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Five Things Every CEO Must Do in the Next Era of Globalization

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NOVEMBER 18, 2014

The huge wave of globalization that took place over the last two decades has come to an end. The big winners are those companies that have established a significant international footprint—especially in emerging markets—pulling ahead of companies with a regional or domestic focus. Over the last decade, Volkswagen, the German automaker, has increased its annual revenues by an average of 10.5 percent, whereas Peugeot, its French rival, has seen revenues grow by an average of only 2.5 percent. Likewise, Procter & Gamble, the U.S. consumer giant, has enjoyed average annual growth rates of 7.6 percent, twice the 3.1 percent average achieved by Clorox, one of its regionally focused U.S. competitors. And, in the oil-field services industry, two rivals have taken divergent paths, with the more global Schlumberger recording an average annual growth rate of 16 percent, compared with 8.6 percent for Halliburton.

But globalization is not dead. Rather, it is morphing into a more nuanced and more complex phase, with the inexorable forces that drove the previous phase still very much alive. The emerging markets will continue to be the key source of growth, owing to their favorable demographics, rising middle classes (which will increasingly define consumer demand and choices), and new generation of "challenger" companies (which will seek partners in their quest to become global market leaders). As we move into this next stage of globalization, the gaps between the global haves and the nonglobal have-nots are likely to widen even further, creating a real chasm.

So, if you want to be truly successful over the next ten years, the big question you should ask yourself isn't "Should my company be global?" Instead, it should be "How can I go global in a successful and sustainable way?" And this question must be asked—and answered—by CEOs of companies not only in the U.S., Europe, Japan, and other developed markets. Because frankly, if you run a company based in China or India or Brazil (or any other emerging market) and you have global ambitions, the choices you face are no different from those facing CEOs in developed markets, as are the factors critical to your success. And now is the time to make those decisions, when there is new and energetic national leadership in key emerging markets such as China, India, and Indonesia, when growth is returning to the U.S., and when a new realism regarding global trade policies is emerging.

You should take stock of what has been achieved and prepare for this next phase in globalization. To help you think about your company's global future, we have developed a framework from our experience working with many global "winners" and our discussions with leaders of global companies around the world. Of course, every company has its own unique characteristics, its own set of opportunities and challenges. Even so, in our view, every CEO will have to successfully address five dimensions: the company's geographic position, the rapid pace of change, the company's organization model, its culture, and the CEO's own personal leadership.

1. How to Position Your Company Geographically

These days, it is popular to talk about being or becoming a global company. But you can be global in more than one way. For instance, if you are Pepsi and have a global brand, you can be global in the classic way: by occupying all the major developed and emerging markets with global brands, global products, and global supply chains. And if you are LVMH, with a collection of global luxury brands, or any of the major automotive and consumer electronics companies, you can be global in this way, too.

But there is another way. Some truly global companies—such as P&G, Unilever, and Nestlé—have very successfully followed a multilocal approach: they have created different brands—some global, some local; they have developed different price points for different markets; and they have developed a variety of global and local supply chains. As much as by anything else, their strategic choice has been determined by what they sell. Food, toiletries, low-cost packaged goods—such products tend to be produced locally, branded locally, and tailored to local tastes.

But you may not be a global company yet. If you are rooted in one country, your next step will be to become regional. If you are regional, you can reasonably plan to become global over time. Many companies rightly limit themselves to a regional approach—perhaps because of limited resources or capabilities or the specific needs of regional consumers. Among the most successful regionally focused companies are Bajaj Auto (an Indian maker of two- and three-wheelers), Falabella (a Chilean retailer), Siam Cement (a Thai industrial corporation), and MTN Group (a South African telecom company).

But even if you are determined to stay regional, you must accept that everything points toward a global future.

The bottom line: whatever your current geographic position, the certainty of globalization should determine your aspirations, your mind-set, and, ultimately, your approach.

2. How to Deal with Rapidly Changing Conditions Around the World

Your domestic market will be deeply familiar to you: it will seem pretty stable and, if you are a large company, you will likely wield significant influence in the business and political arenas. But foreign markets are another matter. They are ruled by uncertainty, subject to rapid change, and harder to influence. New governments may impose higher taxes, expensive tariffs, or laws and regulations that limit the movement of goods, services, people, and capital. Political tensions can lead to sanctions or boycotts. Wages may sharply rise and alter the economics of your business.

Also, by trading globally, you may face a wider range of risks. In recent years, global disasters—such as Iceland's volcanic ash cloud that swept across Northern Europe in 2010 or Japan's nuclear disaster at Fukushima and the floods in Thailand in 2011—have demonstrated the dangers of relying on single suppliers, single factories, or single logistics operations.

All this means that your company, however large, must be agile, so that you can make quick-fire changes to your setup if local or regional conditions change. You have to be able to abandon certain operations without undermining your global operations. So although you must be ruthlessly efficient, you must have some slack in the system—some "redundancies"—so that individual problems do not disrupt your global supply chains.

In addition, you should have some kind of corporate radar that constantly monitors conditions around the world. This could be a simple monthly reporting system of key economic, political, legal, and social indicators. But it could also be a sophisticated "war room" showing all your operations in real time. In this era of big data and advanced analytics, you have no excuse not to have the very latest information at your fingertips, as well as contingency plans for key incidents so that you can make any necessary adjustments to your business.

It is also important to build an extensive network of partners. Many successful companies—especially those in the fashion, sportswear, and consumer electronics industries—pursue an asset-light strategy whenever possible. They focus on R&D, marketing, and sales and outsource the production of their products to local companies. Meanwhile, in the energy and mining sectors, many companies enter into joint-venture arrangements with local companies, thereby sharing the risks.

The bottom line: stay agile, stay informed, and don't go it alone if you want to avoid existential losses.

3. How to Organize Your Company

By definition, global companies have spread their activities across the world and are therefore extremely complex organizations. As a result, if you try to manage them with one hierarchical structure, one set of headquarters, and one homogeneous leadership team, you are pretty much guaranteed to fail. In our experience, the efforts of those companies that have tried to squeeze everybody and everything into the same box have proven to be futile, if not disastrous.

If, on the other hand, you develop a broad array of business units, with their own headquarters and decentralized decision-making, you stand a much better chance of success. If you think this is messy, you're right. It is, and it has to be. There is nothing straightforward about running a global company.

But this approach does work. General Electric, Schneider Electric, SAP, BRF, and HSBC: these are companies that have devolved decision making so that important choices can be made close to where the action is. It has not been a smooth process. Each one of these companies has had to find its own special way of distributing this power.

The benefits are clear. Effective decisions can be made more quickly. And the need for change and innovation, which is so often felt first and most acutely on the periphery, can be addressed in a timely manner. Many consumer goods companies have learned this the hard way, failing to react to changing customer demand fast enough and losing significant market share. A classic example is Nokia, the Finnish telecom company, which lost out to local rivals when it was slow to introduce smartphones with dual-SIM cards favored by consumers in India.

The bottom line: create a decentralized "virtual" company with major capabilities and decision-making powers that are spread around the globe.

4. How to Develop a Global Culture

For the CEO of a global company, it's natural to try to develop a sense of unity, with a mission statement and a common set of values. At the same time, it is essential that you create a multicultural environment that reflects the diversity of your employees and your customers. In some ways, you need to be as multicultural as you are "multilocal." This isn't easy. While being multicultural makes good sense intuitively, it can be hard to strike the right balance between global and local imperatives.

But the challenges must be overcome.

Many companies try to foster a single culture by using the same selection criteria for employees around the world, by recruiting people from the same schools and universities, by training and developing them in the very same way. In a globalizing world, this is a mistake. The fact is that you need different people, with different qualities and different ways of seeing the world and dealing with challenges.

Over the years, some U.S. and European companies have periodically replaced local teams with trusted expatriates, only to see performance deteriorate even further. But this is not a problem unique to Western companies. Most Chinese, Japanese, and South Korean companies have a tendency to appoint their own nationals as managers in foreign markets, thereby demotivating local workers. By contrast, Indian IT companies have been quite successful at integrating different cultures. Industry leaders such as TCS and Cognizant have people from around the world working across all levels.

The bottom line: foster a global culture that reflects the various markets in which you do business. But as you do this, make sure your company strictly adheres to a common set of values concerning customers, clients, products or services, and value delivered.

5. How to Lead a Global Company

There are no shortcuts when it comes to running a global company. In order to properly understand the many different parts of the business, you have to travel extensively; you have to spend time on the ground in different countries. It is crucial to have firsthand knowledge of what's going on. You can't get this from your corporate radar screen, however good it may be at collating and crunching important data. As a rule of thumb, if more than half of your operations are outside your home country, you should be spending at least every other week on the road.

If it's important to "be there," it's also important to say the right thing. The way you communicate the corporate message must be nuanced if you are to be effective. You should not shy away from asking for feedback, listening carefully to the response, and then adjusting your words and actions accordingly.

But above all, you must recognize that you cannot run a global company on your own. You must build a truly international leadership team that understands the different markets around the world. It is a remarkable fact that, after so many years of globalization, most of the largest companies in the world continue to be run by leadership teams dominated by nationals from the home country. This creates a certain bias against building strong businesses abroad—with potentially dire consequences for the medium and long term.

The composition of your leadership team should ultimately reflect the global structure of your businesses. Hiring proven local leaders may be a quick fix, but it's not a long-term solution. And, given the scarcity of leadership talent, it may not be a short-term solution either. In this case, you must focus on developing the next generation of leaders. Given that it takes five to ten years to develop strong leaders—especially in the emerging markets—you had better start now.

As you do so, take care to develop your own leadership style. The days of the dictatorial CEO, commanding imperiously from on high, are numbered, if not over altogether. Think of yourself as a servant-leader, one who enables your teams to perform well and to collaborate with one another. Of course, you must set the direction, but after you've done that, focus on motivating, inspiring, and encouraging. Whatever you do, don't meddle. It is crucial that you give others the responsibility and the space to make the right decisions within the overall framework.

The bottom line: travel most if not all of the time; convey your corporate message in a way that respects local differences;

create a multinational leadership team; and delegate real responsibility to your managers.

The global company is often viewed as one big, all-encompassing corporate entity. Yet the most successful are anything but. Yes, they have a clear mission and a set of core values, but they also have a variable geographic position, the agility needed to respond to rapid change in different markets at different times, a decentralized organization, a culture that is paradoxically multicultural, and CEOs who enable their leaders. In many ways, as CEO of a global company, you are running something so large and amorphous it is nearly virtual. But, as P&G, Schlumberger, and TCS have found, there is nothing virtual about the commercial prize to be won by doing it right.

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