TOMORROW'S CHALLENGES

FAILURE TO GLOBALLY LAUNCH

WILL TODAY'S EMERGING MULTINATIONALS FOLLOW THE JAPANESE PATH?

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Just as rockets sometimes blast off to cheering crowds only to flame out and fall to earth beyond the horizon, many companies follow similar trajectories when they try to globalize. We call this the "failure to globally launch syndrome."

Many Japanese multinationals have failed to globalize since the mid-1990s, mainly because they didn't globalize their leaders. But this is not just a Japanese problem. We see worrying signs today that big companies from Brazil, Russia, India, and China (the BRICs) and South Korea are repeating the mistakes that Japanese multinationals made over the last 15-20 years.

This article will identify three major lessons from the Japanese failure to globalize and suggest four corrective steps that today's aspiring multinationals should take.

Falling to earth

Having enjoyed several decades of success domestically and with international exports, Japanese firms seemed to be taking off from a terrific launching pad when many started to globalize in the mid-1990s. Consider that in 1995, the top three firms on the Fortune Global 500 list were Japanese, as were six of the top ten. In fact, although Japan was only one-third the size of the US economy, Japanese firms had a higher share of the total revenues of the Fortune Global 500 than American firms did. However, by 2014, the number of Japanese Fortune Global 500 firms had fallen from 141 to 57, and only Toyota made the top 10. Over the same period the number of US and European companies on the list has basically held steady, while big BRICs companies (especially Chinese firms) have replaced many of the Japanese ones. In 2014, 95 Chinese companies made the Fortune Global 500 list.

What went wrong? With Japanese companies so far ahead of many other large firms by revenue, why didn't they sustain their lead as they expanded outside Japan and moved beyond exports?

The fundamental answer lies in the problems of success. Japanese firms succeeded at home and with exports by perfecting the Japanese way. They dramatically raised quality, lowered costs, and therefore were very competitive on price by standardizing what they did. That was all fine and good until they moved overseas and tried to penetrate deep into foreign markets with customers who wanted products and services adapted to their needs and workers who wanted management practice and leadership adapted to their culture. Fundamentally, the Japanese way that had helped so many Japanese firms succeed at home and with exports got in the way of adjusting and adapting and therefore penetrating into foreign markets and new customers.

This failure to adjust was perhaps best visible relative to leadership. Our research found that Japanese firms sent out roughly three times as many expatriates from headquarters as their American, German, French, UK, and Italian counterparts. In addition, Japanese firms were very slow to bring non-Japanese into senior regional and especially global leadership positions. In fact, we found that American, French, German, and UK firms had top executives with passports from outside the country of the company's headquarters at a rate five to ten times higher than Japanese firms. As a consequence, Japanese firms started to get the reputation among non-Japanese executives that you could move up the ranks only so far before hitting what we previously coined as the "bamboo ceiling."

Because they could not attract and retain the best and brightest local leaders, many Japanese firms failed to generate international sales at the same rate as their American and European counterparts. They therefore fell behind in total revenue growth and fell far down the Fortune Global 500 rankings.

Three lessons for multinationals elsewhere

This Japanese tale is highly relevant today for multinational firms elsewhere in the world, many of which might also fail to globalize. Our research and experience working with scores of Japanese firms (as well as multinationals from a wide array of countries) reveals three key lessons for leaders everywhere.

1] No one is immune to "failure to globally launch syndrome." Big companies in the BRICs countries and South Korea look especially vulnerable, because virtually all their top executives come from their home country. Even western multinationals with long histories of operating abroad could be at risk. Senior executives at a US technology company, a UK-based oil and gas firm, and a

German chemical business have all told us the same thing: "We look more like a big Japanese firm than we would care to admit."

2] Pass to the open space. Great sports stars pass the ball not to where their teammate is, but to where he or she is going to be. Likewise, successful multinationals such as PepsiCo, Nestlé and IBM all developed global leadership bench strength well before becoming truly global themselves. These companies realized that it takes time to build global leaders, and that if they waited until they needed them, it would be too late. And they adopted a largely "passport blind" approach to leadership talent because they knew their home countries would not produce a diverse enough pool to spark the innovation needed to succeed in an increasingly competitive global marketplace.

3] No substitute for rubbing shoulders. Above all, the Japanese failures to globalize show that senior executives tend to know and trust people around them at corporate headquarters. This tendency is so strong that successful global companies don't try to fight it. Instead, they take deliberate countermeasures ahead of time to offset the natural pattern of home-country headquarters bias.

Four preventive measures

Our research shows that companies enjoying successful global launches adopted four key countermeasures to stop them falling back to earth like their Japanese peers.

1] Inpatriation. Since important power will always reside at global headquarters, successful global companies bring "foreigners" to HQ so senior executives get to know and trust the best talent in the world. Nestlé is a great example. Although Vevey and the surrounding countryside are very Swiss, the company's headquarters feels more like the United Nations. This helps immensely in building talent that Nestlé can use around the world.

2] Early expatriation. With their big domestic market, US companies in particular risk knowing little about the talent, customers and opportunities elsewhere. This is why PepsiCo, Colgate, Ernst & Young and others send young high-potential American executives abroad early. These executives accept less luxurious packages now in exchange for a greater chance of better career opportunities down the road.

3] Global leadership development. Successful global companies create development programs that not only focus on global business and leadership but also have participants from around the world. These programs often bring the participants together more than once and have projects and other activities that keep them connected away from the classroom. Shell and (again) Nestlé are two good examples.

4] Use of powerful symbols. High-profile promotions and recruitment of "foreigners" to senior positions are strong statements that global talent is valued. HSBC, for example, has about 350 high-potential "International Managers" from around the world who receive special benefits and recognition and typically change posts and countries every two or three years. This is a powerful reminder that managers don't have to come from either the UK or Hong Kong to make it to the top of HSBC.

Easier said than done

Many companies face a paradox on the path to globalization: strong "local" collective cultures that previously made them successful can prevent them from becoming truly global. The key to solving this problem is to add diversity to decision making by relentlessly developing global leaders. This is not easy, since it often involves making tough calls and shaking up a well-established culture. But the likely alternative is failure. Aspiring multinationals everywhere should take note.

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