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Organizing for Global Advantage in China, India, and Other Rapidly Developing Economies

BCG | REPORT

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Organizing for Global Advantage in China, India, and Other Rapidly Developing Economies

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MARCH 2006

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A Word from the Authors

As globalization continues to accelerate, virtually every major company is confronting unprecedented opportunities and challenges raised by the emergence of rapidly developing economies (RDEs) such as China, India, and other countries in Asia, Central and Eastern Europe, and Latin America. Many companies are already seeking competitive advantage in RDEs, whether through sourcing, manufacturing, selling, or conducting R&D. Others are still exploring the implications of globalization for their customers and for themselves.

RDEs are not all the same. Their growth patterns, market potential, and competitive environments are all quite different. Today, for example, many companies rank China and India far higher than most other RDEs in terms of their strategic importance for both market development and sourcing. Business leaders need to think differently about these high-priority RDEs—not just strategically but also in terms of investment, resource allocation, senior-management attention, tolerance of risk and uncertainty, cycle times for management reviews, and organizational tradeoffs and platforms.

Despite the diversity among RDEs, there is remarkable consensus about one aspect of the challenge they present. Almost all the senior executives BCG works with, regardless of their particular company's level of global activity, cite the development of an effective global organization as one of their foremost concerns. In this report, we focus on precisely this issue. Our goal is to answer one very pragmatic question: What are the organizational practices and design principles of companies that are operating successfully in RDEs around the globe?

There is no single right form of organization for all companies and no easy answer for any company. China is a very different place from the Czech Republic; and even within a given country, individual markets and activities can present unique circumstances and organizational requirements. Moreover, all organizations are continually evolving. Our experience suggests—and our research confirms—that certain practices and perspectives are proving to be particularly helpful to companies as they launch or expand their activities in RDEs.

The insights in these pages have emerged from many sources. We have drawn on our own extensive experience working with leading companies in a range of industries as they establish and maintain operations around the world. We have also conducted a series of focused conversations on this topic with senior managers of leading multinational companies active in RDEs. Our criterion for selecting these companies was that they have been successful in increasing their presence in RDEs in terms of at least two of four key activities: sourcing, manufacturing, selling, and conducting R&D. We spoke with executives on the frontlines in the RDEs and at the corporate center, and with managers in line and functional roles. We also conducted the BCG 2005 Organizing for Global Advantage Survey—a broad Web-based survey of companies with global operations.

We thank everyone who contributed to this report, especially

- the many senior executives at leading global companies who graciously shared with us their first-hand experience; their kind collaboration has deepened our understanding and greatly enriched this report

- our BCG colleagues who offered us their valuable insights into this topic: Felix Barber, Mark Blaxill, Thomas Bradtke, Giles Brennand, Sumeer Chandra, Andrew Dyer, Philip Evans, Grant Freeland, Peter Goldsbrough, Hubert Hsu, László Juhász, Beth Kaufman, Venu Krishnamurthy, Arun Maira, Yves Morieux, Xavier Mosquet, Stefan Rasch, Alison Sander, Ulrik Schulze, Chuck Scullion, Hal Sirkin, George Stalk, Carl Stern, Andrew Toma, and Bob Wolf

- the project team of Yan Jiao and Geoffrey Tsang, who provided invaluable research and analysis and supported the development of this report

- the editorial and production team: Katherine Andrews, Gary Callahan, Bonnie Fong, Elyse Friedman, Kim Friedman, and Kathleen Lancaster

Our goal in creating this report is to offer practical guidance, gleaned both from our own hands-on experience and from the real experiences of leading companies that are already operating on this exciting new frontier. We hope you will find this report useful, and we welcome your comments.

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The Global Organizational Challenge in Context

Multinational companies have been grappling for many decades with the question of how best to organize globally. What is new today is the context in which such organizations must operate. Recent developments around the world have both raised the stakes and intensified the challenges. A large portion of global commerce is in the process of quickly migrating from established markets to RDEs, fueled by the five currents of activity driving globalization.[1] These currents are

- the rapid growth of RDE markets
- the continuing cost and capital advantages of RDEs
- the development of talent and capabilities in RDEs
- the migration of customers to RDEs
- the emergence of RDE-based competitors

1. For a detailed discussion, see *Navigating the Five Currents of Globalization: How Leading Companies Are Capturing Global Advantage*, BCG Focus, January 2005.

Today the prize for getting global organization right is huge—as is the price to be paid for getting it wrong. In this section, we examine the potential for misalignment between resources and opportunities, and highlight the unique challenges of operating in RDEs.

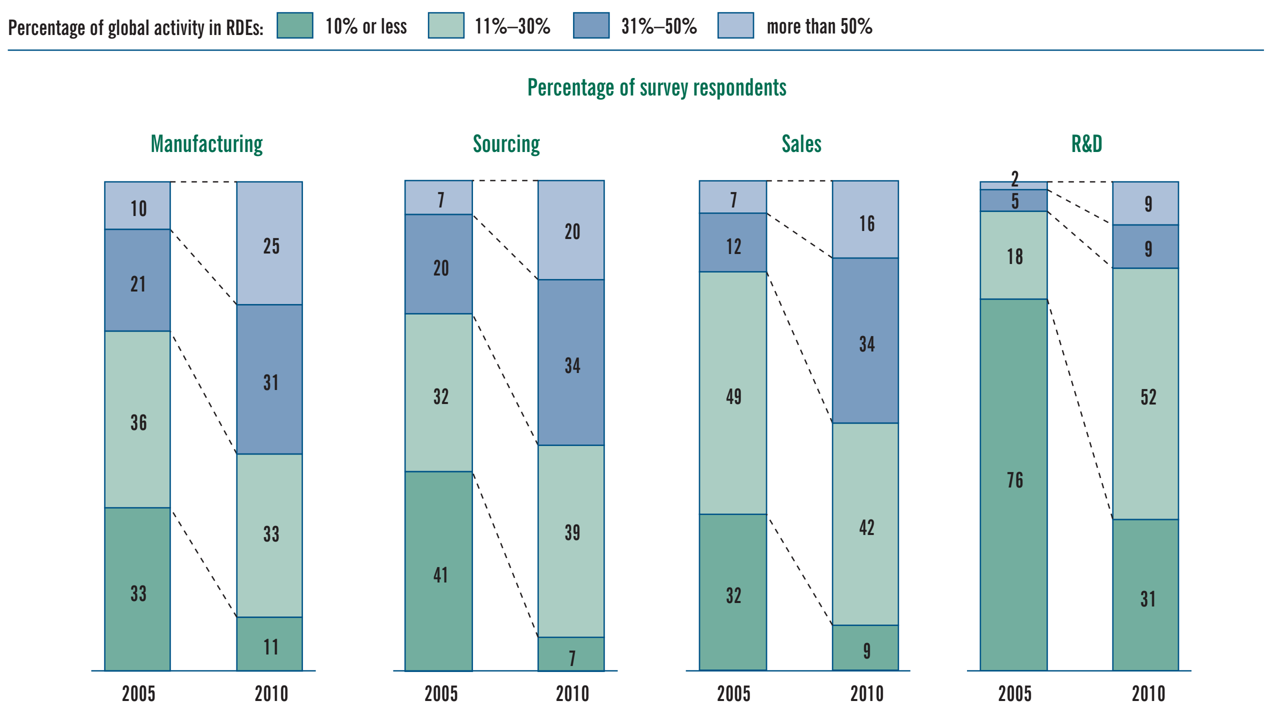
A Misalignment Between Resources and Opportunities

At the macroeconomic level, a massive shift is under way in the world's economic center of gravity. China, India, Central and Eastern Europe, and Latin America already produce a sizable portion of the world's gross domestic product (GDP) and are forecast to capture about 40 percent of the world's GDP growth over the next ten years.

These global structural shifts are confirmed at the company level. Respondents to our survey expect dramatic increases in manufacturing, sourcing, sales, and R&D activity in RDEs through 2010. (See Exhibit 1.)

EXHIBIT 1

COMPANIES ARE SHIFTING MORE OF THEIR ACTIVITIES TO RDEs



Source: BCG 2005 Organizing for Global Advantage Survey.

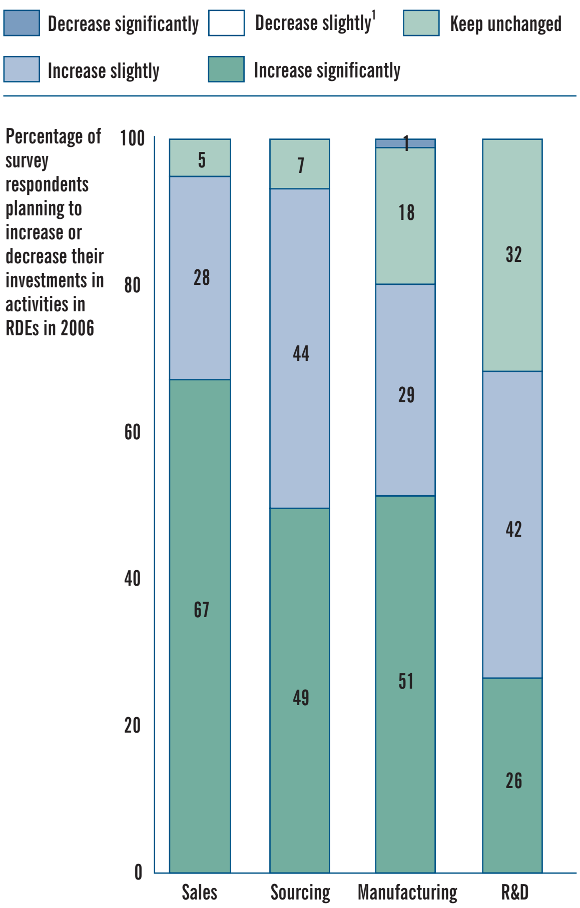
Note: Percentages do not necessarily add up to 100 because of rounding.

Similarly, almost all the companies we surveyed plan to increase their investments in RDEs significantly in 2006. (See Exhibit 2.) Sales, sourcing, and manufacturing are areas in which they plan to focus most of their RDE investment, with R&D spending lagging.

Of all the RDE countries and regions, China is receiving the most investment across all four areas of business activity. However, India, Central and Eastern Europe, and Latin America are strong investment destinations as well. (See Exhibit 3, page 8.) The trend toward broader RDE investment portfolios involving a mix of activities across more regions will pose major challenges to companies' traditional organizational paradigms.

EXHIBIT 2

COMPANIES PLAN TO INCREASE THEIR INVESTMENTS IN RDEs SIGNIFICANTLY



Source: BCG 2005 Organizing for Global Advantage Survey.

Note: Investments include capital, human resources, management time, and other forms of operational involvement. Percentages do not necessarily add up to 100 because of rounding.

[1]Responses in this category were statistically negligible.

Although these companies expect to achieve some 34 percent of their sales from RDE markets by 2010 (up from 21 percent at the end of 2005), they have located only 18 percent of their employees, 13 percent of their assets, and 10 percent of their top 200 managers in these regions to support that growth. (See Exhibit 4, page 8.) The vast majority of very senior managers—some 90 percent—are located far from their companies' RDE operations. Increasingly, companies' corporate centers are located farther away from the focal points of future growth.

But the misalignments are not just in the numbers. There are misalignments also in the seniority of managers and the quality of resources that companies put on the ground in RDEs; the length of time these critical human resources are committed to these markets (and whether they see these assignments as just stepping stones to other jobs); and how their objectives and incentives are structured. In our view, these misalignments represent particularly important issues.

The Specific Challenges of Operating in Rapidly Developing Economies

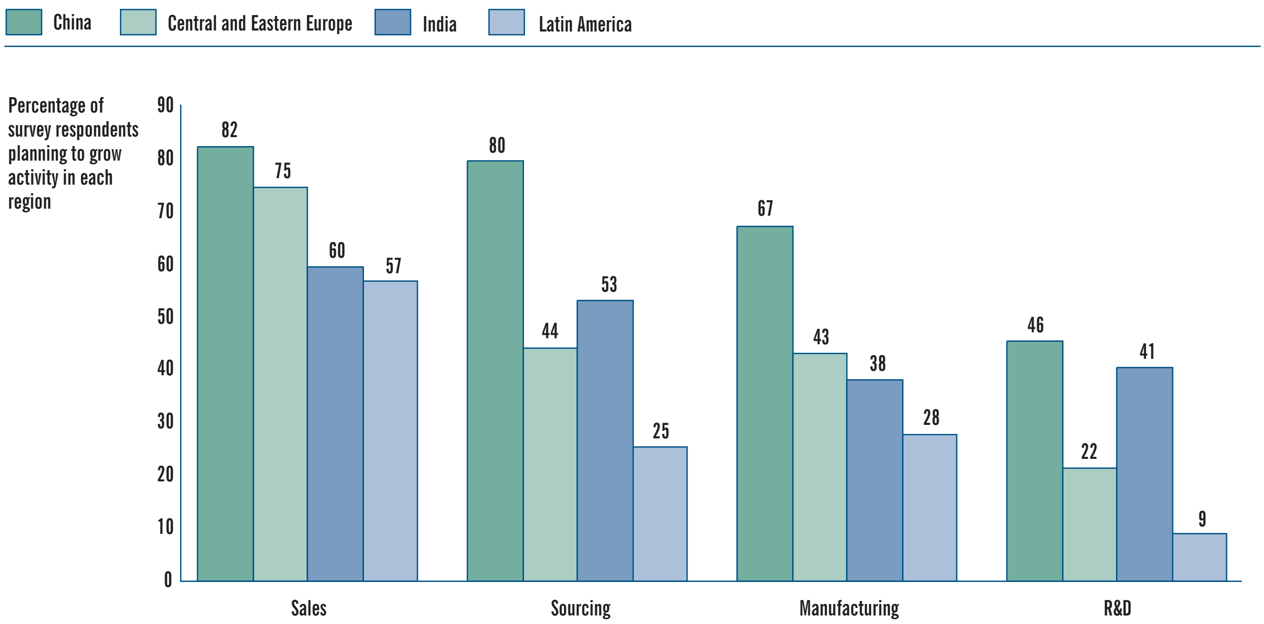
In many ways, operating in RDEs is similar to operating in developed markets. So companies should not think that they need to throw out their existing playbooks. However, organizations operating in RDEs must cope simultaneously with five specific challenges.

Operating on Multiple Fronts. Companies that are leveraging RDEs most successfully are working to expand their operations simultaneously on multiple fronts. These efforts include achieving rapid sales growth, finding cost-advantaged sourcing, migrating and expanding manufacturing, offshoring services, and leveraging RDE talent pools for R&D. This array of simultaneous activities puts enormous strain on management. It also significantly increases complexity and the need for global cross-functional collaboration, decision making, and deployment.

Driving Hypergrowth. Businesses in mature, slow-growing markets tend to pride themselves, often rightly, on running lean organizations that minimize costs and head count. They also take pride in protecting established market share. In contrast,

EXHIBIT 3

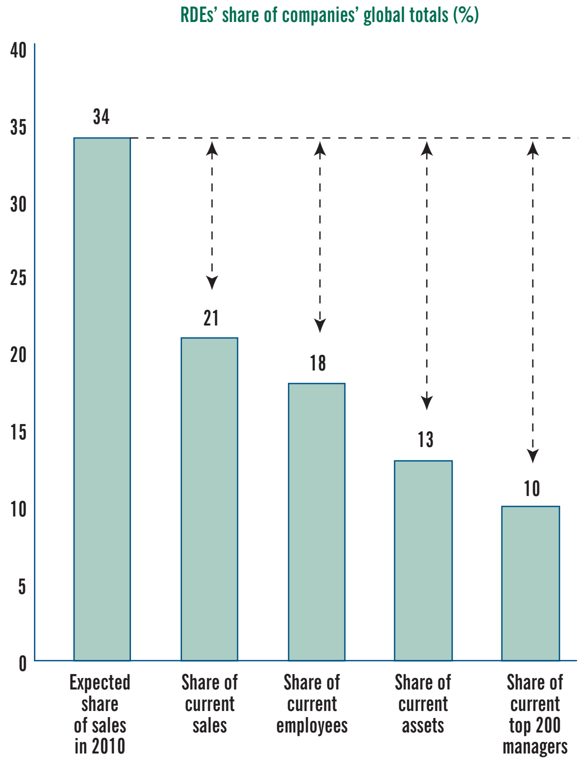
GLOBALIZATION WILL CONTINUE ACROSS RDEs, WITH MOST COMPANIES TARGETING CHINA



Source: BCG 2005 Organizing for Global Advantage Survey.

EXHIBIT 4

MOST COMPANIES ARE UNDERDEPLOYING RESOURCES IN RDEs



Sources: Economist Intelligence Unit, 2004 GDP estimates and 2009 GDP forecasts; BCG 2005 Organizing for Global Advantage Survey.

businesses in RDEs, where markets may be growing at 20 to 50 percent and more per year, must be prepared to invest—quickly, decisively, repeatedly, and often in advance of demand—to acquire the right talent and resources to capture that growth. This requirement entails a fundamentally different mindset and skill set in the people leading these operations. It also means that frontline managers must be constantly building and adapting their organizations, or they risk diminished growth.

Coping with Complexity and Change. Compared with developed markets, most RDEs are highly complex operating environments. For expatriate managers, unfamiliar legal and employment practices, compounded by pervasive cultural differences, all add to the tension. Companies must learn to function effectively and grow while competing with lower-cost local companies with better ties to regulators, deciphering rapidly developing regulations, decoding unfamiliar customer preferences, and mastering unique local business practices. In most RDEs, massive change is taking place continuously on many fronts at once: customer needs, aspirations, and expectations; competition from foreign and local companies; regulations and their enforcement; distribution channels and methods; logistics and infrastructure; and the market for talent.

Moreover, as companies expand their operations in RDEs, the complexity and scope of change increases. For example, moving from sourcing and manufacturing to establishing R&D operations means dealing with an entirely new set of regulations—and risks.

Overcoming Organizational Barriers. Companies that are pushing the boundaries in RDEs often encounter significant organizational resistance. Often, key drivers of this resistance are incentive and reward systems that are not aligned to encourage growth in RDEs and may, in fact, do just the opposite. RDEs also present a bewildering array of risks, both real and perceived. These include external risks, such as political upheaval, intellectual property encroachment, and competitor actions, as well as internal risks arising from execution. Some risk is inherent in the fact that companies enter RDEs with untested strategies and tactics administered by young, equally untested organizations. Overcoming these barriers places a tremendous burden on business leaders, both on the frontlines and at the center. The ways of doing things that historically served the company well may not meet the demands of RDE markets and organizations.

Coping with RDE-related complexity, risk, and change requires highly engaged leadership.

Coordinating Globally. Leaders on the frontlines in RDEs and those at the center of global companies experience daily the demands of coordinating activities across time zones, cultures, functions, and business lines—as well as, increasingly, across RDE regions. These demands are commonly exacerbated by a lack of resources in the RDEs themselves and by the absence of coordinating mechanisms, processes, tools, and policies. It's frequently not clear where best to locate the critical decision rights (about operating expenses, capital expenditures, and project budgets) that should govern the allocation of scarce resources. Too often, such decisions are made in uncoordinated ways.

The Organizational Framework for Global Advantage

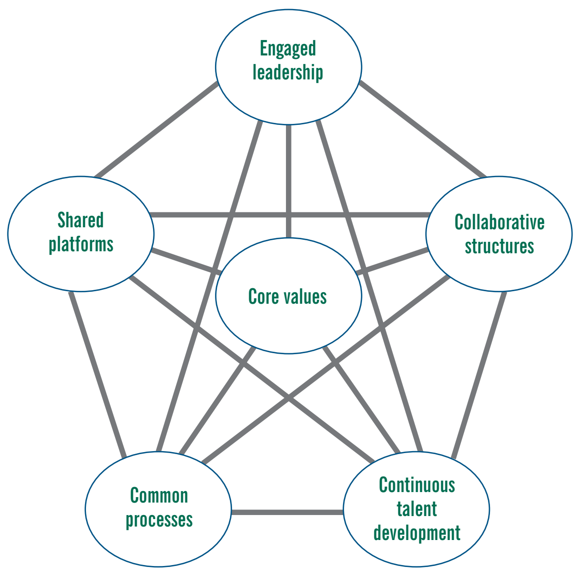
Companies that are successfully operating in RDEs are developing organizations that address both the misalignment of global resources and the special challenges of operating in RDEs. Although each company is unique, most companies have adopted six key organizational practices: engaged leadership, collaborative structures, continuous talent development, common processes, shared platforms, and core values. (See Exhibit 5.)

Ensuring that organizations can cope with RDE-related complexity, risk, and continual change—issues that are compounded by having relatively inexperienced staff members located vast distances from the most experienced executives and expert resources—requires highly engaged leadership. Senior leaders in the most successful organizations are distinguished by high levels of engagement in RDEs. They actively set direction, ensure senior-level sponsorship, orchestrate resources, and overcome barriers.

Most of these companies recognize the importance of structure and are striving in various ways to optimize global/local tradeoffs and manage global/local tensions. Toward that end, the best companies have collaborative structures—coordinating mechanisms and practices that can bring

EXHIBIT 5

THE ORGANIZATIONAL FRAMEWORK FOR GLOBAL ADVANTAGE CONSISTS OF SIX KEY PRACTICES



SOURCE: BCG analysis.

together from across the company the right decision makers, with the right expertise and authority, at the right speed.

The persistent scarcity of local resources, exacerbated by hypergrowth and relentless poaching by competitors, makes continuous talent development a top priority. RDE managers must spend huge amounts of time attracting, training, and retaining managers and leaders with the right skills and motivation.

The scarcity of resources also requires managers to fully leverage the resources they have. It becomes critically important to maximize their efficiency, access, and utilization by establishing common processes. Such processes capture the benefits of globalization and localization, enable the sharing of best practices, and create efficient connections throughout the organization. The most successful companies also establish shared platforms that let them find, share, and leverage scarce resources both inside and outside the company. To ensure that the day-to-day actions of these employees conform to expected behavioral norms, promulgating core values is critical. While values may seem very soft, they are, in fact, core to the success of organizing for global advantage. A hallmark of successful companies is the degree to which they lead by example and institutionalize global values.

It's important to note that companies approach this framework from a number of starting points, reflecting their different stages of globalization, their industry dynamics, and the development of their RDE-based operations. In addition, the way a company is organized—by business unit or by region—and the degree of centralization or decentralization of power across the organization significantly affect the way it goes about pursuing global advantage.

In the next six sections of this report, we examine each of the six key elements that companies must take into consideration in shaping and continually refining their global organizations. For each element, we highlight the actual practices of companies that are operating successfully in RDEs.

Engaged Leadership

Leaders at every level—from corporate CEOs to heads of business units, functions, and countries, along with members of boards of directors—play a significant role in ensuring that their company is on the right path to capture opportunities in RDEs. With respect to organizing for global advantage, leaders fulfill four specific roles: setting bold goals, ensuring senior-level sponsorship, orchestrating resources, and overcoming barriers.

Setting Bold Goals

When General Electric announced in its 2005 Citizenship Report, "We now expect to get as much as 60 percent of our future revenue growth from emerging markets including China, Russia, Eastern Europe, India, and the Middle East," the company went on to translate that goal into specific targets for each business unit and country. Top-down targets such as GE's are particularly important in organizations with aspirations to drive growth in RDEs, because they help clarify direction and align local and global management.

A key aspect of setting goals is adopting RDE-specific performance metrics and incentives. Companies that emphasize mature-market measures to gauge performance in RDEs can end up with misaligned incentives. Such measures can place undue pressure on local managers to optimize short-term, bottom-line results when they should be investing for growth. Moreover, investments in RDEs often have longer investment horizons and lower returns, which are not attractive when measured by mature-market standards.

So to ensure that they make the right investment decisions, some companies have modified their metrics for RDEs. For example, some have relieved RDE managers of the pressure of meeting short-term earnings targets; instead, these RDE managers are evaluated on their ability to deliver medium-to-long-term growth, establish brands, build capabilities, and create a pathway to profitability (as measured in terms of both market share and price realization).

Top-down targets help clarify direction and align local and global management.

Ensuring Senior-Level Sponsorship

When companies first try to set up operations in RDEs, it is crucial to have the backing of the corporate CEO and other senior executives at the center in order to achieve and sustain momentum. Leaders of business units and functions may have a hard time taking a global-portfolio-based view of the company's operations and making longer-term decisions about investments in RDEs. Therefore, senior leaders must set the vision, develop a list of RDE initiatives, align the mindsets of the managers involved, and initiate a companywide push to get momentum going. And then senior leaders must stay involved to ensure progress. This cannot be delegated.

Companies often find it useful to designate senior sponsors to take ownership of RDE initiatives and make sure they are implemented. Each senior sponsor acts as a direct channel to the CEO and as a coordinator to mobilize cross-functional resources for faster decision making. For example, some companies have senior executives from various functions acting as "godfathers" who shine light on all aspects of the company's activities required to make RDE initiatives successful.

Beyond announcing bold, long-term targets, senior leaders of successful companies make frequent visits to RDEs and public statements about increased investments there, to support the momentum for growth. Many companies have found that such indications of sustained commitment are instrumental in cultivating favorable political relationships in RDEs. For example, frequent visits to China by Motorola's CEO and COO, together with announcements of Motorola's planned R&D investments there, helped the company win key contracts with the Chinese government and become one of the largest foreign companies in China. Another effective signal of commitment is the relocation of top and high-potential executives to RDEs.

It can be very valuable to include people with RDE experience on the company's board of directors, where they can help the company understand RDE-related issues. In addition to bringing international perspectives, such directors can contribute to the board's decision-making process for entering and developing new markets. Internationally experienced directors can also open doors in those markets and help the company gain credibility there. However, our analysis of U.S. *Fortune* 100 companies found that although 85 percent of companies had non-U.S. sales, only 20 percent had at least one non-U.S.-based director on their boards.

Orchestrating Resources

Resource constraints are a major issue for virtually all RDE-based organizations. Our investigation pointed to opportunities to address this issue by orchestrating the way global internal resources are allocated across the organization. For example, when Hyundai Motor Company was setting up its operations in India, the India-based organization relied on sharing know-how, experience, and technical expertise with the head office in South Korea. The South Korean headquarters transferred knowledge to India in the form of experts, who provided processes, success stories, advice, and guidelines, while the India-based organization sent technicians, engineers, and other staff members to South Korea to acquire knowledge and expertise through hands-on experience. Through this orchestration of internal resources, Hyundai Motor India was able to expand its knowledge very quickly.

Orchestrating resources typically entails a range of activities, including maintaining effective relationships with all parties involved and controlling and monitoring quality. (See Exhibit 6.) For RDE-based managers to orchestrate their global organizations' resources in support of RDE operations, they must have good relationships with key people at the head office. The importance of a deep level of trust and direct access cannot be overstated. Part of the task is to help senior managers form a solid understanding of the RDE market, often by holding regular meetings with key executives. RDE-based managers must also maintain good relationships with working partners both inside and outside the company, and must orchestrate the sharing of expertise, knowledge, and best practices across the region.

EXHIBIT 6

LEADERS PLAY A KEY ROLE AS ORCHESTRATORS

Shared best practices	• Leverage best practices from other locations or functions • Adapt to the local environment and implement best practices	Partnerships	• Maintain good relationships with working partners • Agree on common rules and standards
Marketing	• Bring the project to top management's attention to secure the necessary resources • Educate all involved parties about the importance of the project	Business development	• Ensure that all efforts add value to developing the business in RDEs • Assist in global budget setting and the allocation of capital expenditures and project spending
Product development	• Understand the relevant differences between local and global markets • Coordinate between global and local product-development teams for local customization	Knowledge	• Enable knowledge transfer along the value chain and among functions
Technical expertise	• Leverage global technical expertise to augment the technical capabilities of local workers, technologies, and infrastructure	Control and monitoring	• Set up control mechanisms to ensure quality • Monitor the project and act on issues as early as possible

SOURCE: BCG analysis.

Overcoming Barriers

Some 60 percent of the senior executives we surveyed acknowledged that their companies were underinvesting in RDEs. Underinvestment in RDEs can be caused by organizational barriers, such as a misalignment of incentives and responsibilities, rather than by a lack of capital. The central mechanisms of most multinational companies focus on their business or product units, whose managers typically must deliver short-term returns. So these managers find themselves making tradeoffs in favor of more mature markets, in which short-term results are both larger and more certain. In addition, business leaders may lack the authority to make global tradeoffs.

The misalignment problem commonly arises not at the top of an organization but a couple of levels down, at the business-unit and functional levels. In our experience, most senior executives recognize the RDE imperative and the need to align resources. Two levels down, however, is where the really tough decisions and tradeoffs must be made. It is very hard for executives in these positions to wear their "corporate hats" in allocating resources across a global portfolio of opportunities, when at the same time they are being asked to deliver on specific business, product, and market commitments.

For example, there may well be a compelling reason for the corporation to open new manufacturing capacity in an RDE while closing capacity in a mature market. However, this shift may directly conflict with the rewards and incentives of the home country manager, the product manager, or the logistics manager, or it may conflict with all three. Moreover, these three individuals may also be unwilling to move their resources to RDEs, perceiving such a move as forfeiting control while still being held accountable for results. Companies also cite as reasons for such misalignment a dearth of globally capable managers with knowledge of RDEs and the fact that many senior managers are not willing to relocate themselves and their families to RDEs.

Collaborative Structures

An organization's structure defines its primary lines of authority, decision making, and communication. Structure makes some things easier and some things harder; the key, therefore, is to decide which are most important and to design structure to make the important things easier. Structure includes formal horizontal and vertical boundaries, reporting lines, responsibilities, and coordination mechanisms. It's important to note that structure also includes the informal networks that link people throughout the company and across its boundaries.

Optimizing the global/local tradeoff cannot be done at the industry or company level.

Structure is always important, but it is especially important—and especially challenging—when people need to collaborate with one another across regions, businesses, and functions for which they may not have formal lines of communication. For companies operating in RDEs, four aspects of structural design emerge as critical: optimizing global/local tradeoffs, managing the inherent tensions between business units and country management, making the matrix work, and enabling collaboration.

Optimizing Global/Local Tradeoffs

Achieving economies of scale and scope is an essential element of organization design. For example, in the pharmaceutical industry, research to derive a new molecule is very costly, and the resulting drugs are often sold globally. So maximizing global scale in R&D is critical. However, R&D consists of numerous activities, some of which are particularly well suited to countries where highly qualified scientists and researchers are available at much lower cost than in developed countries. So the decision about what to locate where—even in pharmaceutical R&D—is no longer simple. And it is increasingly critical to achieve the optimal global/local tradeoff rather than settle for a simplistic answer.

For instance, in the fast-moving consumer-goods business, Unilever has historically enjoyed tremendous success, particularly in markets such as India and Indonesia, with a model that is very locally focused. However, in order to get greater benefits from global scale and to further leverage scarce global resources, Unilever has recently made certain functions more global and centralized; these include brand management and product development.

Optimizing the global/local tradeoff cannot be done at the industry level or the company level but must happen at the function or even the activity level. When a company makes the decision to sell something in a particular RDE, it needs simultaneously to consider several issues:

- What to sell
- To what extent the company can sell a global version of its product versus a version that requires customization
- Whether there is a need for local R&D
- Whether the product can be produced in existing factories in developed markets or manufacturing should be relocated to the RDE
- Where sourcing should come from
- How to compete with local and other RDE-based players
- For companies selling to business customers that are also migrating to RDEs, what degree of localization is necessary to meet the customers' requirements

With specific reference to RDEs, *local* typically refers to a combination of individual economies (this is especially true of China, India, Russia, and Brazil) and regions (Asia-Pacific, Central and Eastern Europe, and Latin America). Although the right design is both country specific and company specific, the decision about what to put where is guided by general design principles: leverage economies of scale, pool scarce resources, minimize duplication, prioritize proximity to preferred suppliers and customers, optimize supply chain configurations, and avoid undue complexity. Optimizing what should go where is also very dynamic, so the "right" answer will continue to evolve. The key is to assess the value of being global versus that of being local and to ensure that all global/local decisions are made appropriately.

Managing the Inherent Tension Between Business Units and Country Management

Optimizing global/local tradeoffs is an important starting point, but it is just that. To truly harness the knowledge, skills, and experience of the organization, the structure should help ensure that the decisions that are made and the resources that are engaged in execution truly reflect the best of both global and local requirements. Corning offers an instructive example.

In China, Corning has several business units selling products that range from traditional to state-of-the-art technologies. Corning has taken these businesses to China over many years, and they are at different stages of development. Corning is organized globally, with strong business units. In China as in other parts of the world, Corning has strong business-unit managers; however, in China it also has an empowered country manager with full profit-and-loss (P&L) responsibility. The head of Corning's operations in China has input into all local-market issues and facilitates transfer of knowledge across business units.

This structure is unusual for Corning, whose regional managers typically are responsible only for developing new businesses, which are transferred to business units once they are established. In general, P&L responsibility lies with the global business units. However, uniquely in China, Corning's country manager has accountability for the country P&L (which is based on, but is not a roll-up of, the business units' P&Ls). The country manager also has a strong mandate from headquarters to manage investments and the right to veto strategic decisions by the business units. To help manage the matrix of business units and country management, Corning maintains an internal China Business Council that promotes cross-business-unit coordination.

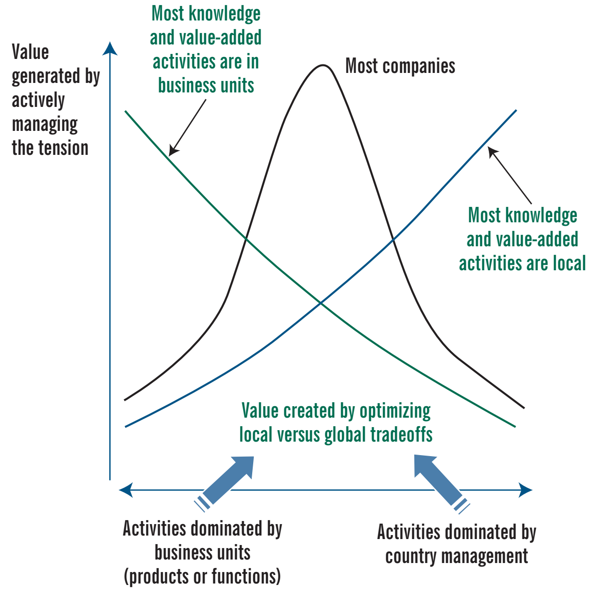
Corning—and some other successful companies—believes that by actively managing the tension between business units and country management, it is able to create significantly more value than it could with either a standalone global business-unit structure or a standalone country structure. (See Exhibit 7.) Actively managing this tension is particularly important in markets where the stakes are highest and where corporate scale or experience is low. Given the relative importance of China, many companies have elevated the heads of their China operations to report directly to the CEO.

Making the Matrix Work

Companies typically achieve global scale by empowering global business units, whereas they typically achieve local autonomy by empowering country management with a combination of business and functional responsibility. Most companies operating successfully in RDEs arrive at solutions that fall between two extremes: a global business-unit model, which can be readily integrated into the existing global organization; and a country management model, which allows greater customization for individual RDE markets. The optimal answer for

EXHIBIT 7

COMPANIES MUST ACTIVELY MANAGE THE TENSION BETWEEN BUSINESS UNITS AND COUNTRY MANAGEMENT



Source: BCG 2005 Organizing for Global Advantage Survey.

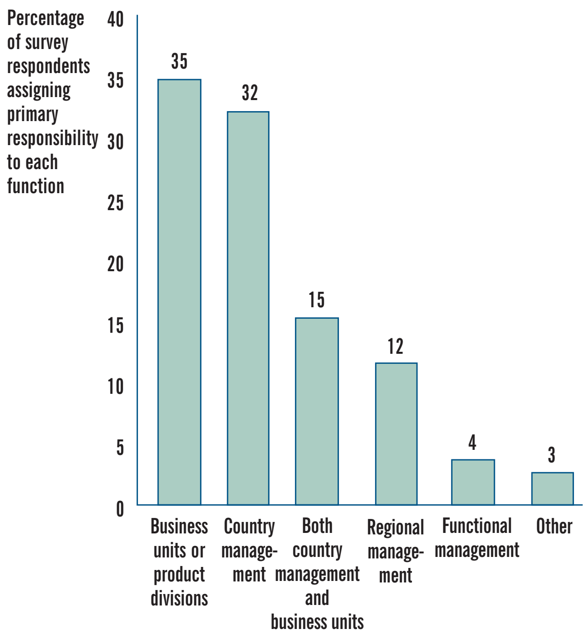
most companies, as for Corning, is some form of matrix. The key is making the matrix work. This involves several activities.

Defining a Dominant Axis of Authority. Some companies' matrix organizations give primacy to their global business units, which have P&L responsibility and make most day-to-day business decisions. Others give P&L responsibility and day-to-day business decisions to country management. A company's choice of whether to empower the global or the local aspect of the matrix depends largely on whether, for that company's business in that particular RDE, value is created primarily by the knowledge and skills of the global or the local dimension.

The choice can shift over time: a company may start with a country-focused organization and later, once an effective and scaled business model is established, turn to a business unit organization. Our survey found that a slight majority of the participating companies—35 percent—give primary P&L responsibility in RDEs to business units, while 32 percent give the responsibility to country management, and 15 percent empower some kind of country and business unit matrix. (See Exhibit 8.)

EXHIBIT 8

MOST COMPANIES GIVE PRIMARY RESPONSIBILITY TO EITHER BUSINESS UNITS OR COUNTRY MANAGEMENT



Source: BCG 2005 Organizing for Global Advantage Survey.

Note: Percentages do not necessarily add up to 100 because of rounding.

Relatively few companies are organized by regional and functional structures to manage P&L in RDEs.

Clarifying Roles and Responsibilities at Each Level. It is essential for companies to clearly define specific roles, responsibilities, and accountabilities for the center, the business units, and country management in order to reduce conflicts and align decisions. Success here lies in spelling out these areas in detail and doing it consistently. The best companies also define primary accountability and final decision-making power for each key function, including business development, manufacturing, sourcing, R&D, sales, marketing, and shared services. People charged with making cross-business or cross-region decisions need to be empowered to play the coordination role effectively. Of course, there are numerous ways to define roles and responsibilities for RDEs. (See Exhibit 9.)

Making Local Teams Autonomous. Centralized decision making contributes to global scale and efficiencies, but it generally lacks the flexibility to respond quickly to changes in local markets. The art here is to recognize which areas need local customization and then to give local managers a clear mandate to make day-to-day decisions in those areas, providing quick support from the center when additional resources are needed. For example, in consumer goods companies, local management often has the power to make decisions regarding local product design, packaging, and pricing in order to reduce the time to market, while the center provides guidance on overall brand and portfolio strategy. Another solution is to gradually delegate increasing levels of control as local management gains experience and credibility.

In our survey, we asked participants to identify which kinds of decisions they think global companies should make at which levels of the organization. (See Exhibit 10.) In the areas of HR planning, sales and distribution, business planning and market analysis, and marketing campaigns, most respondents said that decisions are best made at the country level. Similarly, there was general agreement that in the area of building manufacturing facilities, decisions should be the province of either headquarters or business units, whereas decisions regarding product design and development should take place at the business unit level. Responses were mixed as to where deci-

EXHIBIT 9

ROLES AND RESPONSIBILITIES NEED TO BE CLEARLY DEFINED AT EACH LEVEL

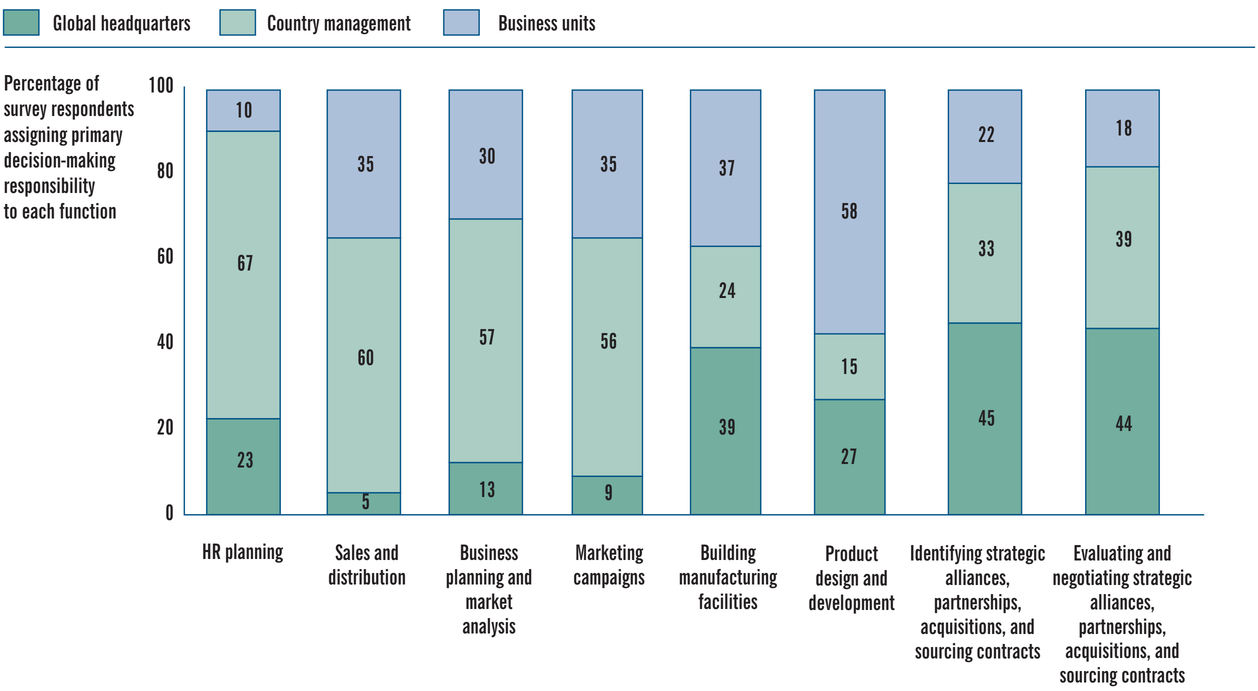
A representative example

Key activities / Level	The CEO and the corporate center	Business units	Country and regional organizations
New-market development	• Define the vision and targets • Decide on market entry priorities and methods of entry • Coordinate across the business units	• Understand opportunities • Coordinate with the center and country management for methods of entry	• Identify local opportunities • Manage negotiations with local government regulators, potential target companies, and partners
Manufacturing	• Set allocation globally and drive global processes	• Decide on optimal locations, usually with in-country production	• Coordinate investments and the sharing of manufacturing facilities
Sourcing	• Secure long-term access to supply	• Identify sourcing needs and coordinate resources	• Support negotiation with key suppliers
R&D	• Search for global opportunities	• Leverage central R&D • Build tailored local applications	• Manage local innovations
Sales	• Set targets	• Coordinate cross-selling with country management	• Coordinate customer strategies
Shared services	• Oversee global platforms	• Coordinate shared services with country management	• Provide shared-service platforms

Source: BCG 2005 Organizing for Global Advantage Survey.

EXHIBIT 10

DECISION-MAKING AUTHORITY VARIES BY ACTIVITY



Source: BCG 2005 Organizing for Global Advantage Survey.

Note: Percentages do not necessarily add up to 100 because of rounding.

sion-making authority should reside for dealing with strategic alliances, partnerships, acquisitions, and sourcing, with most respondents favoring either global headquarters or the country level, and only about one-fifth of respondents choosing the business unit level.

Adopting Multicenter Organization Models. Companies can also break the compromise between centralization and decentralization by shifting some businesses and functions from the corporate center to regional and even local "centers." For example, some manufacturing companies operate most of their functions out of several regional hubs in Asia, Europe, and the Americas. Each regional center makes decisions regarding sourcing, manufacturing, product design, and marketing strategy, while an overall company center provides coordination among regional centers and identifies opportunities for synergies.

Another model locates a global function close to the markets where the operations take place. More and more companies are recognizing the merit of relocating, for example, global sourcing and R&D centers to China or India.

Enabling Collaboration

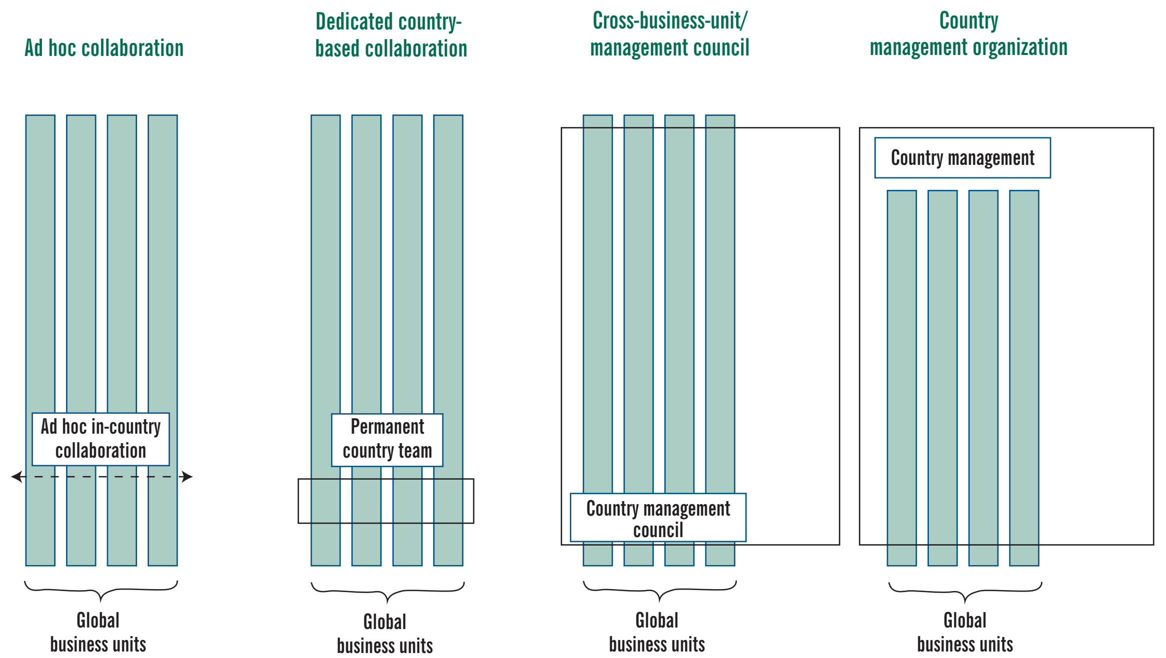
Making a matrix work also requires strong collaboration. Matrix managers must link together individuals, capabilities, and activities both up and down the organization and across business units. Companies that have global business units generally find that when they operate in RDEs, they need to coordinate activities across business units to manage individual businesses' lack of scale and the general scarcity of internal resources. Approaches to cross-business-unit collaboration vary from ad hoc efforts at collaboration to country management of business unit activities. (See Exhibit 11.)

Ad Hoc Collaboration. In this model, the business units in the RDE share some services as needed and coordinate some media and governmental relations through the country manager. Synergies are typically limited to ad hoc projects and specific mandates. P&L accountability and day-to-day operational and strategic decisions remain with the business units. Success with this model tends to be very relationship dependent.

Dedicated Country-Based Collaboration. Companies following this model have set up a perma-

EXHIBIT 11

COMPANIES ADOPT VARIOUS MODELS FOR CROSS-BUSINESS-UNIT COLLABORATION IN RDEs



Sources: Company interviews; company Web sites; BCG analysis.

nent country-coordination team whose role is to identify synergies (both revenue and cost) that can be realized by coordinating activities across the global business units. For example, one large multi-business industrial company has a dedicated country team, with 40 to 50 full-time business employees, charged with understanding customer demands and maintaining consistent relationships across business units. The team's overall focus is on growing revenue by expanding current customer accounts and winning new ones.

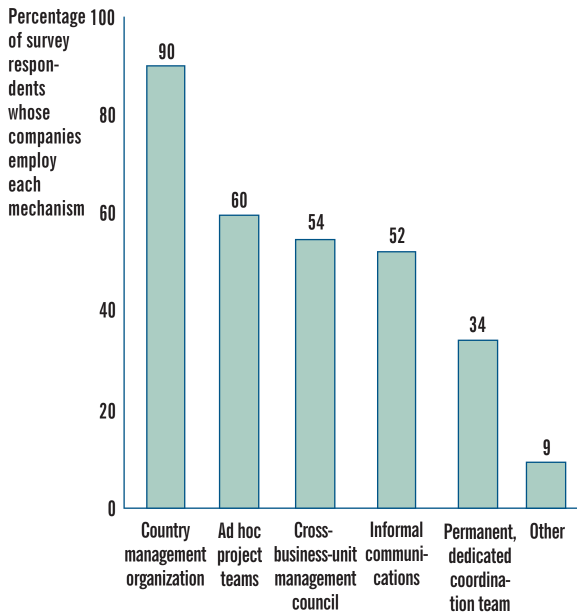
Cross-Business-Unit/Management Council. In this model, companies establish a business council consisting of all the local business-unit managers and headed by the local country manager. The business council makes decisions on cross-business-unit projects in order to capture synergies and pools resources to implement those projects.

Country Management Organization. Some companies place all business units under the umbrella of their country management. LG Electronics in India is a good example: the country manager is responsible for the performance of all of LG's businesses in India and can make operational decisions for those business units. This model ensures full collaboration among business units. In addition, it permits in-country cross-subsidies by allowing cash flows from mature businesses to subsidize the growth of new businesses. It also contributes to huge economies of scale by producing different products in one facility, and it boosts brand equity by taking all products to market under one LG brand.

Most companies employ more than one form of collaboration mechanism. Many companies place all business units under the umbrella of country management, with or without P&L responsibility. (See Exhibit 12.) Ad hoc project teams are also common; 60 percent of respondents use them. Slightly more than half of the respondents use cross-business-unit management councils and informal communications. Just over one-third use permanent, dedicated coordination teams.

EXHIBIT 12

MOST COMPANIES USE COUNTRY MANAGEMENT ORGANIZATIONS AS THEIR PRIMARY COORDINATION MECHANISM



SOURCE: BCG 2005 Organizing for Global Advantage Survey.

NOTE: Respondents were able to choose more than one coordination mechanism.

Half of the companies responding to our survey allocate full P&L responsibility to their local RDE country organizations. The other half use their local RDE country organizations primarily to provide shared services and coordination across business units.

Despite this array of collaboration mechanisms, only 13 percent of our respondents believed that their organizations were "very effective" at obtaining cross-organization sponsorship for RDE projects, whereas another 60 percent claimed that their organizations were "somewhat effective." Some 28 percent either acknowledged that their companies were "not effective" or took no position on the question. We suspect that the percentage of respondents recognizing considerable room for improvement would have been even higher if our survey respondents had included more middle and junior management.

Continuous Talent Development

Virtually all global companies operating in RDEs face a significant challenge in the area of human resources. While the need for experienced, globally capable, and locally savvy managers is particularly acute, such managers are scarce. Most RDEs have relatively short histories of open global economic activity and therefore have not yet amassed a sizable cadre of local managers with more than a decade of solid experience in Western-style business practices. The difficulties are not only in recruiting such people but also in developing, rewarding, and retaining them and in creating alignment with the company's values and goals. Leading companies have developed a number of effective responses to these challenges.

Establishing a Pipeline of Globally Capable Local Managers

Our investigation found that although the local talent pool in RDE countries is expanding, most RDE-based organizations of global companies are still run by expatriates. Some companies attribute this situation to the fact that it's hard to find the right talent for top positions. Job descriptions for these positions are extremely demanding. In the most successful companies, the individuals who head up RDE-based organizations are able to communicate and work effectively with headquarters, including bringing special situations to headquarters' attention, managing headquarters' expectations for investments and financial returns, and navigating and soliciting headquarters for resources and expertise.

The ideal candidate is someone who already has earned the deep-rooted trust of senior management and who can leverage personal relationships at the center. The RDE-based manager should also possess local knowledge and networks so that he or she can get things done. In addition, the manager should have the skill and interest to adapt to both local and global cultures, respecting both and interpreting each to the other. Finally, the manager must be capable of managing a fast-growing business in an environment that has insufficient infrastructure and offers no useful precedents.

These criteria are not easily met by one individual. In practice, companies rely heavily on identifying people in their organizations who have the potential to develop these skills and can be groomed for leadership positions. However, although most global companies have long-standing talent-management programs in their established markets, few have rolled them out to their RDE operations—let alone customized them to the RDEs' special situations. Of the RDE-based programs we have seen, the better ones offer job rotations outside the RDE markets, training in global management skills and culture, and strong coordination between the local HR department and the global one.

Managing expatriate managers is also a key challenge. Many companies find it difficult to move valuable human resources to RDEs, where their skills, internal networks, and experience are desperately needed to build the local business and organization. Life in RDEs such as China is certainly not the same as back at home. Many expatriate managers and their families struggle to adjust to their RDEs' unfamiliar cultures, languages, schools, foods, and social and physical environments. The absence of close friends and family members also takes a toll. To succeed in getting expatriates to relocate to RDEs and to help them function effectively once there, multinational companies need to manage these overseas postings closely and provide attractive career paths for expatriate staff members when they return home or move on to subsequent positions.

Another shortcoming of many talent-management programs at global companies is that they are designed only for very senior management. It is essential to develop junior- and middle-management staff as well to ensure a sufficient pipeline of local talent when senior management or expatriate managers move out of RDEs.

Identifying and Grooming High-Potential Local Talent

Effective practices in this area include planning for HR requirements at least every 12 to 18 months, taking into consideration the company's likely growth, attrition, and staff-development needs. Particularly successful companies require all top managers to identify high-potential employees in their teams, actively coach and develop high-potential managers, and limit the number of expatriates in top management positions. Schindler, for example, seeks to limit its expatriate managers' stays in Asia to three years. During that time, the expatriates have three clear objectives: to set up the organization, train and develop the local staff, and find successors for their positions. Expatriate managers who fail to find and train successors forfeit their third year's bonus.

Successful companies actively coach and develop high-potential managers.

Some RDEs require special efforts in this regard. For example, in countries in Central and Eastern Europe, most upper-level managers have spent their entire work lives under Communism, and many of them have a hard time adapting to Western business practices. So companies sometimes need to search for high-potential talent deeper in the organization, among younger employees who may be more flexible in their attitudes and working styles.

Training is very important in RDEs, where local staff may have less formal education and less current knowledge of technology than their colleagues in developed economies. Training raises the quality of local staff members to global standards and increases their confidence levels. Moreover, employees in RDEs perceive training as a significant opportunity and are appreciative of it, since many local RDE-based employers do not commonly provide it.

Developing Leaders with Global Perspectives

The most successful global companies expose high-potential corporate managers to RDEs early in their careers. A close look at the career paths of top executives at global companies shows that many of them have had tours of duty in overseas markets before assuming their current roles.

Similarly, it is important to help high-potential local employees understand how the company's center functions and to allow them to develop relationships at headquarters if they are to replace expatriate managers one day. It often falls on current country managers to identify local successors, help them build relationships and credibility at the center, and provide additional training to ensure that they have the necessary skills. Several kinds of programs have proved effective in developing both local leaders and global-minded leaders at the center: global exchange or rotation programs between RDEs and company headquarters; global leadership-development programs; global training facilities that are open to managers worldwide; and global forums that bring managers together to build networks and develop perspectives.

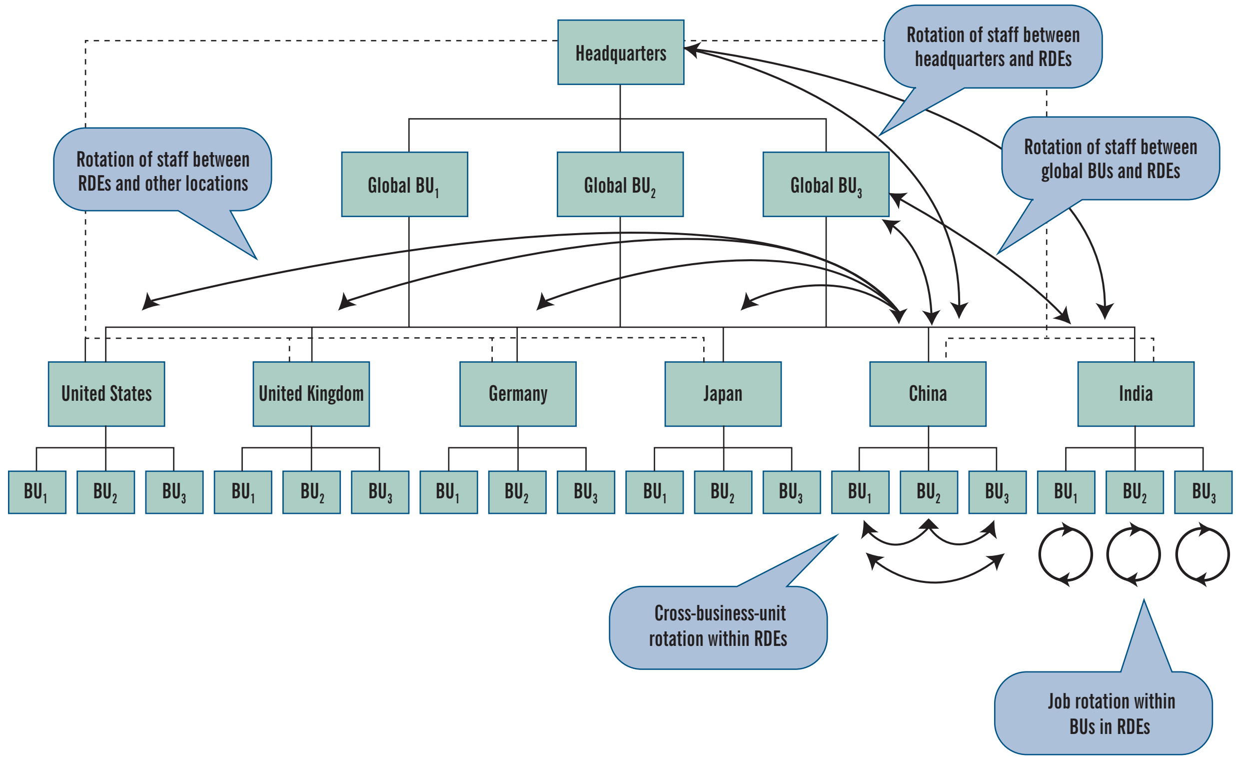
Job rotation is a good way to bring RDE-based employees to other parts of the organization, thus expanding their exposure and networks. It can also be a mechanism for helping headquarters staff experience RDEs. Five basic kinds of rotation can contribute to the development of RDEs: rotation of staff between RDEs and other locations, rotation of staff between headquarters and RDEs, rotation of staff between global business units and RDEs, cross-business-unit rotation within RDEs, and job rotation within business units in RDEs. (See Exhibit 13, page 22.)

Making Succession Planning Explicit

To prepare local managers for leadership roles in local markets, a company must communicate its succession plan clearly to its local staff. Hyundai Motor India offers a good example of clear succession planning. Before Hyundai established its operation in India, the company decided that a key component of its local strategy was to have local people eventually run the operation. Although South Korean managers and staff assumed most positions in the initial stages of setting up the operation, from the beginning management specified the time when Indian managers would take over completely. In daily operations, there is a good mix of South Korean and Indian management staff. Every key position is filled by a South Korean top manager who works closely with an Indian understudy, training him or her to take over the position and providing explicit career management. The company is midway through this process of transitioning management to a local team.

EXHIBIT 13

GLOBAL COMPANIES EMPLOY FIVE JOB-ROTATION MODELS



Source: BCG 2005 Organizing for Global Advantage Survey.

Note: BU = business unit.

Creating Continuity in RDE Leadership

One interesting aspect of developing and managing people in RDEs is the opportunities RDEs offer for career advancement. From one perspective, RDEs provide great stepping stones for up-and-coming stars. RDEs are tough environments, where managers need to be very resourceful in actively managing tradeoffs. However, this opportunity can lead to problems of continuity since these up-and-coming stars, destined for global leadership, tend to spend only a short time in an RDE. Many expatriate executives fear that if they spend too long working in an RDE, their developed-country credentials might become devalued. This concern leads to the vicious cycle of country managers repeatedly leaving their respective RDEs just as they have begun to learn how to operate well there.

Because these frequent rotations are enormously inefficient, some multinationals have pursued localization. This approach works to some extent because local managers can generally be expected to stay in place longer than expatriates. But eventually they, too, expect to move up the organization globally. If a local country manager is expected to stay in a country manager role indefinitely, the notion of working for a multinational may lose its allure. Of course, to the extent that the RDE-based business grows to become a significant part of the company's global business, the local manager can remain in that market and grow into senior-level roles.

Common Processes

Common processes enable communication, collaboration, companywide learning, and the sharing of best practices around the globe. Good organizational processes help executives manage the inherent tension between global and local interests, and create transparency and trust. Such processes are particularly critical in financial, strategic, and HR planning; in operations, including research, sourcing, manufacturing, and marketing; and in support services, resource coordination, governance, and knowledge management. Successful global companies are employing a number of effective practices in this area.

Leveraging Existing Global Processes

Leveraging existing global processes can be highly beneficial to RDE organizations. For headquarters, leveraging global processes boosts confidence and trust in RDE organizations. The latter, in turn, are spared the burden of customizing their own systems. It is important to select processes that can function across all regions. Ideally, their underlying business logic should be comparable, and the economic environments in which they are applied should be at least compatible. It is also helpful to simplify each process for clarity and ease of adoption before rolling it out to RDEs. Pilot testing the compatibility of each global process in the local environment and then reviewing its actual performance frequently can help ensure effective implementation.

Capturing the Benefits of Localization

Manufacturing in RDEs can mean huge cost savings, as well as operational advantages, because companies can employ highly skilled and flexible low-cost labor in place of very expensive and far less flexible capital equipment. However, to fully capture these advantages, companies must adapt their decision-making and operational processes. For example, in purchasing equipment for a factory, a company can adopt processes that accommodate local equipment vendors and choose plant designs that use less equipment and more labor. Localization of processes may also involve customizing a global process to suit the preferences of local customers. In one instance, an international bank found that Indian customers expect a single contact point for their relationship with the bank. So the bank shifted from global product specialists to relationship bankers. The shift involved modifying many processes, including product management, recruiting, training, customer management, and internal communications.

Sharing Best Practices Across the Organization

Although many global companies have strong communication flows between country managers and headquarters, they rarely share experiences across businesses within or among RDE markets. The pioneering companies that have implemented processes for sharing learning and best practices among RDEs have found this experience extremely helpful.

One mechanism for this kind of sharing is experienced teams that specialize in entering and developing new markets in RDEs. Companies that take this approach create a virtuous cycle, becoming increasingly adept at entering RDEs. For example, one global retailer has what it calls a *permanent cadre* that focuses on new-market entry. The team moves from market to market, setting up local operations and then handing over day-to-day management to a permanent local-management team. Other good examples of a robust knowledge-sharing mechanism are Schindler's Asian operations, which employ business improvement teams to identify the best-implemented processes in different functions across the company's Asian operations. These best practices are showcased in regional meetings with business process owners from across the region. And global knowledge-management systems enable quick global sharing of experience and expertise.

Before implementing mechanisms for sharing best practices, companies need to identify which global processes are most important to them and where the benefits from sharing those processes will be greatest. Pharmaceutical companies, for instance, have a primary interest in preserving their reputation for product safety, so they might emphasize quality assurance processes such as testing procedures and drug safety approvals. Industrial goods companies might focus on processes that ensure quality, operational effectiveness, and worker safety.

Shared Platforms

Shared platforms take many forms. They can consist of all kinds of capabilities: people, processes, knowledge, and assets, including buildings, plants, brands, and relationships. Shared platforms enable companies to leverage resources by pooling them across businesses, reduce costs by achieving enterprise scale, improve effectiveness by sharing best practices, reduce risks by avoiding repetition of mistakes, and present one face to the market. Shared platforms also ensure ease of working across boundaries. Common platforms allow a company to align and standardize operations across regions and countries. Common platforms are particularly efficient and beneficial in the subscale environments of most RDE operations.

Shared platforms let companies reduce costs and risks and improve effectiveness.

Key questions for global companies to consider in this area are: Which platforms should be shared? At what level—country or region? In which locations? Across which organizational entities (including, for example, suppliers and partners)?

Choosing and Deploying Shared Platforms

Although the choice of which platforms to share is different for each company, the process of choosing platforms is fairly similar for everyone. It involves arraying the company's capabilities and assets against a set of criteria and then assessing them one by one. The criteria include the value to be created by sharing the platform in terms of leveraging scarce resources, cutting costs, boosting execution effectiveness, reducing risks, and presenting one face to the market. This analysis should yield a prioritized set of platforms, ranked by costs and benefits. Such platforms typically range from basic transaction-oriented shared services, such as accounting and bill payments, to more complex processes, such as creating a cross-business-unit platform to cross-sell products from multiple business units.

The analytical work is generally straightforward. Where companies stumble is in achieving agreement across business units, functions, and locations to act on these opportunities. Consequently, many companies miss opportunities. Companies that have made good progress in deploying common platforms understand why such platforms are particularly important in RDEs. They have learned from experience, whether positive or negative; and for the shared platforms, they have senior sponsors who are both accountable and able to gain the necessary cooperation.

Using Shared Services Effectively

In developing shared services for more routine transactions, it is essential to understand in detail the challenges common to all locations. Shared platforms are most commonly used for functions such as HR, accounting, and procurement—functions that require regular updates, use standardized formats, follow common templates, and rely on the frequent transfer of information between departments, as well as many hours of manual labor and a high level of accuracy. The benefits of common platforms are many: automated updates and report generation, ease of information retrieval, reductions in repetitive labor, higher accuracy, consistency of formats, speed of communication, and economies of scale. Many global companies have created value by setting up shared-services centers in RDEs, capturing the benefits of low costs, skillful workers, and the investment-friendly policies of RDE governments.

Establishing Value-Adding Platforms

In addition to sharing transaction-based and cost-oriented services, companies are reaping significant benefits by establishing platforms that create higher value by pooling knowledge, skills, relationships, and more expensive assets, including brands and physical assets. These platforms share a set of characteristics: often they are more strategic, drive growth across businesses, leverage potential synergies and economies of scale, and play key roles in mitigating risks.

GE's legal platform in the Asia-Pacific region is a good example. GE has created a shared legal platform consisting of 65 lawyers to meet the company's legal needs in the region. These lawyers are connected by several mechanisms, including a monthly conference call to discuss best practices and personnel development, three meetings of the whole group each year, meetings of countrywide councils two to four times per year, mentoring programs across businesses, and an Asia-Pacific legal intranet.

Corning's Intellectual Property Council in China is another good example. The council consists of senior participants from key functions and businesses in China, as well as senior participants from global technology and global legal functions. Together, this group has the mandate to set the overall IP agenda, ensure that key IP issues are anticipated and addressed, marshal the necessary resources, lobby governments and other external stakeholders, and monitor compliance.

Forging Effective Alliances and Partnerships

Many RDE-based organizations reach out to external parties for resources and local expertise. Some have come to view their suppliers, distributors, and other partners as valued members of their organizations, offering them free training and consulting services, providing financial incentives such as profit-sharing mechanisms, and limiting the number of distributors in order to gain more control and influence.

It is critical that global companies be seen as committed to RDEs for the long haul. As one respondent put it, "If a company is not willing to invest in facilities and plants in the country, it projects a message that the organization is not here for long. So why would suppliers or traders give it good terms? Why would they treat it as a long-term-relationship partner? The company might just leave if the market is not doing well." Other respondents echoed this sentiment. Investing in developing local partners is one way to demonstrate long-term commitment.

Most respondents to our survey believe that there are significant untapped opportunities to better leverage partnerships and alliances. Only about a third of the respondents told us that their companies had online platforms or environments to promote cross-business-unit or cross-regional interaction, while a similar percentage claimed to have programs for sharing or lending resources across business units or regions. Clearly, there is considerable room for improvement in this area.

Core Values

A company's core values are those nonnegotiable principles that form the underlying ethical fabric of the company, across regions and lines of business. These principles shape beliefs and expected behaviors. They should permeate everything the company does, both internally and externally, and help employees decide what to do and how to do it.

The role played by core values is particularly critical in RDEs because when you are far from the corporate center, you need a way to establish common expectations. You need to be able to trust everyone in the company to act in accordance with the company's values, without having to spell out those expectations.

The challenge for RDE managers is how to inspire their local organizations to understand and adopt the global corporate values. In some areas, this is easy because there is no conflict between the corporate values and the local culture; for example, almost everyone's values include respect for individuals and for achievement. The difficulties lie in areas where there are significant differences between corporate values and local cultural principles. For example, in China, bonds within families and among friends are often stronger than the sense of responsibility to an employer. Hence, confidential information can leak out relatively easily if employees do not uphold strong corporate values.

Best practices in this area include leading by example and implementing values deployment programs.

Leading by Example

The expatriate managers who head up RDE-based operations have a major role to play in transferring to their local colleagues not only formal information about the company's business but also explicit and tacit information about its culture and values. Local staff members in RDEs pay very close attention to their expatriate bosses' lifestyles, attitudes, decision-making logic, interpersonal behavior, and even style of dress and table manners. The leader's way of conveying rewards and reprimands, in particular, molds the attitudes and behaviors of the local organization. Leaders who are firm in upholding high ethical standards, rather than conforming to the sometimes less strict standards in RDEs, send a powerful message about what the company stands for.

Implementing Values Deployment Programs

As RDE-based organizations grow, often at breathtaking speed, they need to continuously communicate the corporate culture and values to new employees and reinforce those values with the existing staff. Toward that end, many companies incorporate their values into their performance and compensation systems. There are four basic ways to go about this:

- *Integrate values implicitly.* Performance measures include criteria that reflect the application of corporate values and culture.
- *Integrate values explicitly.* Performance assessments rate individuals on how well they reflect the corporate values in their work.
- *Institute a values qualification program.* An assessment tests each employee's understanding of corporate values. He or she must pass the test to qualify for bonuses.
- *Require strict adherence.* There is a clear definition of behaviors that are acceptable and those that are not. Employees who violate the corporate values are summarily fired.

In every values-deployment program, it is advisable to make the application of the values as tangible as possible. For example, stories can convey messages far faster and more memorably than abstract discussions or memos, providing real-life examples of living the values. It can also be useful to undertake a values survey to ascertain how employees perceive the corporate values in their day-to-day work. The survey can take the form of a regular pulse check of the organization's health. Such surveys should be broad in scope; their purpose is to learn how the whole population is feeling about the organization's values. If the survey reveals an area of concern, such as excessive overtime, an unfriendly working environment, or lack of respect for individuals, managers can schedule focus group discussions or request open-ended feedback to get more detailed information.

Making It Happen

The dynamic nature of RDEs, and the evolving positions in which companies find themselves, ensure that organizing to capture global advantage is a never-ending journey. As on all journeys, it is very helpful to follow a path that offers some identifiable markers along the way. Although the companies that have been traveling along this path for some time have all taken their own turns, they do seem to have shared some common stretches along the way.

It's critically important for company leaders to face reality about globalization.

Facing Reality

There is a large and growing gap between companies that understand the importance of RDEs and are mobilizing their organizations accordingly, and those that are still taking too passive a stance. It is critically important for company leaders to face reality about the opportunities and threats—present and future—of globalization. For some, recognition of the full array of threats and opportunities may come as an epiphany. Others already have a deep understanding but are struggling with mobilizing the organization. Regardless of your starting position, facing reality—your company's unique reality—is clearly a vitally important first step.

Choosing the Right Organizational Stage and Pace

RDE organizations typically follow a three-stage pattern, building from opportunistic presence to strategic investment to fully leveraged deployment.

Opportunistic Presence. In the first stage, individual businesses often find their way into an RDE, led by midlevel expatriate managers sent to make initial forays, whether for selling, sourcing, or manufacturing. Each business unit operates fairly autonomously, and little investment is made in formal talent development, common processes, or shared platforms. At some point, performance problems, competitor moves, or a better understanding of the opportunities prompt senior leaders to raise their aspirations and move to the next stage.

Strategic Investment. In this stage, the company appoints many more senior executives to head up its organization in the RDE. It gives these managers more demanding goals but also significantly more resources, including RDE country organizations, common processes, and shared platforms. In the most successful companies, senior management invests considerable time developing talent and establishing core values.

Fully Leveraged Deployment. At this stage, companies actively leverage their RDE-based organizations across multiple dimensions, including selling, sourcing, manufacturing, R&D, and services. They also have committed significant resources to the RDE, including, in some cases, relocating the heads of global business units and functions there. At this stage, individual business units often reach critical mass in the RDE and become more autonomous.

It is critical to understand what stage your organization is at today, where it should be, and how fast you need to get there. For many companies, getting there will mean accelerating their activities in RDEs to move their organizations to a strategic investment or fully leveraged deployment stage.

Developing an Organizational Road Map

The next step is to take stock of the organization, ideally along each of the six elements described in this report: leadership, structure, processes, platforms, talent, and values. BCG has developed an Organizing for Global Advantage Audit that can be a helpful tool for conducting such an assessment. We also have an array of diagnostic tools that can be used to conduct deeper assessments in specific areas. Regardless of the tools you use, it is important to understand the overall readiness of the organization, identify the most important gaps, and define the actions required to close those gaps. Usually, closing the gaps requires a broad set of actions in some or all of the six areas. This can include making changes in leadership, rethinking structural design, choosing specific processes to globalize, developing new common platforms, and taking steps to improve global talent development and to further embed core values.

Leading the Way

Executives should anticipate that their organizations will be continually changing—not along all dimensions, and not every day, but in enough ways that they must be prepared to be continually assessing, planning, and revising. Precisely because there is going to be so much change, it is also important for leaders to strike the right balance and to set the right scope and pace of change. Move too narrowly and slowly, and your competitors will leave you behind; move too broadly and fast, and you will leave your people in chaos. Our work with global companies suggests that it is prudent to plan to review your overall organization at least every 12 to 18 months to take stock and establish overarching programs, while making myriad changes along the way.

This means taking charge personally. It means making a commitment to owning the six elements of effective global organizations. It also means developing a personal, experiential knowledge of your high-priority RDEs and ensuring that all necessary actions are being taken to build an effective organization.

It means putting your best people on the frontlines in RDEs, so they can form the perspectives necessary to make key decisions. It means ensuring that the leaders of each business and each function also take personal ownership and become the sponsors in their respective areas. Ultimately, because capturing global advantage takes many motivated, capable, and disciplined people, it means ensuring that the company's global priorities—and its sense of urgency—are owned throughout the organization.

A Call to Action

Leveraging RDEs is the next great frontier for global businesses. For those who understand this frontier and mobilize their organizations accordingly, it represents an unprecedented opportunity. Our sincere hope is that this report will be a useful guide along the journey. It is informed by the experiences of many who are already successfully capturing global advantage in RDEs. We urge you to move quickly, and we wish you great success.

The Boston Consulting Group publishes other reports and articles on the topic of globalization that may be of interest to senior executives. Recent examples include:

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