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The global company's challenge

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As the economic spotlight shifts to developing markets, global companies need new ways to manage their strategies, people, costs, and risks.

Managing global organizations has been a business challenge for centuries. But the nature of the task is changing with the accelerating shift of economic activity from Europe and North America to markets in Africa, Asia, and Latin America. McKinsey Global Institute research suggests that 400 midsize emerging-market cities, many unfamiliar in the West, will generate nearly 40 percent of global growth over the next 15 years. The International Monetary Fund confirms that the ten fastest-growing economies during the years ahead will all be in emerging markets. Against this backdrop, continuing advances in information and communications technology have made possible new forms of international coordination within global companies and potential new ways for them to flourish in these fast-growing markets.

There are individual success stories. IBM expects to earn 30 percent of its revenues in emerging markets by 2015, up from 17 percent in 2009. At Unilever, emerging markets make up 56 percent of the business already. And Aditya Birla Group, a multinational conglomerate based in India, now has operations in 40 countries and earns more than half its revenue outside India.

But, overall, global organizations are struggling to adapt. A year ago, we uncovered a "globalization penalty": high-performing global companies consistently scored lower than more locally focused ones on several dimensions of organizational health.[1] For example, the former were less effective at establishing a shared vision, encouraging innovation, executing "on the ground," and building relationships with governments and business partners. Equally arresting was evidence from colleagues in McKinsey's strategy practice showing that global companies headquartered in emerging markets have been growing faster than counterparts headquartered in developed ones, even when both are operating on "neutral turf": emerging markets where neither is based (see "Parsing the growth advantage of emerging-market companies," on mckinseyquarterly.com).

Over the past year, we've tried to understand more clearly the challenges facing global organizations, as well as approaches that are helping some to thrive. Our work has included surveys and structured interviews with more than 300 executives at 17 of the world's leading global organizations spanning a diverse range of sectors and geographies, a broader survey of more than 4,600 executives, and time spent working directly with the leaders of dozens of global organizations trying to address these issues.[2]

Clearly, no single organizational model is best for all companies handling the realities of rapid growth in emerging markets and round-the-clock global communications. That's partly because the opportunities and challenges facing companies vary, depending on their business models. R&D-intensive companies, for example, are working to staff new research centers in the emerging world and to integrate them with existing operations. Firms focused on extracting natural resources are adapting to regulatory regimes that are evolving rapidly and sometimes becoming more interventionist. Consumer-oriented firms are facing sometimes-conflicting imperatives to tailor their businesses to local needs while maintaining consistent global processes.

Another reason no single model fits all global companies is that their individual histories are so different. Those that have grown organically often operate relatively consistently across countries but find it hard to adjust their products and services to local needs, given their fairly standardized business models. Companies that have mainly grown through M&A, in contrast, may find it easier to tailor

[1] See Martin Dewhurst, Jonathan Harris, and Suzanne Heywood, "Understanding your 'globalization penalty'," mckinseyquarterly.com, July 2011.

[2] See "Managing at global scale: McKinsey Global Survey results," mckinseyquarterly.com, June 2012.

operations to local markets but harder to integrate their various parts so they can achieve the potential of scale and scope and align a dispersed workforce behind a single set of strategies and values.

Although individual companies are necessarily responding differently to the new opportunities abroad, our work suggests that most face a common set of four tensions in managing strategy, people, costs, and risk on a global scale. The importance of each of these four tensions will vary from company to company, depending on its particular operating model, history, and global footprint. (For more on the implications of these uneven globalization efforts, see "Developing global leaders," forthcoming on mckinseyquarterly.com.) Taking stock of the status of all four tensions can be a useful starting point for a senior-management team aiming to boost an organization's global performance.

Strategic confidence and stretch

Being global brings clear strategic benefits: the ability to access new customer markets, new suppliers, and new partners. These immediate benefits can also create secondary ones. Building a customer base in a new market, for example, provides familiarity and relationships that may enable additional investments—say, in a research center.

But being global also brings strategic challenges. Many companies find it increasingly difficult to be locally flexible and adaptable as they broaden their global footprint. In particular, processes for developing strategy and allocating resources can struggle to cope with the increasing diversity of markets, customers, and channels. These issues were clear in our research: fewer than 40 percent of the 300 senior executives at global companies we interviewed and surveyed believed that their employers were better than local competitors at understanding the operating environment and customers' needs. And barely half of the respondents to our broader survey thought that their companies communicated strategy clearly to the workforce in all markets where they operate.

People as an asset and a challenge

Many of the executives we interviewed believed strongly that the vast reserves of skills, knowledge, and experience within the global workforce of their companies represented an invaluable asset. But making the most of that asset is difficult: for example, few surveyed executives felt that their companies were good at transferring lessons learned in one emerging market to another.

At the same time, many companies find deploying and developing talent in emerging markets to be a major challenge. Barely half the executives at the 17 global companies we studied in depth thought they were effective at tailoring recruiting, retention, training, and development processes for different geographies. An emerging-market leader in one global company told us that "our current process favors candidates who have been to a US school, understand the US culture, and can conduct themselves effectively on a call with head office in the middle of the night. The process is not designed to select for people who understand our market."

One of our recent surveys showed how hard it is to develop talent for emerging markets at a pace that matches their expected growth. Executives reported that just 2 percent of their top 200 employees were located in Asian emerging markets that would, in the years ahead, account for more than one-third of total sales. Complicating matters is the fact that local highfliers in some key markets increasingly prefer to work for local employers (see "How multinationals can attract the talent they need," forthcoming on mckinseyquarterly.com). Global companies are conscious of this change. "Local competitors' brands are now stronger, and they can offer more senior roles in the home market," noted one multinational executive we interviewed.

Scale and scope benefits, complexity costs

Large global companies still enjoy economic leverage from being able to invest in shared infrastructure ranging from R&D centers to procurement functions. Economies of scale in shared services also are significant, though no longer uniquely available to global companies, as even very local ones can outsource business services and manufacturing and avail themselves of cloud-based computing.

But as global companies grow bigger and more diverse, complexity costs inevitably rise. Efforts to standardize the common elements of essential functions, such as sales or legal services, can clash with local needs. And emerging markets complicate matters, as operations located there sometimes chafe at the costs they must bear as part of a group centered in the developed world: their share of the expense of distant (and perhaps not visibly helpful) corporate and regional centers, the cost of complying with global standards and of coordinating managers across far-flung geographies, and the loss of market agility imposed by adhering to rigid global processes.

Risk diversification and the loss of familiarity

A global company benefits from a geographically diverse business portfolio that provides a natural hedge against the volatility of local growth, country risk, and currency risk. But pursuing so many emerging-market opportunities is taking global companies deep into areas with unfamiliar risks that many find difficult to evaluate. Less than half of the respondents to our 2011 survey thought these organizations had the right risk-management infrastructure and skills to support the global scale and diversity of their operations.

Furthermore, globally standard, exhaustive risk-management processes may not be the best way to deal with risk in markets where global organizations must move fast to lock in early opportunities. One executive in an emerging-market outpost of a global company told us “a mind-set that ‘this is the way that we do things around here’ is very strongly embedded in our risk process. When combined with the fact that the organization does not fully understand emerging markets, it means that our risk process might reject opportunities that [the global] CEO would approve.”

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Understanding these tensions is just a starting point. Capturing the benefits and mitigating the challenges associated with each will require global companies to explore new ways of organizing and operating.

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