TOMORROW'S CHALLENGES

CHALLENGES IN GOING GLOBAL

3 AREAS WHERE COMPANIES STRUGGLE OVERSEAS

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Few companies are ready to build and run truly global organizations, despite their ambitions. Globalization may be their goal – it may even form the backbone of their strategy – but only a tiny fraction have the execution capabilities needed to bring that strategy to life.

According to a recent Global Readiness Survey of 362 executives, only 10% of companies think that they have the full complement of capabilities required to win overseas, with most barely mastering the basics. Midsize companies are particularly vulnerable when they attempt to do this, as they are less nimble than their smaller competitors but lack the scale and systems of larger companies. The overarching picture is clear: a smart strategy is not enough. Winners in globalization also must execute better than other firms.

There are three main areas in which companies struggle overseas. The first is in strengthening the go-to-market, logistics, and other value chain activities. The second is an issue of common cross organizational goals. Companies have a difficult time aligning best practices in their organization to support a global agenda. Deepening concerns in talking about global alignment, the survey showed that headquarters staff tend to have a much more optimistic view of globalization readiness than do executives working in the field. And, finally, the third area where companies often fail is in mastering mergers and acquisitions – a task that is hard enough within a country.

The strategy-execution gap

In the past, most executives viewed globalization as a strategic challenge: is geographic expansion a leadership priority? Are we pursing the right markets? And have we adapted our product portfolio appropriately?

Today, however, executives are far more likely to be more comfortable with their strategies than in the past. Instead, their worries have shifted to focusing more on their companies' ability to actually get things done overseas.

For example, being able to establish a global supply chain or a locally-adapted go-to-market-approach are both areas where corporate capabilities are falling short. Equally, senior managers are much better at talking about global activities as a priority than they are at actually funding them. This in itself goes some way towards explaining why companies' business capabilities are not up to scratch; supply chain and go-to-market improvements are expensive investments.

Firms' lackluster performance in go-to-market suggests that greater investment is needed in local talent development. While executives report that their companies are comparatively good at sourcing local talent where it is available, the quality and kind of talent needs to be assessed. The challenges imply a need for senior local leaders who have strong functional and industry expertise, and who know how to achieve lasting change on the ground.

Just as important is achieving organizational and executional alignment so that the work done by these local leaders will move the company in the right direction. Firms need to redesign the reporting relationships between regions and the center in order to achieve this. The center must support the global agenda, provide leverage, exploit global scale, and impose strong governance. At the same time, it needs to leave room for adaptability, speed, and authority in local markets. HR and IT might need rewiring to achieve this. Finally, companies should actively support the establishment of global networks within the organization, and a mindset that is open to globalization.

What it takes to win

Globalization is not a simple activity. Companies that want to get it right need to attack it from many angles. They need to embark on a transformation that combines the right strategy with better execution – and which does these two things:

- Ensures internal readiness. This requires executives to identify the role of the center in relation to their regional businesses; to understand and balance the value of local adaptation and global scale in different areas; and to ascertain whether they are using technology to break the compromise between local adaptation and global scale.

- Develops stronger involvement and capabilities on the ground. This step requires leaders to reorient their talent development processes so that local managers are fully committed to the success of their business unit or region, rather than treating it as a stepping stone to headquarters; and to discover whether local leaders are playing in active role in devising strategy rather than merely feeding data into the corporate planning and strategy processes.

The bar for successful globalization is rising. It is not enough for globalization to be a priority. Senior leaders need to ensure that their companies embrace globalization as a live or die proposition. For many companies, the stakes are truly that high.

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The Globalization Capability Gap is a study conducted jointly by BCG and IMD.

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