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Why global companies need to rethink their operating models.

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Leading Ideas

Managing in a Multipolar World

Why global companies need to rethink their operating models.

by Paolo Pigorini, Ashok Divakaran, and Ariel Fleichman

The last decade has seen a disruption in the nature of consumer markets on an unprecedented scale. The shifts on the demand side are well known: Emerging nations have displaced mature economies as the engines of growth, attracting Western multinationals in search of millions of new consumers. What has been less appreciated is a quieter (but equally significant) shift on the supply side. The iconic American and European companies that have dominated the economic world order for the past several decades are ceding ground to an increasingly influential set of emerging market "champions." Adding to the complexity, these high-growth markets are often distinct from one another in terms of the speed of the market, the drivers of demand and consumer preferences, and the regulatory and investment climate.

These developments have created a multipolar world that moves at different speeds and presents a more diverse range of requirements for success than the global marketplace of years past; one with multiple centers of power and influence that are changing the way business is done. Yet many companies are reluctant to move away from their legacy hub-and-spoke model — which evolved to support the old, more homogeneous business environment — to a global enterprise management model that allows for greater nimbleness and adaptability.

How can companies balance local autonomy with the need to achieve global scale and standardization? Does it even make sense to have a headquarters anymore? And where should the talent that runs the company come from? Such questions are critical, because they ultimately determine a company's long-term viability. The answers, of course, are not universal, but in our work with multinationals, three key themes consistently emerge as enablers of success: a rebalanced organizational structure and operating model, more dispersed decision-rights mechanisms, and an approach to leadership and people management that emphasizes diversity and local talent.

A New Balance of Power

Global companies understand that in a multipolar world, half or more of their revenues and profits are likely to be generated beyond their legacy markets; this is true for seasoned multinationals as well as emerging market companies. Yet they still think about growth markets in terms of their past or current business contribution, rather than their longer-term potential. Top management remains concentrated at headquarters, where executives lack a direct line of sight into and intuitive understanding of these new markets. In addition, many companies go too far in centralizing global functions in the interest of efficiency, resulting in excessive rigidity and standardization.

To overcome these hurdles, companies need to carefully consider where their areas of potential growth lie and recalibrate their organizational balance of power accordingly. For example, Banco Santander SA, a leading global bank headquartered in Madrid, revised its structure to reflect Brazil's growing importance; the company brought its Brazil operations on par with its European operations. Such structural adjustments, coupled with the changes to decision rights and governance mechanisms discussed below, increase a company's capacity to be agile and channel the right levels of management attention to (and investment in) critical growth markets. Frequently, it is companies that have their roots in emerging economies that get it right, because they have less inertia and baggage from the past.

Another construct gaining ground, the regional cluster model, is helping companies answer the age-old question of how to reap the benefits of customer proximity as well as economies of scale. The last decade and a half saw a focus on excessive centralization — an attempt to increase efficiencies that failed to address differences in local demand, languages, and cultures. In the regional cluster model, essential, customer-facing activities are maintained locally, supported by a critical mass of expertise housed at the cluster level to prevent duplication and redundancy while avoiding the drawbacks of overcentralization. This model also recognizes that needs and opportunities vary by function. Finance, human resources, and IT are good prospects for substantial centralization. At the other extreme, sales, legal, and communication activities are generally best handled locally. Functions such as marketing, manufacturing, procurement, and research and development fall somewhere in the middle. (See "Twenty Hubs and No HQ," by C.K. Prahalad and Hrishi Bhattacharyya, *s+b,* Spring 2008.)

Illustration by John Hersey

The regional cluster model is helping companies answer the age-old question of how to reap the benefits of customer proximity as well as economies of scale.

Decentralized Decision Making

As important as the "hardware" of organizational structure is the "software" that runs on it — the set of decision rights, management processes, and control mechanisms that brings the structure to life and determines its overall effectiveness. For most multinationals, the matrix is a necessary way of life; the benefits of horizontal coordination across business units and functions compared with those of the vertical silos that they had in decades past are simply too significant to ignore. But as companies grow larger and more global, problems inevitably arise with the conventional matrix structure. The decision-making process drags on, the right judgment calls aren't always made, and overhead costs sprout at every node in the organization to support cumbersome management processes.

The root cause is often the way information flows through the organization, and the determination of who is empowered to decide what. With every dimension that is added to a matrix (product groups, customer business units, functions, regions, and so on), the potential for decision making to grind to a halt increases exponentially. Because a more concentrated approach to decision making would be antithetical to a multipolar world, companies need to promote greater decentralization and autonomy, and differentiated levels of authority.

Decision rights should be pushed down into the organization, and the center should involve itself only in critical enterprise-level decisions such as portfolio strategy, capital allocation, and global brand management. Company leaders should establish a comprehensive decision-rights architecture that reflects the levels of importance of various stakeholders in complex decisions. Over time, this approach unshackles the organization, and a new management paradigm and set of behaviors take hold.

But increased decentralization also requires greater transparency, along with new mechanisms to ensure accountability and manage risk. Companies need to adopt disciplined and coordinated decision-making and performance management processes. First, they should identify key performance indicators (KPIs) that link strategy to operations. They then need to link these KPIs to the company's primary management processes (strategic planning, budgeting, compensation, and ongoing performance management). Finally, companies must build information systems and controls to support this approach by extracting and monitoring the right kinds of information.

A Global Talent Pool

The talent issue for global enterprises starts at the top. The composition of boards and executive committees remains largely influenced by companies' historic center of gravity and does not represent an ideal diversity of experiences. Senior management often finds it difficult to shed old modes of operating and open up opportunities to new talent based on merit and breadth of perspective rather than tenure or internal political affiliation.

Agribusiness giant Bunge Ltd. illustrates how this facet of the talent management challenge can be managed successfully. Bunge has focused on selecting board members from around the world who have the international experience to steer the strategy of a truly global company. Not only does the current board have knowledge of investing and running large businesses in all the key markets where Bunge operates, but it also boasts expertise in many areas related to agriculture, such as logistics, advertising, and food processing and packaging.

Starting with the board and senior executives, global companies need to forge more diverse management teams able to understand the opportunities and the challenges the business faces in its current and future markets. Successful global companies develop comprehensive human capital strategies to acquire and retain talent in key markets around the world. Typically these plans are anchored in the company's business strategy and focus on differentiating the company's approach to markets by segmenting its talent pools; improving managers' capabilities, behavior, effectiveness, and accountability; taking a holistic approach to human capital programs; and building employee engagement.

At German electronics and electrical engineering giant Siemens AG, only 30 percent of the more than 400,000 employees are located in Germany; the others are spread across 190 countries. This dispersed workforce means that securing and retaining the global talent pool is a major challenge. "With countries like Germany, we had a pretty good view," notes a Siemens IT governance executive, "but when we talk about emerging markets and fast-growing economies, we weren't always able to attract the best talent." In response, Siemens embarked a few years ago on a successful transformation of its global people strategy, adopting processes for consistent individual performance management, robust succession planning, and high-potential talent identification and development; a global database that made job postings and experience profiles on individuals available to all; and a CEO-driven global diversity and inclusion program.

In high-growth emerging economies, first-mover advantage is crucial, and having a coherent and flexible global enterprise management model that can adapt to (and get ahead of) rapid evolutions in the market can make all the difference. A pragmatic first step is to determine where your company stands on all three enablers: organization structure and footprint, decision rights and controls, and leadership and talent. You will be able to see where change is most urgently needed, and, ultimately, can begin to move toward a new model that better equips your company to navigate the dynamics of today's multipolar world. +

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