Viewpoint

Globalization: Facing the Organizational Issues

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Globalization is posing unprecedented challenges to business organizations. For example, the *Wall Street Journal* (August 5, 1996) reports how „global“ companies in many industries – automobiles, telecommunications, appliances, and others – are suffering like Hamlet: they cannot afford not to be in China and, at the same time, cannot afford to be in China. In some industries, the rush to China has resulted in capacity exceeding demand by 200 percent. Further, in a recent survey conducted by the International Consortium of Executive Development Research, global companies based in the United States, Europe, Japan, and Korea, reported that they were ill-prepared for globalization. Of the 34 organizational dimensions on which they were asked to rate their performance – which included being the lowest-cost producers and having the fastest product development times – these global companies rated themselves lowest on cultivating a global mindset. They know they must rush into globalization, and they know they are not prepared for it!

Being global doesn’t mean merely being everywhere. It means operating both globally and locally. As the CEO of a company that has been operating on all continents for decades put it, „Globalization is not about being centralized or decentralized. My company had geographic decentralization. Once we took on the hard work of decentralizing power and decision-making around the world, that’s when we started behaving like a global company.“ Another CEO added, „We will realize our true global strength when our people everywhere exercise their local power to also support others and optimize the benefit to the whole corporation.“ This is a mighty tall order to follow if organizations have not developed the competencies to carry it out.

Among the management challenges corporations face in globalization are the optimization of the manufacturing, supply, and distribution network and the development of „global“ products. Both issues require balancing local interests with global benefits. Local interests include products that suit local requirements, as well as investment and employment in the local economy and stewardship of local environmental resources. Global benefits, in contrast, derive from economies of scale gained through concentration of resources and from the use of standard best practices and standard technologies across the corporation. Organizations seek to balance these interests and benefits through collaborative mechanisms such as organization-wide teams, centers of excellence, and alliances with other companies – all of which require a range of organizational competencies.

Specifically, to be effective, global companies need three organizational competencies. First, they need to learn how to manage alliances. Since 1979, the number of alliances reported has grown at a rate of 78 percent compounded annually. As they globalize, companies often need to collaborate, sometimes even with competitors, to leverage strengths and to share risks. But many companies do not know how to manage these relationships. Research shows that between 60 and 70 percent of alliances fail. While there are many reasons for this high failure rate, underlying most of them is the failure to reconcile the interests of the individual partners with the purposes of the alliance. The ability to reconcile individual and collective interests is a competence all organizations – and especially global ones – should develop and hone.

Second, companies need to learn how to create effective teams that cut across the matrix of geographical, functional, and market structures. Global companies have the opportunity to leverage knowledge from all over the firm and to obtain the benefits of scale. But, at the same time, they also suffer the problems caused by size, geographic dispersion, and cultural diversity.

Management generally seeks to address these issues by breaking the organization into more easily manageable bits, drawing boundaries around parts that have similar functions, customers, or businesses. Then, to leverage knowledge and scale, management takes what has been broken apart and tries to put it together again in some way. Too often, the „virtual“ organizational entities thus created prove ineffectual.

The third organizational problem global companies report is the inadequacy of their leadership. Global companies require leaders, in ever-increasing numbers, with two principal qualities: the ability to appreciate the beliefs and values of people from other cultures, and the skills to lead by influence rather than to control through power. Large companies have not always been the best training grounds for these qualities. They have often required conformity, and they have generally believed in the power of „the one best way.“ Managers steeped in these attitudes naturally go into new markets convinced that it’s their duty to spread the gospel. They interpret any resistance on the part of local colleagues or business associates as slowness to learn, or even insurrection, rather than as an occasion for themselves to learn. Also, managers are taught to exercise control through budgets, rewards, and punishments. Therefore, they find it hard to be accountable for results if they do not have these levers of power over those whose compliance they feel they need.

The inappropriateness of traditional models of managing within large organizations is at the root of the current organizational problems with globalization. Global companies need a new breed of managers who can lead without having line authority and who are as much good learners as good teachers. They must know how to support effective work on the part of teams that share resources from many parts of the organization. And they must learn how to obtain cooperation from their allies in new markets without requiring total or even majority ownership of the joint venture.

The development of these vital capabilities must be high on the agendas of the leadership teams of global organizations. Models of hiring, training, deploying, rewarding, and organizing individuals and groups may all need to be changed. Of course, this process of organizational change and learning must be managed wisely, because old models must serve till the new are learned. Companies will need to conduct well-designed experiments and learn from them. They may also benefit by adapting lessons from pioneering organizations – companies such as Coca Cola, General Electric, and Honda – that have already begun the process of change. Some of the strategic thrusts at these companies are the creation of widespread cadres of change leaders across the company with skills for enrolling others in team efforts; the routine use of management teams that cut across organizational boundaries to produce results; and the integration of the changes in information systems to enable group-work, with the development of leadership and team skills, and with appropriate changes in hiring, incentive and other HR systems.

In truth, these three organizational capabilities are increasingly essential to the successful operation of strong domestic players, as well as global ones. Today, with change happening ever-faster, the business game is as much about cooperation as it is about competition. The aforementioned capabilities – at the individual, team, and organizational levels – can keep companies sufficiently agile and adept to master the new game – however it continues to unfold.

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