GLOBAL DELUSIONS

HOW WELL DO BIG COMPANIES LEVERAGE THEIR GLOBAL REACH?

By IMD Professor Cyril Bouquet and IMD Senior Research Fellow Jean-Louis Barsoux – December 2013
Many companies are described as global. Some even claim to be “born global”. But few are truly global.

Global is the new International

When the term “global company” first gained currency – with the wave of mostly US-based multi-national corporations post-1950s – the definition was straightforward. It was based on the percentage of sales outside the home country and the spread of international operations. They were global by virtue of their high foreign direct investment.

The 1990s saw a surge of mergers and acquisitions designed to boost the global presence of large corporations: starting in the US-Europe-Japan triad, with the likes of Sony and Columbia Pictures, Pharmacia and Upjohn in pharmaceuticals or Daimler-Benz and Chrysler in autos; and later worldwide, with India’s Mittal absorbing Arcelor in the steel industry or China’s Lenovo buying IBM’s PC business and Geely acquiring Volvo. While such deals may confer instant global status, it may be a long time before the corporations can claim that their organizational functioning is truly global.

In parallel, the advent of the internet has enabled start-ups to gain express access to markets across the world (as in the case of Skype). The lengthy internationalization of established multi-national corporations has been compressed to the point where some claim that it is now possible to be “born global”. In fact, the internet has rendered meaningless the idea of international reach as the hallmark of a global company.

The New Global

The definition of a global corporation has evolved. Now, rather than emphasizing where a company operates, we are more concerned with how it manages and structures its worldwide activities. The challenge is not only to push, but also to pull: companies must learn from their network of operations and partners across the world.

How well the company leverages what it knows and the talent at its disposal have become key indicators of an organization’s global credentials. Many international corporations suffer from systematic biases on both fronts.

Selective attention to markets

For companies that have a long history of success by focusing attention on their home or regional market, switching attention to a more global level is bound to present problems. Even if the company can get over its home base fixation, it may still not give individual markets the attention they deserve. Some markets are simply off the radar – and weak signals emerging from those areas tend to be dismissed as “noise”. Companies typically focus too hard on the high profile strategic markets at the expense of opportunities and insights from peripheral markets. They tend to follow the herd into “hot” markets or else let past performance dictate which signals are heeded. As one country manager told us, “Nobody at HQ wakes up wondering about what we can learn from Canada today.”

To get the most out of our global presence, we need to harness the best practices and innovations bubbling up across the organization and to invest in the most valuable opportunities. This means thinking about how we allocate our attention to different units and markets worldwide. There is no easy way to devote the right attention to the different sources of information, but we can at least make sure that multiple “attention channels” exist so that important new insights are more likely to come into view.

For example, the Dutch firm Irdeto, a leading player in media content security, took the radical step of creating a second head office in Beijing in order to force a change of mindset. The move dispelled the “mothership syndrome”, whereby everything – including customers, product development and employees – was seen from a European perspective. Through structure, organizations create information channels, they create positions, as well as processes and teams that increase the salience of the information located in those different places.
Tunnel vision on talent

A closely related problem – in that it inhibits receptiveness – is of course the lack of C-suite cultural diversity. All too often companies claiming to be global count barely any foreigners in the senior ranks. At an organizational level, the biggest obstacle to developing a global mindset is the widespread perception that access to opportunities is driven by nationality. New entrants quickly get a sense of “who gets promoted around here.” There may be little incentive to try to develop a wider perspective if there appear to be limited opportunities for anyone from outside the parent country or its close neighbors.

Typically, there is a significant time lag between establishing a global presence and trying to globalize the top team. An interesting counterexample is the Lenovo group. Since acquiring IBM’s PC division in 2005, the company has used its multicultural leadership team – seven of Eastern and five of Western origin – to reflect and accelerate its global ambitions. Building a cosmopolitan top management team sends a powerful message that the center no longer regards itself as the source of all knowledge and influential ideas. Although founded in China, the PC maker has no official headquarters. Its top team simply gathers wherever it makes most sense, often in the fastest growing markets (recently in South Africa).

Of course, if “passport blind” is the metric, then few companies claiming to be global would even qualify. In reality, the perception of openness to diversity can be achieved with relatively modest levels of overseas representation. It’s about sending signals to the organization that anyone can reach the top. According to Irdeto’s CEO, Graham Kill, leaders must ask themselves: “To what extent do people in the satellite operations really have opportunities to break through the ceiling to become part of the global fabric of the company?”

Less Global Than We Thought

Becoming aware of these organizational biases has become critical to competitive advantage. It is all too easy for corporations to take comfort from their global footprint and the global recognition of their brands. But to stay ahead they also have to leverage their global reach to develop new business models and mindsets which then feed back into their operations worldwide, including domestically.

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