Part One

GEARING UP FOR THE NEW GLOBAL REALITY
The rise of emerging markets, with emerging Asia at the center of them all, is rapidly changing the structure of the global economy. Many of the emerging markets are no longer small. They already constitute nine of the world’s twenty-four largest (and four of the twelve largest) economies (see Table 1.1). Within the next ten to fifteen years, emerging markets will account for half of the world’s gross domestic product, up from about a third today and less than 10 percent in 1980. Emerging markets are also becoming the launching pads for a new generation of global competitors. According to *Fortune* magazine, of the world’s five hundred largest corporations by revenue, sixty-seven are now headquartered in the BRIC (Brazil, Russia, India, and China) countries, up from just seven in 1995. Given the likely growth rates of emerging economies (three times that of the developed ones), it is all but certain that the shift in the world’s economic center of gravity will accelerate over the coming decade. For most companies, ignoring or even giving peripheral treatment to emerging markets is no longer a viable option. They do so at grave peril to their own future.

As evolutionary theory tells us, when the environment changes, one must adapt—or die! Rooted in that premise, in this chapter, we look at how the changing structure and dynamics of the global economy will determine the characteristics of
Table 1.1 The World’s Twenty-Four Largest Economies in 2010

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<td>24</td>
<td>Venezuela&lt;sup&gt;a&lt;/sup&gt;</td>
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Note: All data at market exchange rates. These twenty-four economies comprise 62 percent of the world’s population and 83 percent of the world’s GDP in 2010.

<sup>a</sup>Denotes an emerging economy (defined as any economy categorized by the World Bank as either middle income or low income).


the global enterprises that emerge as the new winners or the survivors ten years from now.

There are four building blocks to our analysis: rethinking global strategy, rethinking global innovation, rethinking global organization, and globalizing the corporate mind-set (see Figure 1.1). We assign a central role to corporate mind-set because the cognitive biases of senior leaders have a decisive impact on resource allocation and corporate direction.

Rethinking Global Strategy

The new global reality requires a fundamental rethinking of the answers to three of the most central questions pertaining to global strategy:
1. *What market position must we achieve and sustain within our industry on a worldwide basis?* Some of the questions that follow from this broader one are: What should we consider to be our strategic markets? What target opportunities in these markets must we go after? What business models must we design and implement to realize these opportunities?

2. *How should we globalize our resource base?* For any particular resource (research laboratories, production centers, or sales units, for example), globalization refers to the number and choice of locations where the resources will be based.

3. *How should we manage the tension between the need for global integration and the need for local responsiveness?* At one extreme, the choice may be to offer a globally standard mix of products and services (say, commercial aircraft by Boeing). At the other extreme, the choice may be to offer locally tailored products and services for every market (say, ice cream by Unilever).
These questions lead to the following three imperatives for a rethinking of global strategy.

**Robust Emerging Market Strategies**

We believe that less than one-tenth of the world’s five hundred largest companies have even close to a robust strategy for the key emerging markets of Asia, Latin America, Eastern Europe, and Africa. By “robust strategy,” we mean a strategy that is fundamentally market driven (What do the customers in China and India need?) rather than product driven (How can we sell our current products and services in China and India?).

Consider the case of a Fortune 500 company with over $10 billion in 2010 revenues. It derives over 75 percent of its revenues from the United States and Canada. Yet by most estimates, over 80 percent of the market for this company’s products and services is outside North America. Whereas the U.S. market is largely mature, that in emerging markets (especially China and India) is growing at over 20 percent a year. When senior executives at this company analyze the global market, the question they ask is, “How large is the market for our U.S.-based products and services, especially those that provide the bulk of our revenues and profits?” What they overlook is that, within their industry, much of the opportunity in emerging markets is for ultra-low-cost products and services that must be conceived, designed, and manufactured within these markets. Cloning or mere adaptation of U.S.-based products and services does little more than skim the surface of the vast opportunities in these emerging epicenters.

Contrast that case with the approach taken by Deere & Co. A few years back, Deere’s Agricultural Equipment division initiated a zero-based redesign of its strategy for India and other emerging markets. Until then, Deere had viewed India predominantly from the lens of its existing U.S.-based products: large,
technologically advanced, and very expensive machines designed for large American farms. Not surprisingly, executives had concluded that the market for their products in India was very small and had assigned India a relatively peripheral role in the company’s global strategy.

Our discussions with a senior-level strategy group focused on two central questions: (1) How does Deere define its business: as a supplier of “large 100+ horsepower tractors” or as a supplier of “agricultural equipment”? (2) How large is the current and future market for agricultural equipment in India that may be smaller in size and horsepower and may not look anything like the company’s machines for the U.S. and other developed markets? Discussions around these questions revealed that the company’s global strategy had been driven too much by a product-centric mind-set and not enough by a market-centric mind-set. These discussions also led to Deere’s decision to upgrade its engineering center in India and give the Indian subsidiary the autonomy and resources to design and manufacture products for the Indian as well as other emerging markets. Since then, Deere’s India-made tractors (the 5003 series) have proved to be popular with farmers in India and other emerging markets. To its surprise, Deere has discovered that these small, very basic, low-horsepower, highly maneuverable, and inexpensive tractors (with a starting price of $14,400) are also proving to be popular with hobby farmers in the United States.

Emerging markets are not just large and rapidly growing; they are also radically different from those in developed countries. Selling the same or defeatured versions of existing products and services does little more than skim the surface of the market opportunities. The winning corporation of tomorrow will have a robust strategy that stays within the bounds of the company’s business domain (“beverages” for Coca-Cola, “hospitality” for Marriott, and “agricultural equipment” for Deere) but is market rather than product driven.
Atomization of the Value Chain

Go back only about thirty years, and for most firms, “global expansion” meant a clear choice between either of two strategies: export from home (for example, Toyota, Sony, or IBM) or produce locally to sell locally within each foreign market (for example, Procter & Gamble or Unilever). The former strategy made sense if scale economies were very high and tariff and transportation costs low relative to total costs. In such cases, virtually all elements of the value chain were concentrated in the home country. The latter strategy made sense when scale economies were low or tariff and transportation costs were prohibitively high, or both. In such cases, virtually the entire value chain was replicated in each market. Either way, other than sourcing of raw materials and distribution of finished goods, virtually all elements of the value chain were colocated in the same country and often on the same corporate campus.

Today’s reality is already very different. For a Hong Kong–based apparel supplier, fulfilling an order for a U.S. or European retailer can mean that the fabric may be woven in China, the fastenings may be sourced from South Korea, and the actual sewing may be done in Guatemala or Vietnam. A PC company can now source hardware and software components from twenty countries, conduct assembly operations in five countries, and sell the finished laptops in over two hundred countries. A doctor in Boston can now order a magnetic resonance imaging scan on a patient after midnight and, if needed, have a highly experienced radiologist based in Bangalore send back his or her reading of the image within minutes. An architectural firm based in New York can now do the overall design for a building in Manhattan but have the engineering details of the piping, plumbing, and electrical wiring drawn up by a subsidiary in Shanghai.

This trend toward atomization of the value chain will continue and become more finely grained. Communications technologies are becoming more user friendly and less expensive at
a very rapid rate. High-fidelity video telephony by mobile phone is already a reality. These developments will make it increasingly crucial for companies to push the envelope in terms of an increasingly finer disaggregation of the value chain and an optimization of the choice of locations for individual activities, subactivities, and even sub-subactivities. Also, as the relative competitiveness of different locations shifts over time, companies will need to be increasingly flexible in shifting the operational base of specific activities. William Amelio, Lenovo’s former CEO, termed this approach to running the company “worldsourcing.” An ever-greater commitment to worldsourcing will indeed be one of the defining features of tomorrow’s global corporation.

Global Platforms, Customized Solutions

Some of the earliest literature on globalization argued that the future would belong to companies that offered globally standardized products. The assumption was that the world was moving toward a converging commonality and that a strategy of global standardization would enable the company to deliver products that were advanced, functional, reliable, and low priced.¹

We disagree completely and predict that the end game in globalization will be extreme customization and not extreme standardization. Ask any serious observer (the World Bank, International Monetary Fund, or Goldman Sachs, for example) to define globalization, and the answer will be that globalization refers to integration across countries.² Integration is a fundamentally different concept from homogenization. As we look ahead, the world economy will be far more integrated than it is today. At the same time, however, people will demand and be able to buy, at reasonable prices, more not fewer, customized products and solutions than we do today.

The Left Shoe Company, based in Helsinki, Finland, provides an interesting example of the shape of things to come. A customer of this company can get a pair of made-to-measure
shoes, manufactured from a choice of several high quality materials, delivered to his/her door. Once the customer’s feet have been scanned at a company-designated outlet and the customer has received an identity number, new shoes can be ordered directly from the company’s Web site. The company relies on assistance from a shoe design firm based in Italy, sources the scanner from Germany, has a factory in Estonia, and sells through affiliated stores in several countries within and outside Europe, including Japan, Hong Kong, and Malaysia. This approach to selling customized shoes would be impossible without the combined power of technology and globalization.

Our prediction regarding extreme customization as the future reality rests on two premises. First, heterogeneity within and across countries (in buying power, cultural norms, habits, language, geographic climate, body shape and size—you name it) will remain an enduring feature of humanity for many decades to come. Even as buying powers converge across countries, given the side effects of capitalism, large income and wealth disparities within countries will remain a permanent feature of virtually all societies. Aside from buying power, look also at the cultural reality of societies. With each passing day, the United States, Europe, India, and China are becoming more (not less) multicultural with a growing number of subcultures.

Second, as illustrated by the Left Shoe company (and as depicted in Figure 1.2), developments in information, communications, and manufacturing technologies are rapidly reducing the cost of customization. This is already evident in the ability of individuals to customize, at near zero cost, the PC they buy, the first Web page they see, the apps they download, and the news they get. Over the next decade, it will also start becoming evident in other goods and services such as the medicines they take, the clothes they wear, and the cars they drive.

Large emerging markets such as China and India are not just very different from the United States and Europe; they are also vast and internally very diverse. There is no such thing as the
average Chinese consumer or the average Indian consumer. Thus, the winning corporation of tomorrow will have to be a master at the art and science of fine segmentation and mass customization. Technologies and platforms are becoming increasingly global. In a seeming paradox, it is the very globalization of technologies and platforms that will enable companies to offer extremely customized and yet low-cost products, services, and solutions that will vary not just across individual customers but also from today to tomorrow.

**Rethinking Global Innovation**

Innovation is best defined as the “production or emergence of a new idea.” We use this term to stand for both an outcome (the new idea) as well as a process (how the new idea emerged). It is hard to imagine any issue more central to society than innovation. All adaptation, whether evolutionary or revolutionary, requires innovation.

How companies must think about and manage innovation over the next ten years is unlikely to be similar to what they have
done over the past ten. We focus on three of the major differences: (1) the rapidly growing need for pervasive innovation in all activities and at all levels of the organization; (2) the rapidly growing need for innovation that economizes on raw material and energy use, minimizes the environmental impact of the company’s products and processes, and yields products and services that are ultra low cost; and (3) the rapidly growing need for companies to work across interfirm boundaries, that is, in collaboration with other firms, to develop new products, processes, and solutions.

360 Degree Innovation

At least three major forces are causing a steady decline in the half-life of technologies, products, services, processes, and even entire business models. The first is the ongoing march of technology, which continues to advance at an exponential rate. In 1990, if you needed to buy a book, you walked to a brick and mortar store. By 2000, you could order a book over the Internet and it would be delivered to your home in three to five days. Today you can order it as an e-book and have it delivered instantaneously to your PC, tablet, or a cell phone. The very idea of what we mean by “a book” is undergoing transformation, from today’s static product that is updated, if at all, once every few years by the author, to a dynamic product where readers become ongoing cocreators of and even characters in the story. The impact of rapid technological advancement is evident all around us, from autos, pharmaceuticals, and clothing to even the lowly toothbrush.

The second force is the all-around transparency imposed by the Internet. A company’s actions are becoming increasingly visible to almost every stakeholder—customers, competitors, suppliers, shareholders, employees, alliance partners, the community, governments, and social activists—in real time. A direct result has been that barriers to competitive imitation have rapidly
gone down even as companies are now scrutinized and held more accountable by more stakeholders more frequently. Not surprisingly, the tenure of CEOs the world over is on a steady decline. As the Internet continues to become more powerful, the ability to hide will decline even more. The only salvation will be an accelerated pace of innovation.

The third force is the emergence of new competitors from nontraditional countries: competitors that bring very different capabilities (such as significantly lower-cost structures and larger pools of R&D talent), are very ambitious, and are comfortable moving at great speed. The processes that have resulted in the emergence of such new champions (SABMiller, Tata Motors, Suzlon, Huawei Technologies, and Alibaba Group) are still in the very early stages. As these processes gather momentum, we should see a cascading effect.

Given these trends, tomorrow’s global enterprise will have to figure out how to make innovation an always-on and 360 degree pervasive activity. It will not be confined to the company’s R&D labs. Even mundane activities such as cleaning the office floor and ensuring security at the office entrance will require a passion for innovation. Might we put carpets or vacuum systems at the entrance that remove well over 90 percent of the dirt from people’s shoes as they enter the building? What newer technologies could we invent or acquire that reduce security risks while also cutting waiting times and making the entrance to the building a more pleasant experience? Given the pressure to save every penny and every ounce of raw material, asking questions such as these will need to become a central responsibility of not just people in the skunkworks but also everybody else, including the janitor, the receptionist, and the sales rep.

A Passion for Frugal Innovation

By “frugal innovation,” we mean innovation that strives to create products, services, processes, and business models that are frugal
on three counts: frugal use of raw materials, frugal impact on the environment, and extremely low cost. The rapid rise of emerging markets, with China and India as the central players, is once again the prime mover behind the critical need for all three types of frugality.

Consider global warming. Two of the biggest contributors to global warming are emissions from cars and, perhaps surprisingly, buildings that need to be kept well lit and comfortable (cool in the summer and warm in the winter). Look now at the impact of China and India in these two areas. In 2000, motor vehicle production in China was barely 16 percent of that in the United States. By 2010, it was twice as large as that of the United States. Between 2006 and 2010, China added more square meters of urban floor space than all of the developed countries combined. India is behind China by about fifteen years, but it is following a similar path. As economic development in both countries spreads to the countryside, these trends are not likely to abate. In fact, the numbers will become much larger. No wonder, then, that the price of almost every commodity has risen sharply over the past ten years and that China and India have become two of the biggest contributors of greenhouse gases into the air that the world breathes.

It is unlikely that, for the sake of lifestyles in the developed world, China and India will decide to put brakes on their own growth. Instead, what we will witness is a rapid shift from products, services, and processes that are energy inefficient, raw material inefficient, and environmentally inefficient to those that are efficient. Companies that take leadership on these fronts on a worldwide basis are likely to find it easier to preserve and increase their global market shares at the expense of those that spend their time lobbying governments to ease up.

Note also that, over the next twenty years, the bulk of the absolute growth in market demand for most products and services will occur at the middle- and low-income levels in the big emerg-
ing markets. Winning these megamarkets will require that products and services also be ultra low cost.

A passion for frugal innovation will become increasingly essential not just for companies that sell consumer products and services but also for those that are purely in business-to-business domains such as Nokia Siemens Networks (NSN), Ericsson, and IBM. Bharti Airtel, the world’s lowest-cost provider, is India’s market leader in cell phone services. The company’s ingenuity lay in devising a new-for-the-industry business model for mobile telephony that relied heavily on outsourcing all network operations (to NSN and Ericsson) and all business support services (to IBM). However, for this business model to succeed, it was essential that companies such as NSN and Ericsson depart from their traditional practices and agree to get paid for network operations on a per minute basis rather than for selling and installing the equipment. In short, the Bharti Airtel model works because all of the players (NSN, Ericsson, IBM, and Bharti Airtel itself) are committed to frugal innovation.

Over the coming decade, companies such as GE, which must help hospitals in Beijing and Kolkata provide better care at a lower cost; Otis, which must provide lower-cost and more energy-efficient elevators and escalators for tomorrow’s Mumbai; and Carrier, which must keep buildings in Guangzhou and New Delhi cool in the summer, will have no choice but to become ever more passionate about frugal innovation. Otherwise the market will move to companies that are.

**Collaborative Innovation**

The disaggregation of value chains coupled with greater outsourcing means that even as companies become more global and more diversified, they are becoming more focused regarding what they manage within their own boundaries. In short, companies are becoming embedded in ever larger interfirm networks.
The growth in outsourcing is being fueled by a combination of more intense competition plus developments in information technology. As companies become subject to the transparency brought about by the Internet and as barriers to imitation and new entry decline, companies find themselves facing more intense competition. Consequently the penalties from internalizing any activity that somebody else can do better, cheaper, or faster have gone up. As a complementary development, the growing power of information technology is making it possible to accurately measure and effectively coordinate increasingly complex interfirm transactions.

The trend toward disaggregation will continue. Companies will find that the features, quality, performance, and price of their end products will depend increasingly on the decisions and actions of their business partners on all sides of the value chain. Thus, unless companies become masters at the art and science of collaborative innovation, they will find themselves playing just a commodity game within some other player’s differentiated business system.

Disaggregation of the value chain is not the only factor that will make collaborative innovation increasingly important. Other factors are the rapid integration of multiple technologies into the same product, service, or process, and a growing external market for proprietary intellectual property. Look at the integration of multiple technologies. Today’s tablet computer is not just a computing and office productivity device; it has also become a source of multimedia communication, information, and entertainment. Today’s cars have largely become computers on wheels. Today’s books need to be published and made accessible not just in paper-based formats but also in many different types of digital formats. And it will not be long until contact lenses may come embedded with medications so that you can not only see better but also become healthier in the process. As disparate technologies come together into a single product, service, or process, companies will find that no matter what their size, they do not
have the mastery of all of the essential technological puzzles. Directly relevant innovation increasingly will take place outside the firm’s boundaries or collaboratively at the interfaces between firms.

The final driver of the move toward reliance on external innovation is the emergence of increasingly sophisticated markets for proprietary intellectual property such as patents and trademarks. Consider Intellectual Ventures, a company founded in 2000 by Nathan Myrvhold (until then, chief strategist and chief technology officer at Microsoft) and Edward Jung (until then, chief architect and advisor to the executive staff at Microsoft). Intellectual Ventures has emerged as one of the major players in creating a liquid market for patents that often remain buried and unused in corporate vaults.

Rethinking Global Organization

Every company’s organization is an ecosystem that consists of complementary elements such as structure, processes, and culture that work together to drive the company’s decisions and actions. We identify three of the most important ways in which tomorrow’s global corporation will need to be different from that of today: (1) a reengineering of the company’s worldwide corporate headquarters from a single location to a network of global hubs that are situated in a small number of carefully selected locations; (2) a shift in how the company is managed, from a command-and-control model to a connect-and-coordinate model; and (3) an ever greater need to cultivate a strong one-company culture that provides the intellectual, social, and psychological glue to bind a geographically dispersed staff into a cohesive body.

Network of Global Hubs

Cisco Systems is one of the world’s leading-edge companies in trying to figure out what the global enterprise of tomorrow must
look like. Here is what Wim Elfrink, chief globalization officer and executive vice president of Cisco Services, has said about the impending “virtualization of the corporation”:

The tradeoff between the intimate but inefficient old-world organization and the hyper-efficient but impersonal modern organization is on the verge of extinction. Today, the increasing pervasiveness of broadband networks have facilitated the slicing and dispatching of corporate functions around the globe. . . . The ability to be both dispersed and close will encourage a transformation from today’s typical client-server corporate model, in which a central headquarters is linked to various satellite offices, to more of a peer-to-peer network. This translates into an extraordinary cultural shift . . . and possibly from the very idea of a corporate headquarters.4

We agree entirely with Elfrink. Legacy notions of corporate headquarters will undergo a transformation over the next ten years. Even for most U.S.-headquartered companies, where the historical home market might remain the world’s largest for the next decade, the locus of market opportunities and major functions is shifting rapidly. For any company that wants to emerge or stay as one of its industry’s global leaders ten years from now, it is imperative that the center of gravity of its marketing and sales efforts, its manufacturing operations, and even its R&D activities shift sharply from the United States to other countries. We do not suggest that the role of the United States will somehow cease to be unimportant. Far from it. We do believe, however, that even for today’s so-called American companies, the U.S. operations will have to be viewed not as the mother ship but as one of five to ten major global hubs. Similar transformations will be required of companies such as Toyota, Nissan, Siemens, and Daimler that we view today as Japan-centric or Germany-centric. Companies that resist such transformation will do so at their own peril.
What will replace the old-fashioned mother ship based in Armonk, New York, or San Jose, California? Some observers have proposed that the new global architecture will consist of regional hubs (say, North America, South America, Asia, Europe, and so forth); in such an architecture, each regional hub would have all of the resources and decision-making power to manage all operations within its region. With due respect to the proponents of such a view, we beg to disagree. The world economy is becoming not only increasingly multipolar but also ever more globally integrated. IBM’s procurement operations in China serve the company’s global needs, not just those in Asia. Similarly, IBM’s global delivery centers in India serve the needs of its clients worldwide and not just those in Asia. Microsoft’s research center in Beijing is a global hub for the development of next-generation user interfaces for the global market and not just China. These are only a few of countless examples that will multiply over the coming ten years. The last thing that the global enterprise of tomorrow should do is to become a federation of regional fiefdoms.

Instead, what will be needed is the creation of a small number of global, not regional, hubs, each situated in a carefully selected location. Some of the central criteria for these locations will be physical proximity to the global epicenter of that particular function or line of business; attractive and safe living conditions for senior executives and their families, who will spend much of their time living in and working out of these global hubs; and world-class connectivity in terms of both telecommunications infrastructure and airports and flights so that the executives based at these hubs can stay connected with their peers as well as external partners in other locations with the least amount of wasted time, effort, and frustration.

IBM, Honeywell, Cisco, and Infosys serve as examples of companies that are transforming the central corporate headquarters into a network of carefully dispersed global hubs. In October 2006, for example, IBM moved the office of its chief procurement
officer, John Paterson, to Shenzhen, China. As the company noted in its announcement of the move,

The decision . . . marks the first time the headquarters of an IBM corporate-wide organization has been located outside the U.S. This move illustrates a shift underway at IBM from a multinational corporation to a new model—a globally integrated enterprise. . . . In a multinational model, many functions of a corporation were replicated around the world—but each addressing only its local market. In a globally integrated enterprise, for the first time, a company’s worldwide capability can be located wherever in the world it makes the most sense, based on the imperatives of economics, expertise and open environments.  

From Command and Control to Connect and Coordinate

How the emergence of the commercial Internet has transformed markets and enterprises has been well documented. 6 We focus here on how the more recent Web 2.0 (social media) technologies will reshape the way global enterprises are managed.

For corporations, Web 1.0 was mainly about making transactions more efficient. Companies could book an increasing proportion of orders over the Internet largely through self-service by customers themselves. Employees too could engage in a greater degree of self-service, particularly for routine matters such as checking the company’s policy about annual vacations or keeping track of their stock options. And suppliers could engage in more real-time coordination between customer needs and their own production and logistics schedules.

The thrust of Web 2.0 developments (such as Facebook, Twitter, Wikipedia, podcasts, and blogs) is predominantly about collaboration. On top of these Web 2.0 innovations, there have been major developments in communications technologies.
Examples on the consumer side are Skype and Google Talk, which permit zero-cost real-time audio-video communication between any number of individuals in the world as long as they are connected to the Internet. Examples on the corporate side include technologies such as Cisco’s TelePresence, which enables people to interact and collaborate with others in remote locations using life-size, high-definition video and audio with fidelity so high that one can almost “feel” the other person’s presence.

Given the pace of advances in communications technologies, it is hard to speculate about what Web 3.0 and Web 4.0 technologies may look like. However, looking at the collaboration capabilities already unleashed by Web 2.0 technologies, it is clear that the global enterprise of tomorrow will have to be managed predominantly through a horizontal connect-and-coordinate model rather than a hierarchical command-and-control model. The impact of the new collaboration technologies is likely to be particularly profound on knowledge-intensive and creative tasks where coordination is not constrained by the delays currently inherent in the movement of physical goods.

Combining the growing power of collaboration technologies with the fact that knowledge workers are becoming almost like free agents who stay with any particular organization for increasingly shorter tenures (or who may literally be free agents who sell their services on a contractual basis to any buyer) leads to some interesting insights. Could it be that as key knowledge workers become free agents, the competitive advantage of the enterprise will derive less from the individuals who “work for it” than from the technological and social mechanisms that the company deploys to transform individual knowledge and skills into a collaborative product, service, or solution?

**A Strong One-Company Culture**

As companies become geographically more dispersed, the need for tight integration across organizational subunits will increase
rather than go down. No CEO ever wants to have things go out of control and let chaos reign. It is only when leaders are confident that the company would not fall apart that they are comfortable in pushing the envelope in creating a distributed organization with roots in many countries. GE, IBM, Cisco, and P&G are some of the leading examples of how a global enterprise that is ready for tomorrow ought to be run. Each of these companies has a strong culture that defines what they believe in, who they are, and what makes them different and superior to their competitors.

Building a strong one-company culture—one that has widely shared and internalized core values, beliefs, and behavioral norms—does not mean a lack of diversity. P&G operates in almost every country and has a large portfolio of brands, none of them called “P&G.” Yet you could go to any corner of the P&G empire and you are likely to get the same answer to key questions such as these: “What is the job of a brand manager?” “Why should we win in the marketplace?” “What are the two moments of truth?”

The push for a strong corporate culture while operating in a world of enduring heterogeneity across national cultures requires deliberate and sophisticated decisions about what constitutes the core and the context with regard to corporate culture. Consider Toyota. As Toyota set up factories in the United States, it wisely concluded that most aspects of the manufacturing culture in its Japanese factories were a core part of its corporate culture and that the last thing it should do is to emulate the historical manufacturing culture of the U.S. auto industry. At the same time, however, it knew that it would be ridiculous to have each day in a San Antonio factory start with Shinto prayers. The four basic rules (pertaining to how people work, how people connect, how the production line is constructed, and how to improve) that guide Toyota’s production system are part of the core.\textsuperscript{7} What religion people believe in, what food they like to eat, or what language they speak are part of the context.
Cultivating a strong one-company culture requires paying particular attention to investing in corporate infrastructure: the communications and information technology (IT) infrastructure, the human resource (HR) infrastructure, the intellectual infrastructure, and the emotional infrastructure. A strong corporate-wide communications and IT infrastructure ensures that people have easy access to and the ability to communicate with others within the enterprise. A strong HR infrastructure ensures that there are no glass ceilings and that anyone anywhere in the world has an equal chance for training, development, and career advancement. A strong intellectual infrastructure ensures that people share the same worldview, the same strategic priorities, and the same corporate lingo (which may be jargon to outsiders but enables people within the company to communicate with each other efficiently without loss of content). Finally, a strong emotional infrastructure ensures that people take pride in the global enterprise, identify with it, and are willing to engage in voluntary extra-role behavior that goes beyond what is minimally required by formally defined job specifications.

It is the reality of a strong infrastructure that makes it easy for a company such as P&G to appoint an Indian man as the general manager of its beauty care business in China without fear of failure or to take a high-end facial cream, SK-II, developed by its Japanese subsidiary, and roll it out globally.

Globalizing the Corporate Mind-Set

The term mind-set refers to the cognitive lenses through which people make sense of the world around them. To understand the power of mind-sets, look at the following examples.

In 1927, Harry M. Warner, the founder of Warner Bros., observed, “Who the hell wants to hear actors talk?” In 1943, Thomas Watson Sr., the architect and chairman of IBM, speculated, “I think there is a world market for maybe five computers.” In 1977, Ken Olsen, chairman and founder of Digital Equipment,
noted, “There is no reason for any individuals to have a computer in their home.” More recently, in 2003, Seth Godin, one of the foremost Internet marketing experts, observed that while Google provided a terrific search service, it was not the foundation for a great business.9

What is going on here? These are really smart people. The problem is that, like Harry Warner, they were looking at the future from the lens of the past. When movies were silent, actors were selected for how they looked and not how they spoke. And many of them had terrible voices. Harry Warner was right in asking why in hell anybody would want to hear them talk. What he overlooked, however, was that a new business model might emerge—one based on actors who not only looked good but also had great voices. Think now about whether you and your colleagues might similarly be looking at the global reality from the mental prison of past business models.

Companies and business leaders can be said to have a global mind-set when they reflect two characteristics: an openness to and awareness of diversity across cultures and markets, combined with a propensity and ability to integrate across this diversity. Becoming a prisoner of diversity is just as bad as being blind to it.

Most business leaders still view foreign markets as an add-on supplement to the domestic market. Very few have internalized the fact that even for U.S.-headquartered companies, 75 percent of the world’s GDP is outside the United States and that emerging economies are growing three times as fast as the U.S. economy. Thus, it may well be more prudent to view opportunities outside the United States as more central to the company’s future than those within the United States.

The primary explanation for why most companies lack global mind-sets is that leaders with the power to shape the company’s future direction are far removed psychologically, cognitively, and physically from the new epicenters of global change. The net result is that they rely primarily on information that is not merely
several months old but has been filtered and processed to make it palatable—in other words, information that may well be useless or even misleading. Given the vastness, complexity, dynamism, and importance of emerging markets, there can be no substitute for gut-level judgment based on direct observation and deep immersion within these societies.

What steps must a company undertake in its moves to globalize the sensing and decision-making capabilities of the corporate leadership? The starting point in cultivating a global mind-set is to deepen people’s knowledge of major cultures and markets other than their own home country. The key here is to build knowledge that is deep rather than superficial. Deep knowledge comes not from short visits but from on-the-ground immersion over a longer duration. It comes not from observation but from problem solving within the new culture. This requires that the career paths of fast-track employees must involve cross-border on-the-ground experience in at least a couple of the major economies. Of course, it’s crucial to make sure that the identification of fast-track employees is blind to nationality or cultural background.

Another mechanism to deepen knowledge of different cultures and markets is to rotate the locations of key meetings and, when a particular group meets in a location, to make sure that the agenda includes addressing not only the immediate task at hand but also learning through field experience, even if the field experience is for only half a day.

Deeper learning of other cultures can also be fostered by building interpersonal networks that cut across borders. Deployment of technologies such as Facebook within the company is making it easier by the day. Evolution has programmed human beings into social animals. As each of us knows from personal experience, people like to interact with others, and they interact more frequently, more openly, and more helpfully with others whom they know and like. The idea here is not that the company should mandate the formation of cross-border interpersonal
networks. Rather, what the company should do is to eliminate every barrier that prevents such networks from emerging spontaneously.

The final and perhaps most potent mechanism for cultivating a global mind-set is to globalize the company’s leadership architecture. On this issue, the first question to ask is: Where should the leaders come from? Having studied strategic leadership over the last twenty years, we have come to the firm belief that the best leaders are not those who are supposedly objective but those who are biased—but with an important caveat that those biases reflect the reality of the future rather than that of the past. The best leaders are those who have a sense for where the future is headed and are passionate about this vision. Vision and passion reflect a biased view of the world, a bias that propels the company forward rather than holds it back. Some questions to ponder are: How many of the top three hundred people in your company today reflect a deep knowledge of geographies that represent your future markets and sources of your future talent pool? What about the executive committee? And what about the board of directors?

The second major question pertaining to the globalization of the leadership architecture is this: Where should people with decision-making power sit? In far too many companies, there exists a gap of five thousand to ten thousand miles between the location of major opportunities and the location of decision-making power. The typical outcome is that people in the field often find themselves banging their heads against a wall. Business leaders who spend most of their time in New York City, Tokyo, or Munich have a difficult time looking at the world from anything other than American, Japanese, or German eyes. If you are passionate about transforming your company into a next-generation global enterprise, you need to start decoding why companies such as Cisco, IBM, and GE have started to relocate some of their most powerful executives to the new epicenters of the global economy. It is instructive to take note of a favorite
expression of Cisco’s Wim Elfrink: “You can’t think out of the box while sitting in the box.”

The winning global enterprise of tomorrow will be one that figures out how to take advantage of three realities: the rapid growth of emerging markets and the increasing multipolarity of the world economy; enduring cultural, political, and economic differences across countries and regions; and the rapidly growing integration of national economies.