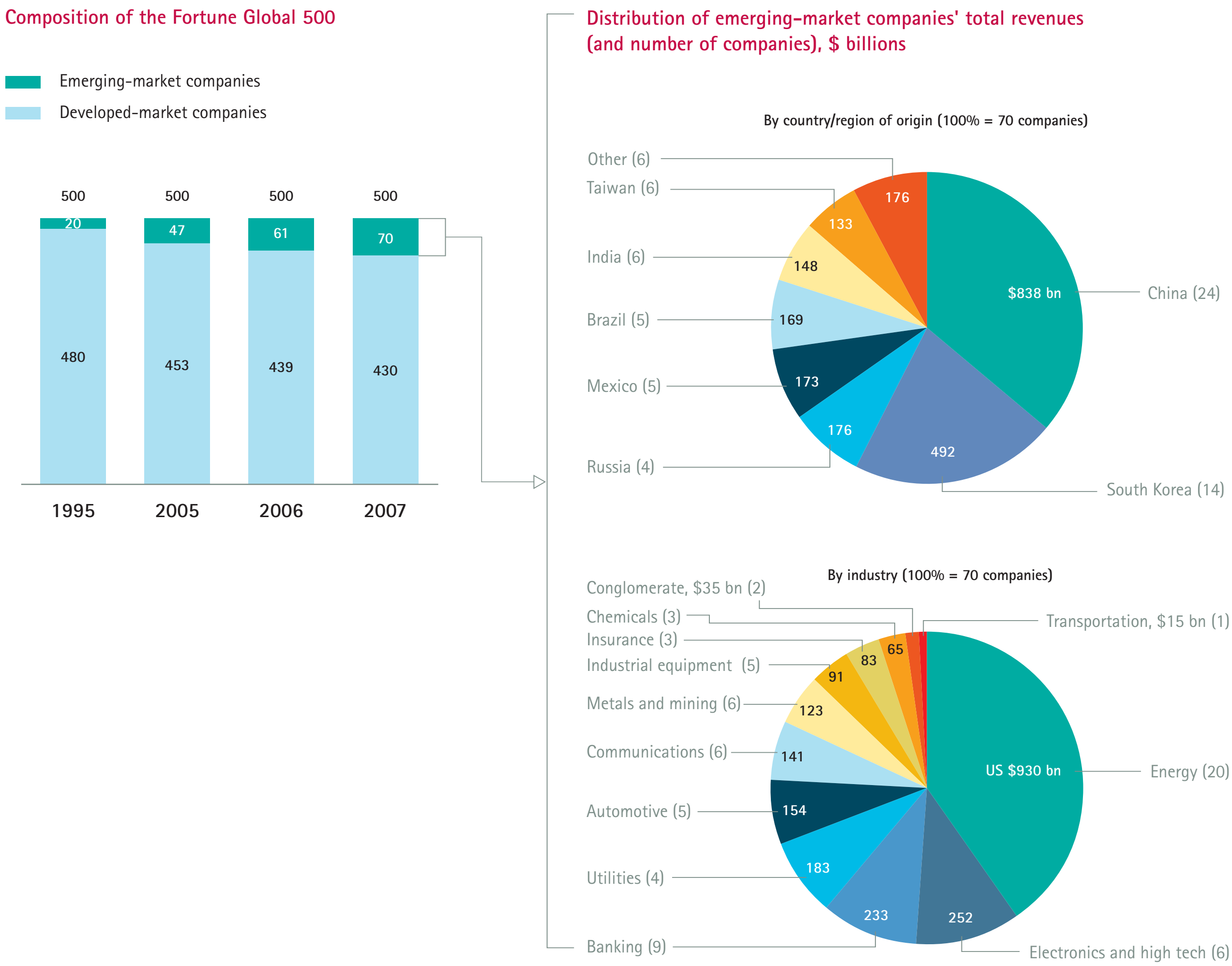
Multinationals from developing nations have quickly moved up the value chain to the point where they now create and compete on design as well as production. They, and their counterparts in developed countries, are doing so in part through the application of open innovation on a global scale, sourcing innovation both inside and outside the traditional boundaries of their business. At the same time, they are managing the growth in complexity that arises from tailoring offerings to new markets, all the way down to individual customers.

Nokia, for example, has a goal of adding 2 billion users by the end of the decade, and it is looking to find many of them in emerging markets. Within those markets, the Finnish mobile phone maker operates nine design studios in which researchers (including anthropologists and psychologists) and designers work to create phones tailored to local market conditions and needs. Features that vary might include color, surface texture, keypad design and ring tones.

The company has also customized phones specifically for the physical conditions in local markets. It has,

A new breed of multinational

The number of emerging-market companies in the Fortune Global 500 has more than trebled since 1995.



Source: Fortune Global 500, 2007

for instance, developed a seamless, dustproof keypad for particularly dry climates, and in places with high humidity it has added special features that make its phones easier to grip. In developing countries, phones are often shared by more than one user to save on costs, so some Nokia phones allow multiple users to store their own contact lists. They can also set a cost or time limit for a call.

Protect and defend previous innovation

In a multi-polar world, it is not enough to be innovative; companies must be able to secure the benefits of their innovations. Our ongoing High Performance Business research highlights the growing need to combat counterfeiting, for example, a threat to business that is no longer just fake watches and bootleg DVDs. Counterfeiters are now using improved manufacturing capabilities—and often the same production lines used to create the originals—to generate extremely high-quality knockoffs of everything from patented drugs to automotive parts.

This isn't a problem just for Western multinationals. China, for example, has been prosecuting violations of its own trademarks for well over a decade. Affected products have included bicycles, wine, cigarettes and ginseng.

No level of innovation or distinctiveness has value if intellectual property rights cannot be protected through globally recognized, consistently enforced legal standards. High performers are already actively securing their rights, even as they continue to innovate, and are creating the processes they need to effectively and globally defend their intellectual property.

Secure sources of scarce resources

In many industries, the ability to maintain distinctive capabilities requires dependable access to affordable natural resources. For example, when the growing demand for ethanol caused an increased demand for corn, the repercussions were serious and widespread. The entire dairy industry, for example, was affected, all the way down to the ice-cream sector, where the fallout included rising prices, reduced demand and a move by consumers to alternative products. In a world of soaring global demand, high performers will find creative ways of securing affordable access to critical resources.

One way to resolve potentially crippling competition is by turning instead to "coopetition." In 2004, for example, Indian and Chinese energy companies were engaged in potentially ruinous fights over the purchase of oil stakes in Kazakhstan, South America and Africa. (China imports almost 50 percent of its oil; India, more than 70 percent.)

Chinese companies generally outbid their Indian counterparts, but the aggressive bidding war pushed up prices. Waking up to this destructive reality, executives from both countries decided to work together to acquire stakes in oil companies in different regions. Since then, Sino-Indian joint ventures have purchased major stakes in oil assets in Syria and Colombia. These moves should ensure that for some years to come, businesses in India and China have access to the energy resources they need.

To be sure, the "coopetitive" approach will not work everywhere, but it's worth considering when interests are, in fact, aligned. More important, perhaps, this example underscores the larger point that when it comes to scrambling for scarce resources of any kind—physical, financial or intellectual—the developing economies have become formidable competitors.

High performers will also begin to wean themselves from resources that are in short supply, reducing consumption and finding alternatives. An organizational commitment to sustainability that includes the use of alternative energy sources, a drive for much greater energy efficiency, the use of low-impact chemicals and the increased use of recyclables may characterize this kind of effort.

Performance anatomy

With so much of the world's future value creation locked up in the heads of its people—many of whom are not yet even in the workforce—high performers will need to:

Focus on talent power

Perhaps the biggest challenge for any multinational in a multi-polar world is securing and retaining talent. Discovering new sources of talent will be especially critical to high performance.

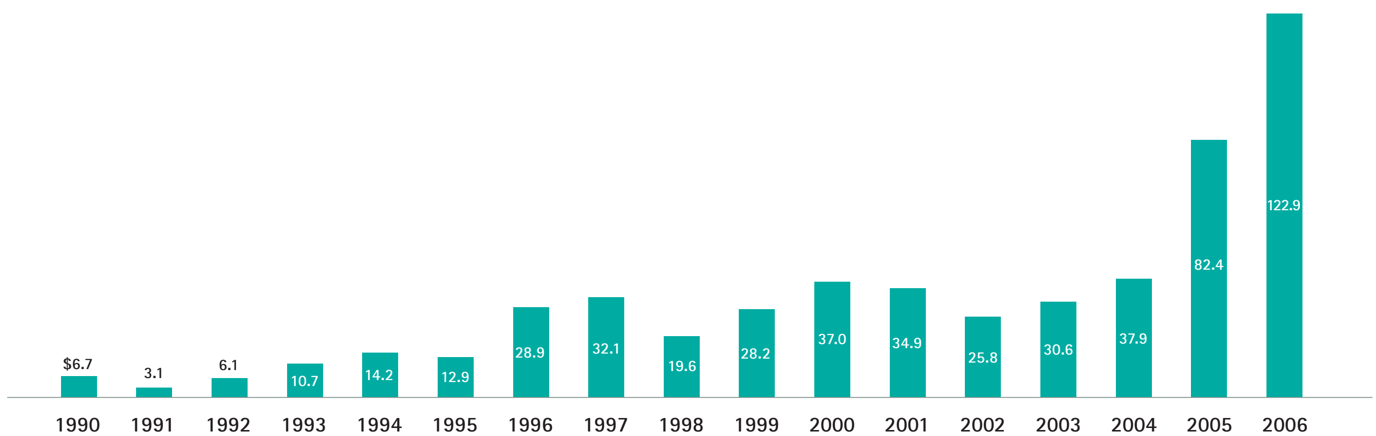
Accenture research on the talent-powered organization has revealed that high performers take a four-step approach to securing the talent they need, especially as they seek to take advantage of "talent multiplication"—getting more from their investments in talent than their competitors do.

(Continued on page 11)

Outward investors

In more and more cross-border M&A deals, the acquirer is from an emerging market.

Cross-border M&A deals where the purchaser is from an emerging market, total value of deals ($ billions)



Source: United Nations Conference on Trade and Development

Ten largest cross-border M&A deals where the purchaser is from an emerging market, 2000–2006

Rank	Value ($ billions)	Acquirer	Acquirer's country	Target	Target's country	Year
1	17.2	CVRD (now Vale)	Brazil	Inco Ltd	Canada	2006
2	12.8	Weather Investments SRI	Egypt	Wind Telecominicazioni SpA	Italy	2005
3	8.5	SingTel (Singapore)	Singapore	Cable & Wireless Optus	Australia	2001
4	7.8	Ambev	Brazil	John Labatt Ltd	Canada	2004
5	6.9	Thunder FZE	United Arab Emirates	Peninsular & Oriental Steam	United Kingdom	2006
6	6.6	Oger Telecom	Turkey	Turk Telekomunikasyon AS	Turkey	2005
7	5.7	DBS Group Holdings Ltd	Singapore	Dao Heng Bank Group	China (Hong Kong)	2001
8	4.4	PSA Corp Ltd	Singapore	Hutchison Port Holdings Ltd	China (Hong Kong)	2006
9	4.1	CNPC International Ltd	China	PetroKazakhstan Inc	Canada	2005
10	3.9	Investor Group	South Africa	General Healthcare Group PLC	United Kingdom	2006

Note: Does not include Mittal Steel. Definition of cross-border derives from geographical location of ultimate parent companies.

Source: United Nations Conference on Trade and Development

(Continued from page 9)

These high performers define their most critical talent needs, discover it in new places, develop it through constant and universal training, and deploy it creatively to solve difficult problems. And with talent frequently sourced all over the world, established multinationals will have to continue to stress on-the-job training.

Thoroughly integrating large numbers of new employees is a challenge in this environment. Procter & Gamble is addressing this challenge in part through P&G Beginnings, its orientation program for new employees. One key to this yearlong program is that while it was designed to ground new people in P&G's culture and expectations, it is also customized to take regional differences into account.

Another way of gaining an edge in the talent wars is by showing that work–life balance is not just a catchphrase. Practices that have been successful in the developed world can often be applied in emerging economies, as Microsoft Corp. has demonstrated in Hyderabad with its Microsoft India Development Center. Established in 1998 with 20 people, today the center's more than 1,200 employees work hard but also enjoy the cricket fields, pool tables, Xbox 360 machines and other amenities on the campus.

Rethink retention

Ongoing Accenture research on this issue indicates that the best way to keep good people is counterintuitive: It is not about constructing a traditional career ladder for them but instead is about increasing and maintaining their engagement.

Related reading

For a look at some of the forces reshaping globalization, see "Making the trend your friend" (*Outlook*, May 2006) and *The Rise of the Multi-Polar World* (Accenture, January 2007). For an analysis of the new generation of multinational companies, see *Multi-Polar World 2: The Rise of the Emerging-Market Multinational* (Accenture, January 2008).

The following related articles on the building blocks of high-performance business have also appeared in *Outlook*.

Market focus and position:
"Why winning the wallets of China's consumers is harder than you think" (September 2007)
"China: Moving up the value chain" (September 2006)
"How to build a successful global operations model" (May 2006)
"Lost in translation: Avoiding misadventure in cross-border M&A" (May 2006)

Distinctive capabilities:
"How to capture the essence of innovation" (January 2008)
"A bold new look in global sourcing" (September 2007)
"Innovation unbound" (January 2006)

Performance anatomy:
"Turning experience into leadership" (January 2008)
"Where will all the talent come from?" (January 2008)
"The talent-powered organization: Leveraging your most important competitive asset" (September 2007)

One way to do that is by treating each employee as a "workforce of one." Paradoxically perhaps, a workforce-of-one approach does not mean anything goes; rather, it is a way of structuring a basket of practices and processes—including compensation, training, benefits and workspaces—to increase the engagement and productivity of each employee.

This approach, and the general focus on engagement and continual learning, will be particularly important to the millions of young workers entering the workforce in the years to come. Such workers, especially in the developed world, will be more comfortable with technologies than generations in the past were, and less comfortable with regimentation and hierarchy.

Flexible HR practices and processes will be all the more critical as millions of people from varied cultural backgrounds and with different values enter the workforce. In addition, global companies in emerging economies will have to develop talent indirectly by investing in the social infrastructure, such as health and education programs and institutions. For example, South Africa–based Telkom, Africa's largest fixed-line phone company, runs a voluntary HIV/AIDS testing and counseling program, among many other such efforts for its employees as part of its long-term HIV/AIDS strategy. As a result, the company has seen lower rates of absenteeism and higher levels of productivity.

Build a global leadership pipeline

No discussion of talent would be complete without mentioning the need for leaders and for leadership development. In the multi-polar world, experience—and the ability to learn from it—will often trump other leadership-development tools. For some aspiring leaders, posts in challenging businesses and new countries will be "crucible experiences"—times of trial from which they emerge with newfound strengths. Companies that learn how to shape and mine those experiences will have a leadership pipeline that doesn't run dry. And that's a talent imperative of its own.

The altered competitive dynamics of the multi-polar world have made achieving high performance more challenging than ever. To get there, companies will have to embark on a journey that demands courage, effort and persistence. This journey will require skills in what we call global navigation—the ability to transform an organization so it can thrive in this environment of global competition. Some companies have begun the journey, building the fundamentals of high performance and adapting them to new conditions.

The economic and business landscape of the multi-polar world is not static; it will constantly evolve. As it does, Accenture will continue its research into the best practices of high performers, distilling them into practical ideas for companies throughout the world.

About the authors

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