A DECADE OF GLOBALIZATION — that was the forecast for the 1990’s.

As the Cold War came to an end, nations on both sides of the Iron Curtain reduced direct involvement in their respective economies. Multinational companies geared up for freer trade, fueled by deregulation and increased disposable consumer income. The companies banked on leveraging their brand names for everything from toothbrushes to cars into exponential sales increases. Instead of the old concept of maintaining integrated operating units in the countries where they did business, executives dreamed of consolidating their operations to serve markets without borders.

Not unlike some other economic forecasts, this one fell a little short.

As the 1990’s progressed, it became clear that the international marketplace was fraught with economic risks that affected sales, and even the most nimble companies found connecting with customers more challenging than...
expected. Local competitors proved much tougher than anticipated and local markets stubbornly resisted standardization. “Even underwear has national characteristics,” lamented John H. Bryan, chief executive officer of the Sara Lee Corporation, the parent company of Hanes.

The products, though, were not the problem. The problem was that in repositioning to serve global markets, multinationals ignored the totality of what it takes to create a vital, customer-responsive organization. They restructured in ways that left them unable to compete, inadequately staffed and without productive customer relationships.

Complicated by the challenge of operating across borders — with different cultures, regulatory schemes, tastes and resentments based on nationality — the new structures failed to reward entrepreneurship. Employees found themselves absorbed with politics and internal rituals instead of interacting with customers or clients. The job was no fun, and, in the long run, this unattractive work environment made the multinationals unable to attract sufficient high-class local talent, further undermining long-term competitiveness.

Looking forward to the next decade, we believe that to succeed in global markets, particularly emerging markets, multinationals need to concentrate simultaneously on three key disciplines: 1) the design of organizational structure, 2) the management processes for allocating resources and for measuring and rewarding performance, and 3) the company’s culture, values and behavior.

The most successful multinationals, such as the General Electric Company, with its “boundaryless” organization, and A.B.B, a $30 billion engineering and technology company operating in 100 countries that has dubbed itself “multidomestic,” have managed to attend to all three, often after a great deal of experimentation. With companies like these, geography as an organizing principle is less important than focus on customer needs. Most other companies are still struggling. The time has come to stop treating the three elements of structure, process and people separately, and to attend to all three simultaneously.

**PROMISE VS. REALITY OF GLOBAL ASSETS**

Modern multinationals have many impressive assets: famous brands; formidable research and development and new-product capabilities; global scale for sourcing and transferring knowledge; cost and scale advantages for manufacturing and logistics; attractive career opportunities, pay and benefits; advanced management practices; financial staying power, and market and political clout. (See Exhibit I.)

These assets should give them enormous advantages in new markets. Moreover, many multinationals have had operations in countries around the world for a long time. Their established names should have given them even more strength.

Why, then, are they having so much trouble?

We find that in attempting to serve new markets more efficiently, companies have created new organizational bottlenecks. They have complicated their decision-making by moving responsibility from country operations (in consultation with a corporate center) to regional headquarters (with responsibility divided in the name of consensus and inclusion). In the process, they have built management matrices that are even more confusing than the ones they replaced.

Among the problems are:

- **Who is in charge?** No one can make a decision without a clear chain of command. This creates problems

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**EXHIBIT I**

MULTINATIONALS POSSESS MANY COMPETITIVE ADVANTAGES

Source: Booz-Allen & Hamilton
not only of poor business responsiveness but also of poor morale.

• **The buck stops where?** If country managers, product managers and managers of functions such as strategic planning share responsibility and accountability, they tend to overanalyze and miss out on market opportunities.

• **I have to clear it with headquarters.** Multinationals lose out to local competitors because they have to call Geneva or New York. Country managers without authority lose credibility in negotiations with local customers.

• **My job is impossible.** This is what we hear from regional business managers whose territories are too wide. They spend too much time traveling, making them both professionally ineffective and personally unhappy.

• **I cannot meet that price.** Allocation of corporate overhead — finance, information systems and other areas — adds costs to operations, and leaves field managers at a competitive disadvantage.

• **The best and brightest will not work for us.** Why should they? The new economy has created new opportunities for local talent. Yet, most multinationals rely too heavily on expatriates for country management and devalue the career opportunities for local talent.

• **Haven’t we invented this wheel before?** Multinationals should be able to learn from their failures and mistakes by sharing knowledge. Yet, they are often so fragmented and complex that they cannot.

Under conditions such as these, a company’s advantages, no matter how formidable, cannot be ultimately sustained. However, they got themselves into this quagmire and they can dig themselves out.

### A NEW MULTINATIONAL MODEL

The old model is dead. For better or for worse, no corporation can sustain itself while operating as hundreds of semi-autonomous local players, each catering to a particular marketplace. Neither can it impose a standard product line on all people in all markets. In some countries, anything that has the aura of an established foreign brand will sell, and in these, a full-scale marketing invasion may work. In others, the foreign label is a liability, demanding something on the order of a guerrilla insurgency. A true global corporation will have the capabilities to play it either way. (See Exhibit II.)

Yet, in most cases, restructuring efforts have been counterproductive; they have failed to achieve this kind of flexibility. They have concentrated on configuring the corporation and its product line in particular ways to reduce internal costs while neglecting other elements.

For example, manufacturers of
automobiles, computers and household appliances have looked to the creation of “world” products to standardize production and achieve economies of scale. However, they have neglected national and cultural preferences, resulting in a severe decline in market share in countries in which the world standard was not the local one.

The answer has been to standardize components to the greatest extent possible and customize at the last possible moment. Thus, Italians, who might want front-loading washers, can have them, while the French, who may prefer top-loaders, can buy those instead.

“Think global, act local” has become the motto of many companies. We believe a better motto would be “think global, sell local” because each business ultimately succeeds or fails at the point where customers exchange money for goods and services. The aim of any reorganization should be to serve that fundamental transaction.

Restructurings that are undertaken for internal considerations overlook the linkage between the corporation and its customers, as well as the interests of its own people. For example, a number of multinationals reorganized their local sales forces into regional ones with the intent of simplifying their dealings with corporate customers. This would have made sense if their customers were similarly consolidated. However, because their customers remained in their accustomed configuration, with local operations managing their own supply chains, the regional sales people ended up calling in the accustomed fashion but spread over a much larger territory. The result was delay, confusion and burnout.

Meanwhile, local competitors gained market share. Local companies with limited product lines face relatively simple challenges. They are close to their customers and know what they want, in terms of price, quality and functionality. When tastes change, they change with them.

There is no point in multinationals merely replicating what the locals do well, but this is not a zero-sum game. Multinational companies have innate strengths. They should concentrate on turning them into comparative advantages by packaging products with other values to create solutions targeted to specific customer needs. The more complex the mix of their products and services, the more sophisticated must be their knowledge of customers, account management, marketing and other capabilities so that they can add value.

Achieving this kind of sophistication is difficult enough in a single market. Doing it across borders and oceans — with a range of tastes, customs, regulations and infrastructure — is that much harder. What works in one market may not work in another. This seems self-evident now, but it

continued on page 21
was not obvious in the early years of globalization, when senior managers thought they could get their organizations and their customers to accept change on their terms.

**BLUEPRINT, FLOW AND SOUL**

“Beautiful buildings are more than scientific. They are true organisms... using the best technology by inspiration rather than the idiosyncrasies of mere taste or averaging by the committee mind.”

Frank Lloyd Wright

We propose that multinationals restructure themselves across a range of criteria that correspond roughly to the criteria that make a competently designed building. Good architecture comprises more than just a handsome structure. A good building also encompasses good heating, plumbing and ventilation, and it is a place where people enjoy living and working.

We refer to these criteria as:

1. **Blueprint**, the way the organizational structure is designed.

2. **Flow**, key management processes for allocating resources, and measuring and rewarding performance.

3. **Soul**, the culture, values and behavior promoted in the company that characterize the experience of working there.

Most restructurings have been based on the blueprint — attempting to rationalize hundreds of operations worldwide through classic matrices, often creating more problems than they solved. Yet, even the best structure cannot be successful without the right kind of people and rewards for the right kind of behavior.

**1. Blueprint**

“It is often thought that heaviness is synonymous with strength. In my opinion it is just the opposite.”

Mies van der Rohe

By working with hundreds of companies, and observing many more, we have seen a new organizational model forming that lends itself particularly well to realizing the theoretical advantages of the new multinational corporation. We call it the centerless corporation. The centerless corporation de-emphasizes the corporate headquarters as the focal point of operations. It is replaced by a Global Core, which bears responsibility for reporting, regulatory and other corporate functions and leaves the businesses alone to do their work. (See Exhibit III.)

What makes this model especially appropriate to complex multinationals is a fundamental change in the organization of the business units. Instead of lines being redrawn on the organization chart according to internal considerations, they are formed around something we call the Natural Business Unit. These units are “natural” because they are organized back from the customer — inside the corporation and outside. The customer interface is local. But the capabilities to meet the needs of those customers can be mobilized from a much broader resource base than would be the case in a freestanding local company.

Natural business units are built around: 1) broad categories of customers, such as retailers, consumers or industrial clients, or 2) global product lines, such as personal care and

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**EXHIBIT III**

**EMERGING BUSINESS MODEL FOR MULTINATIONALS**

Source: Booz-Allen & Hamilton
financial services.

Finally, transactional support processes included in human resources, finance and information technology become the purview of a shared services organization, which in effect sells its services to the line businesses, in competition with external vendors. By removing corporate administrative responsibilities from day-to-day operations, the business units are free to concentrate on inventing, making and selling products and services.

How does this work in the multinational realm?

Ericsson, the Swedish telephone maker, was faced with the radical realignment of the telecommunications industry. Three previously separate industries — telecommunications, data and media — are becoming one, abetted by a worldwide trend of liberalization and deregulation. In response, Ericsson has moved its focus on products to three distinct customer segments: network operators, providing both wireless and fixed solutions for data and telecommunications needs; consumer products, essentially mobile phones, and enterprise solutions for businesses.

The business units are closer to local customers and have more responsibilities. In China, for example, Ericsson’s operations are no longer centralized; they are regionalized to better service network operators and suppliers — the fastest growing market segment. The China division has become Ericsson’s largest source of annual sales.

Customers have a single point of contact, a person who coordinates presentation of best solutions from the entire product line, including both equipment Ericsson manufactured and outsourced products.

Ericsson’s success grew very naturally from its previous experience in markets around the world. For example, it had built intimate familiarity with markets such as Brazil through years of joint manufacturing operations. Deregulation allowed it to build on that familiarity.

The Procter & Gamble Company is another example of a company that redrew its organizational blueprint. P&G has recast itself into seven global business units with responsibility for profits, new business, product development, manufacturing and marketing. These business units, in turn, reach their customers through a network of eight market development organizations. Thus, regional and country heads are reduced to eight. They hope to maximize the business potential of the entire product portfolio by developing both local and regional marketing strategies, strategic alliances and both existing and new distribution channels. The role of the corporate center will include reporting obligations, and senior management is being recast to promote functional knowledge and transfer of best practices.

Establishing the right blueprint is a challenge unique to each organization. There are, however, a few general themes to consider:

• **Distinguish among customer priorities.** A customer with regional decision-power interested in comprehensive “solutions” will act differently than a local customer looking for the best price. You will have to serve them differently or give up on one or the other because other companies will meet some needs better than you will.

• **Distinguish among the priorities of your own businesses.** Typically, multinationals have a portfolio of businesses with widely different strategic requirements that range from high margin with high knowledge content, to lower margin commodities. Some are global and some are local; some are growing and others are clearly in decline. Applying a “one size fits all” approach will not work. You may not be able to remain in all of them.

• **Do not dump yesterday’s products**
into today’s markets. Too often we have found that multinationals adopt an imperialist mindset in emerging countries, selling “old” products to new markets in the search for incremental volume. Emerging markets do not want castoffs. They want their needs to be met. Cater to national cultures and pride. If customers sense that their market is not regarded as strategic, they will look elsewhere. Likewise, if the most talented personnel feel their country is a second-class market, they will work for someone else.

- Distribute your capabilities geographically; do not concentrate them at the core. The new generation of geographic models points toward centers of expertise spread throughout the organization and closer to customers, instead of at headquarters.

2. Flow

“No house should ever be on a hill or on anything. It should be of the hill. Hill and house should live together each the happier for the other.”

Frank Lloyd Wright

Even a brilliant blueprint cannot succeed without the right people, the right behavior and the right measures to enforce that behavior. The corporate landscape is littered with the wreckage of experiments of one element without the others.

In a single language and culture, people who have devoted themselves to single product lines cannot suddenly make the switch to providing customer solutions. Solutions require the ability to work cooperatively, to think from the outside in instead of the inside out. Billions of dollars have been spent for lessons in everything from white-water rafting to gourmet cooking to help executives learn the behavior necessary for cross-disciplinary teamwork. Yet, if they return to work only to be mired in the same old political struggles or if they find they receive the lamb’s share of the compensation for the lion’s share of the work, teamwork goes out the window.

These problems are compounded in the multinational realm. Nationality and cultural differences exaggerate the problems presented by cliques, power blocs and other corporate constituencies.

Compound that with more amorphous goals associated with growing a business and you are in for real trouble. Even the most visionary corporate design can be derailed without the definition of key objectives, allocation of resources sufficient to the task and performance measurement. You are trying to affect change across a broad range of corporate behavior. Without a new scorecard, no one will know if you are winning or losing.

Of course, the traditional way of keeping score is financial. This is an imprecise tool even in a single currency. It is even less accurate in the international marketplace. Sir John Browne, chief executive officer of BP Amoco, is forthright on the limitations of finance in his company. He points out that BP Amoco “is not a collection of financial assets. It is a combination of assets and the activities, people and learning needed to extract maximum value from those assets.”

Executives are subject to regular review within a broad range of criteria. As Sir John puts it, “Processes linked to a purpose are powerful at changing behavior because people can see what they’re aiming for.” It has been a hallmark of BP under Sir John’s leadership to draw on talent from around the world to solve sophisticated engineering and extraction problems, and to use information technology to promote collaborative thinking.

Pharmaceuticals are an industry with prohibitive research and development costs. Faced with an ever-larger bill for innovation, Merck & Company created a Research Planning Model to help managers assess risks and returns for projects before committing to funding them. By integrating financial analysis experts...
into project teams, it was able to gain a more accurate picture of whether various efforts were likely to have high returns or lower ones, and thus allocate capital more effectively. The result is an organization that is far more competitive.

Some elements of performance do not lend themselves to analytical models. Yet, they may be deemed critical to corporate success. For example, in banking, success in any market has frequently depended on the image of the institution as a constructive part of the community. Citicorp, before it merged with Travelers to become Citigroup Inc., instituted a scorecard that, among many performance criteria, dealt explicitly with the time executives devoted to community and nonprofit work in different countries. In trying to build its consumer business around the world, the company felt it was particularly important to establish its credentials as a force for good. As a United States bank, it had expertise in this area as a result of its compliance with the terms of the Community Reinvestment Act, and was able to transfer ideas to its markets abroad.

As with an organization’s blueprint, the key performance measures, resource allocation guidelines and other business processes will vary with each organization. Our experience across several industries and countries suggests that the following general themes should be considered:

- Define performance indicators according to key strategic variables, not just financial measures. For example, if the strategy is to focus on

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**BEST PRACTICE**

**A MULTINATIONAL CHANGES WITH THE TIMES**

A B.B., a leading manufacturer of equipment for generating and distributing power, exemplifies the shift from the classic multinational model to a global corporation.

In the 1980s, its customers were primarily state-owned, highly regulated utilities that controlled the entire value chain—generation, pricing and distribution. Technology was stable, and because of the utilities’ monopoly status, the operating units could be guaranteed a profit.

In the early part of the 1990s, however, two things changed. Nations began to privatize utilities, and the pace of technological innovation began to pick up. The stage was set for the formation of global utility operators who would use marketplace criteria to choose their suppliers. The value chain was unbundled into generation, distribution, marketing and trading components; niche players became a market force.

In this new competitive setting, suppliers saw the importance of building global scale. However, building a management structure along traditional lines that would provide leverage across national borders was difficult. Global business areas were created to focus on strategy, product development and supply. Geographic entities were formed to concentrate on administration, national customers, business development and regional operating performance oversight.

Culturally, there was an attempt to forge a single culture and management philosophy out of what had been a mosaic of disparate country-specific modes. Organizationally, the premium on consensus bred conflict between regional and product-line executives. The executive committee members were consumed by strategizing against one another rather than against the

customized solutions to client needs, measures should capture variables such as innovation, customer satisfaction and customer retention. Even final pricing was complicated by factors that had more to do with internal considerations than with market criteria.

At the customer level, once-powerful managers were reduced to a muddle of delay and indecisiveness, with an attendant loss of prestige and rise in vulnerability to competition.

**POWER SHIFT**

In 1998, the company made a decisive shift toward greater market orientation. Vague umbrella segments were subdivided into global product lines. For example, Industrial and Building Systems was split into Oil, Gas, and Petrochemicals; Automation, and Products and Contracting.

Business areas were consolidated from 40 to 30, and the regional management layer was abolished. Support services, while still organized by geography, now report to the chief financial officer. The Office of the Chief Executive Officer provides more strategic and operational guidance without taking a decision-making role at the local level.

Meanwhile, some areas have not changed. In each country, the company face remains essentially the same in its public identity, government relations and local management coaching. Likewise, customer account management remains as it was at the global and country level, as do management principles and sharing of support services.

Sales and marketing issues remain to be settled. By reducing management ranks by 100, along with other costs, the company has freed line managers from many organizational concerns, allowing them to concentrate on their customers.

One area where A.B.B. did not have much trouble was in adapting to the variety of cultures in which it does business. Nenny Karl-Erik Olsson, a Swedish-born executive, summed up the attitude of the company: “I’m Mexican.” He had also “been” Venezuelan, Spanish and South African.

In sum, this company has done its best to balance its blueprint, flow and soul.

- **Make sure business processes promote transparency and clear accountability.** When processes are too complex, individual and team contributions are hard to assess.

3. **Soul**

“I have wanted to keep everything reasonable and clean — to have an architecture that anybody can do.”

Mies van der Rohe

The final key discipline that multinationals need to incorporate in their emerging market business model is a people partnership — the culture, values and leadership methods that permeate an organization and that are critical to its success. No matter how close a new structure gets to customers in theory, and no matter how carefully designed are processes and rewards, reorganizations will fail if the right people do not execute them, do not believe in them or are not prepared to step forward to make them work.

In a command-and-control corporation, all these questions are irrelevant: you do your job or else. In the
Even in single markets, command-and-control people management is beating a fast retreat. In its place are teaming, open communication, business unit ownership and flexibility. In a fast-changing environment we now inhabit, this is clearly not acceptable.

Even in single markets, command-and-control people management is beating a fast retreat. In its place are teaming, open communication, business unit ownership and flexibility. The multinational realm adds several dimensions to this already complex set of challenges.

Oddly, multinationals were not always this out of touch. In the days before the world economy began its current wave of opening, these companies were often employers of choice for local recruits, although often not for the right reasons. There were not many opportunities for employment.

Now, the market is more competitive, both for workers and for consumers. Deregulated industries such as finance and telecommunications present exciting opportunities for top local talent. Why should a top talent work for a neo-colonial multinational, reporting to a rotating cast of expatriate senior managers?

The problem is not confined to the executive ranks, either. Labor practices that are effective in one culture may not work in another, as the Lincoln Electric Company, one of the world’s largest makers of arc welding equipment, found out. One of its fundamental tenets was a compensation system based on piecework, linked to quality. This had served it very well in its union-heavy Cleveland base, where employees earn up to three times the prevailing manufacturing wage, and it was able to transfer this system successfully to many markets.

In France, the bias against piecework was just too strong. In Mexico, though, where there was also a bias, the company convinced just a couple of employees to try it. After the ensuing word of mouth about their earnings, the company was able to win more converts, and in the process greatly reduce the turnover rates in a high-skill industry where experience is really important.

Transcend nationality. One way of building corporate coherence is to find issues that have equal importance regardless of where you are doing business. Paul H. O’Neill, who became chief executive officer of Alcoa Inc. in 1987, found one such issue: worker safety. He decided that the company should do more than just meet minimum regulatory requirements in every facility worldwide — closing the gap between corporate performance and industry best practices by 80 percent within two years. This was an issue that could bind the top of the company to the shop floor, and he took every opportunity to pound the message home. It produced instant solidarity.

British Airways took a two-pronged approach, combining a “burning platform” — the very real possibility that the company would not be able to compete in a privatized, deregulated airline environment — with a positive vision of the “world’s favorite airline.”

Constructing a favorable corporate “soul” will depend on dealing with a number of fundamental issues:

- How will power and influence be distributed across the organization?
- What ethical standards should be upheld at all levels of the organization — not just honesty in business standards, but environmental attitudes, institutional relationships and treatment of staff?
- How can leadership behavior be developed and encouraged?
- Which critical behavior will be promoted and at what levels, such as entrepreneurship; individual performance versus team effort; information-gathering and -sharing; development of human resources; openness in communication, and willingness to take the broad corporate view, as opposed to “tribal” behavior?

Spread the message. None of this will work, however, unless people throughout the organization are willing to live it. A corporation will not be transformed unless people believe that the new behavior has been adopted by the senior management. In our work, we have seen thoughtful (and expensive) redesign undermined because senior management signaled by their behavior that they...
did not mean it. We recall a meeting in which a chief executive officer spent hours explaining a new, more inclusive system of management, and then in a question-and-answer session reverted to his customary autocratic manner. What message do you suppose he sent?

If management behavior remains arrogant, political or ethnocentric, the message is, “Nothing has changed; you still do not count.” In a corporation with “soul,” the impetus for change cascades from the top. Chief executive officers communicate their commitment to everyone, and those people spread the message by word and by example. That message is unlikely to take a turn for the better on the way down.

Convincing the organization that the mandate to change is genuine is not easy. Senior managers are cautious with their bosses as well as other colleagues. As Jürgen E. Schrempp, chief executive officer of Daimler-Chrysler, has observed, “You never really hear the truth from your subordinates until after 10:00 in the evening.”

The components of a new social contract must not only be clear, but also be reinforced through training, rewards and penalties.

The consequences for not changing are severe. The short-term consequences can be measured in declining market share against competitors who are better attuned to local markets around the world. In the longer term, a company that fails to make provisions for coping with a diverse international marketplace will miss out on the kind of people who can build a lasting organization. Autocrats find it hard to recruit their successors.

Make it happen. Restructuring any corporation creates winners and losers — among locales, among employees and usually among customers. When you close a plant, or cut your work force, you disenfranchise employees, or create resentments that can disrupt operations or create public relations problems that will cost you customers.

In the multinational realm the problem is that much greater. Closing a plant might prejudice a government against your remaining operations. Replacing local managers with regional executives can poison business on a number of levels, not just in the perception that the local operation is seen somehow as second class, but in the perception that one country’s personnel may have deep-seated cultural problems with those of their neighbors.

Balancing these considerations is a delicate art, but in our experience it can be managed. If a plant is to be closed in a valued market, it is imperative to staff remaining operations with first-class people who project competence and commitment. Your customers become your advocates. What you lose on the overall employment side, you gain by continuity and enhanced service to customers.

Choosing your people is just as critical. There is a widespread tendency to recruit key regional managers from the dominant national economy in a given region — Germans for Europe, Brazilians for Latin America, the United States for the Americas. Somewhat paradoxically, the same qualities that make these people successful in their own countries may make them inappropriate in the delicate process of multinational management. Since they have managed operations for large domestic markets, they tend to excel at production and efficiency. But these skills are not ideal for managing the complexity of human issues. Such managers tend to be less accommodating to the tapestry of cultures and sensibilities that are tied to success in a variety of countries.

Executives from somewhat smaller countries — France in Europe or Mexico in Latin America — are often less arrogant, more cosmopolitan and more skilled in the diplomatic arts. Those from small countries with a heritage of living by their wits — Sweden, the Netherlands and Uruguay come to mind — often have the greatest success at mediating between disparate factions selling the broad range of cooperative behavior and values necessary. John F. Welch, chief executive officer of G.E., says Sweden has “pound for pound...more good managers than any other country.”

None of this is easy. But we think the inherent advantages of the multinational are compelling. Implemented together, the three elements of the new multinationalism — blueprint, flow and soul — will create potent competitive strength in the years to come.