Operating models for a multipolar world: balancing global integration and local responsiveness

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Multinationals have always needed an operating model that works – an effective plan for executing their most important activities at the right levels of their organization, whether globally, regionally or locally. The choices involved in these decisions have never been obvious, since international firms have consistently faced trade-offs between tailoring approaches for diverse local markets and leveraging their global scale. Customer preferences and regulations have always tended to vary widely from market to market, forcing companies to come up with local strategies for satisfying customers and meeting regulators’ mandates. At the same time, these companies have long needed to use their global scale to their advantage; firms that have operated in a fractured or ad hoc manner have risked being crushed by their more efficient and coordinated competitors.

But now more than ever, developing the right operating model is at the top of multinational executives’ priorities, and an area of increasing concern. That is because the international business arena has changed drastically, requiring thoughtfulness and flexibility instead of standard formulas for operating internationally. Old adages like “think global and act local” no longer provide the universal guidance they once seemed to. The rise of the “multipolar world” – in which economic power no longer is dispersed around the globe rather than concentrated in the developed world – has drastically escalated the pressure on multinationals to be simultaneously both local and global.

On the local side, it is no longer only about reaching and satisfying customers in diverse markets – although even this challenge has been heightened by the advent of new consumer classes in vast emerging markets. Rather, since the multipolar world also entails a diffusion of talent and innovation worldwide, companies must be locally savvy and nimble enough to hire and retain the best people wherever they operate, and to source and disseminate the best knowledge they can around the globe. “Talent” no longer refers to expatriates who oversee low-cost offshore employees. In some cases, excelling locally at these important capabilities requires companies to empower local leaders and to take a more hands-off approach from headquarters.

On the global side, though, companies are more pressured than ever before to employ their scale and integrate their operations with cost and efficiency in mind. Heated worldwide competition, especially from new emerging-market powerhouses, has raised the stakes for multinational firms. With the aim of ensuring that no effort is wasted or replicated, executives have been focusing on shared-services provisions such as human resources (HR) or procurement, integrated technology and knowledge-sharing platforms, common management processes, and more uniform corporate cultures. The impulse for executives to centralize as many of their key activities as they can is often strong.
A dysfunctional model

To appreciate the dangers of missing the mark, consider a company (that we will not name) that has used a series of acquisitions to become a leading telecommunications multinational. The company operates in both emerging and developed markets, and its overseas operations account for more than 50 percent of revenues. Top managers have never made a concerted or thoughtful effort to address the company’s operating model, and have instead relied on a legacy approach in which key decisions are highly concentrated in corporate headquarters to integrate majority-owned subsidiaries globally. Headquarters has been represented locally by expatriates, and the company has not involved local operating managers in important decisions.

Naturally, local managers felt deep frustration over this, as if they were shut out from an exclusive club, the management committee, which let them know of decisions only after the fact. This produced a high divisive environment in which the corporate center and local units became like opponents in battle.

The problems did not stop there. Though the telecom made key decisions in a highly centralized way, it went too far in the opposite direction with other critical aspects of the business. For example, it allowed local units to maintain their own people-management practices, business processes and technology platforms. As a result, the company had trouble integrating its operations across borders and achieving cost savings and efficiencies.

Not surprisingly, the company had trouble addressing the challenges confronting its industry – such as how to manage partnerships with key stakeholders. For instance, the company’s excessive reliance on its expatriates soured its relationships with local governments. Negotiating licenses requires sophisticated knowledge of local politics – a simple concept that executives from headquarters failed to grasp.

The telecom’s formulaic approach to its global operating model also damaged local units’ ability to quickly seize advantage of the opportunities arising in their regions. While milking their subsidiaries for cash, they prevented the units from pursuing objectives that would have made sense in a local context. Under headquarters’ tight control, local units could not invest as much as they needed to keep pace with competitors.

Pressure points

How do successful firms manage the global-local trade-off in a multipolar world? They do so by taking a flexible and tailored approach toward their operating-model decisions. Essentially, successful companies are breaking up the global-local conundrum into a set of more manageable strategic problems – what we call “pressure points” – which they identify by assessing their most important activities and capabilities and determining the global and local challenges associated with them. They then design a different operating model solution for each pressure point, and repeat this process as new strategic developments emerge. By doing so they not only enhance their agility, but they also continually calibrate that crucial balance between global efficiency and local responsiveness.

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In contrast to the telecommunications company, Mumbai-based Tata Communications shows how a tailored and flexible approach to operating-model design can lead to success in the marketplace.

Tata Communications began life as an emerging-market domestic player. It now wants to go head-to-head against Western industry giants that have created global telecommunications solutions for multinational enterprises and customized those solutions locally for each global account. To match these competitors, Tata Communications recently made some large acquisitions, recognizing that cross-border mergers and acquisitions (M&A) was a major trend in the industry. These moves doubled the company’s size and vaulted it onto the international stage. In Tata Communications’ executives’ view, these acquisitions created a first pressure point where trade-offs between global efficiency and local responsiveness were required. The company had to integrate its acquisitions, use the new knowledge globally, and achieve benefits in its offerings across markets while also creating enough local autonomy to satisfy diverse market needs.

As they had to make pressing operating-model choices related to acquisitions, Tata Communications executives also faced changes in the industry that had important strategic implications, and pointed the way to a second pressure point. The convergence of software and hardware technologies was no longer making it possible for the company to go it alone to offer integrated product and service solutions to its customers. It had to create a worldwide ‘ecosystem’ of partners and this too, had implications for its operating model. Deciding where and how these alliances should be managed was a difficult but strategic decision.

Flexible and tailored

An operating-model solution consists of a set of key organizational capabilities that are deployed at different levels of a company’s international operations. Typically, these capabilities can be grouped into four broad components: people and talent capabilities, management processes, management technology platforms, and organizational structure. (For more detail, see Box 1, “What is a global operating model?”)

Tata Communications’ thoughtful approach to operating model design can be observed from the fact that the company deployed each of these groups of capabilities in a unique and differentiated way for each pressure point. In other words, they tailored a specific operating model solution for each of the different pressure points they faced.

Deciding on people

In considering how to deploy people and talent capabilities for its post-merger integration pressure point, Tata Communications’ headquarters took a “harmonization” approach: The central human resources director and his team at headquarters created a global framework for managing, deploying and assessing human resources.

This strategy helped the company define common values that everyone could understand and subscribe to. But decisions about the content of human resources management, such as the specific nature of incentives and rewards, were left to local leaders. By electing not to over-standardize its human resources management, headquarters earned the trust of managers in the acquired units. That helped the company secure these managers’ loyalty, which staved off the wave of defections that often hits soon after an acquisition.
But the way the company deployed its people and talent capabilities for its partnerships pressure point looked completely different. Responsibility for these decisions was shared by global business units and local units. For global vendor alliances, talent was virtually networked through worldwide teams composed of business-unit executives and the operational and functional staff at local units. These individuals met virtually to make important decisions about global partnerships. For local partnerships and client relationships, local units managed their teams as they wished, with global business units ensuring that they did so in a way consistent with overall company policies.

Deciding on management processes

Making decisions about worldwide management processes for its post-merger integration pressure point proved especially challenging for Tata Communications’ executives. They understood that excessive standardization of processes could erode the local strengths of recently acquired units. After taking stock of their options, headquarters decided to share responsibility with global business units and local units for determining which processes would be local and unique, and which would be global and shared. Executives saw this as another example of “harmonization.” As one corporate executive told us:

I would not use the word “standardize.” I would use the word “harmonize.” It’s not a question of force-fitting and saying to acquired units: ‘‘This is what you’ve got to do. Period’’. Harmonization presented hurdles in the short term – namely, it slowed integration of acquired units. But executives were also well aware of its long-term benefits. As the head of an acquired global business unit maintained, this approach enhanced respect and commitment from acquired foreign units:

What is a global operating model?

A global operating model is the vehicle through which a company executes its business model and international growth strategy.

A core requirement of a global operating model is that it enables multinational executives to coordinate operations between the corporate center and the geographic business units and to form an end-to-end strategic value chain. Four organizational elements underpin these capabilities. One element (leadership and people) is more intangible – or “soft.” The other three elements (organizational structure, processes and technologies) are more formal – or “hard.” Performance measures tie all aspects of the operating model together:

1. Leadership and people. Leadership consists of the senior team that substantially influences the organization and serves as an example for how it should operate. Of particular importance to an operating model are an organization’s leadership style, its degree of diversity and the way its leaders make decisions. As for people, the key aspects are the company’s approach to talent management, its emphasis on employee engagement and the way it fosters networking. Also included is the organization’s cultural dimension – the beliefs and shared values that bind its members together.

2. Organizational structure. Within this element is the way responsibility, reporting and accountabilities are defined. It includes the structural and control mechanisms used both to integrate and differentiate units and businesses.

3. Processes. This element consists of the clusters of activities that produce measurable outputs. It includes all the management processes that help coordinate input-output activities in the value chain across geographic units. Some examples of processes are strategic planning, resource allocation, knowledge management, innovation management, customer relationship management and supply chain management.

4. Technologies. This includes the physical equipment, software and tools that underpin the processes. For example, enterprise-resource-planning software and intranet portals can help effect financial control, knowledge management and innovation processes.

Taken together, the content and the relative importance given to each organizational element characterize the global operating model configuration. Each element can be thought of as a dial that can be set at different levels; the configuration is the unique combination of these settings. To achieve high performance, the organizational elements need to work together in a good internal fit.
The company was really listening to what we thought was good or not. It was quite refreshing seeing that they were really listening and letting the people do their own integration.

However, decisions about management processes related to partnerships were different. To manage its many local alliances in a regular and predictable way, headquarters decided to create a standard engagement framework for all third parties. It would be applied globally in all units, making meddling from headquarters unnecessary. The head of one local unit described how the standardized framework eased the formation of relationships with partners:

We aim to make the relationships easy because the moment you make it easier for people to engage, you will start getting greater traction.

Because the framework empowered local and global business units to make timely decisions, it enhanced trust between Tata Communications and its key partners – an essential step in any business alliance.

**Deciding on management technologies**

The company also made decisions about how to deploy management technologies for its post-merger integration pressure point. Headquarters opted to lead an initiative aimed at centralizing and standardizing technology platforms – for example, migrating Oracle and SAP platforms into one SAP platform. This move helped facilitate the exchange of information between local units, global business units and headquarters – further supporting integration efforts.

While headquarters also took the lead to decide that a common information technology platform would be necessary to address its partnerships pressure point, it developed the platform and capabilities jointly with global business units and local units. Headquarters, global business units and local units were all in charge of constantly updating this knowledge database. As a result, this common database gave global and local units access to the status of any partnership. Units could use the information in the database to make more informed decisions faster when it came to negotiating and partnering with third parties.

**Deciding on organizational structure**

In making choices about organizational structure for the post-merger integration pressure point, Tata leaders defined a structure based on global business units, to encourage synergies in product offerings across all foreign units. As one corporate executive explained:

Our customers are global. We needed a global structure.

They also made geography part of the structure, because offerings needed to be customized for each client in every market. However, geography would be a secondary order of design, with local country units reporting to the global business groups.

By contrast, for the partnership pressure point, headquarters did not take the sole responsibility for the organizational structure. Global business units and local country units would have unique roles in managing alliances. Specifically, global business units would take charge of initiatives related to global vendors, while local units would control local partnerships. Meanwhile, headquarters was in charge of the Global Product Organization,

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which worked with global and local units to determine which partnerships and alliances were needed to bring the right mix of products and services to market.

**Tailored model, better results**

Tata Communications’ efforts to create an operating model where solutions are tailored to each pressure point have enabled the company to balance integration of its units with healthy local autonomy. Thanks to the resulting flexibility and balance, the company has been able to increase its innovation speed and launch several successful new offerings. These include calling cards that enable carriers to customize private-label prepaid calling services in each of the carriers’ markets. The company has also differentiated itself from rivals with an offering that enables customers to access high-speed Internet roaming, using one account number across 160 countries.

Tata Communications has integrated its offerings as needed across countries while also personalizing them locally. And it has established an ecosystem of partners at global and local levels to support creation of new offerings and to reach new markets.

Designing an effective global operating model takes careful thought and time. Tata Communications executives, in fact, pride themselves on an overarching tenet of the company’s management philosophy, which is to make decisions slowly and carefully, assessing what is working and what needs to be changed. For example, rather than reconfigure new acquisitions with a heavy-handed attitude, the company takes a “light touch” approach in which they observe what works at the acquisition, assess where the opportunities to leverage scale and common systems are, and determine where the opportunities for the company as a whole to learn from the acquisition can be found.

Executives note that this careful approach takes time, but the dividends it pays in terms of building a successful global operating model are well worth the effort.

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