TUCK SCHOOL OF BUSINESS AT DARTMOUTH

GLASSMEYER/MCNAMEE CENTER FOR DIGITAL STRATEGIES

Thought Leadership Summit on Digital Strategies

Managing the Organizational Impact of Global Operations

An Overview

Executive Roundtable Series
October 4, 2004

CISCO SYSTEMS

Managing the Organizational Impact of Global Operations

Thought Leadership Summit on Digital Strategies

An executive roundtable series co-founded by the
Center for Digital Strategies at the Tuck School of Business and Cisco Systems, Inc.

The Thought Leadership Summit on Digital Strategies recently convened for the eighth in its series of roundtables. This discussion focused on approaches to building and managing highly competitive global organizations and their business processes. The sessions included business leaders and academics from Cargill, Cisco, General Motors, Hasbro, Hewlett-Packard, IBM, Pepperdine University, Save the Children, TCG Advisors, the Tuck School of Business at Dartmouth, the Wharton School at the University of Pennsylvania, and Whirlpool Corporation.

Key Insights:

Introduction
Managing global operations across disparate cultures and markets has always been both a challenge and an opportunity for large corporations. As global markets become more competitive and intertwined, companies are trying to standardize and optimize global business processes and also better leverage their global assets and talent pool.

What are the key success factors in managing global operations effectively while lowering costs and enabling greater market responsiveness? And what can be done to design and build global organizations suited to thrive for the next twenty years? A wide-ranging discussion of participants' experiences to date with globalization yielded some compelling insights, themes and best practices.

Preparing for Total Globalization—Opportunities and Challenges
Several participants set the stage for the day's conversation by discussing key drivers causing their companies to focus on management of global operations—drivers like rising customer expectations and emerging market opportunities.

"Innovation and understanding our customer better are "our only hope" of remaining competitive as global product industries come under intense commoditization pressures," said Whirlpool's Jim Shimp. Shimp also noted that competing globally for raw materials resources like oil and steel is a key challenge as prices continue to rise, fueled by emerging market demand.

Hasbro's Doug Schwinn noted that global customers are on the cusp of demanding single low worldwide prices, regardless of local costs, forcing manufacturers to rationalize their cost structures around the world. "If we don't anticipate it and react to that, it's going to be a pretty traumatic event." And Tuck's Eric Johnson added that customers will be demanding uniform service levels as well. "McDonalds is going to Coke and saying we want the same thing everywhere. We want one deal, not 50 different deals."

At the same time, huge new market opportunities such as China are emerging, forcing companies to get organized to leverage their global assets for expansion into those markets, and to make sure their emerging market positions are sustainable. "Our China operations are already becoming very large scaled—we don't know how to go a heck of a lot faster" said GM's Mark Hillman. A number of participants voiced the idea that companies should be careful about transferring assets to local partners who may quickly grow into potent competitors.

As for key challenges in globalizing operations, participants broke them down into two broad areas: structural and people/cultural issues—respectively nicknamed 'hard' and 'soft' approaches. On the organizational side, TCG Advisors' Geoff Moore noted that as corporations seek to institutionalize globally the gains they made in the nineties, they are focusing more on process and less on technology. Cargill's James Haymaker confirmed that his company is currently launching a global process optimization exercise that will "probably occupy us for the next five years or more." And Cisco's Brad Boston, who described his recent restructuring of Cisco's IT function from a decentralized 'theatre' structure to a more centralized global one, noted that "keeping our focus in line with the geographic focus of the business" is now the key organizational challenge.

As for the 'soft' side, participants almost unanimously declared building trust and developing shared language across cultural divides to be critical to effective global operations management. "It's about how people get to work across many different borders," said Cisco's Ron Ricci, who noted that even the simplest language definitions are often interpreted very differently around the globe. Cargill's Rita Heise focused on trust and shared understanding: "How do you get people who are not necessarily in a region to understand what that region's touch points are?

Overcoming Resistance to Process Globalization

Globalization of key business processes such as IT, purchasing, product design, and R&D will be key to future competitiveness, participants agreed. Whirlpool's Jim Shimp asserted that decentralized, siloed local business processes are ineffective and unsustainable. "All of our metrics are focused regionally," said Shimp, "and until we get better global metrics that drive the behaviors, we're not going to make it." Save the Children's Edward Granger-Happ agreed, noting that the lack of sharing among his organization's field offices despite duplicative activities (such as grant-writing) is an obvious invitation to develop centralized processes and enabling platforms.

Hasbro's Doug Schwinn described his company's recent switch from a decentralized model in IT to one where major application investments are made globally. "The cost efficiencies really woke up the company and we said, we can do this for the supply chain as well," he recalled. Cargill's James Haymaker recounted his company's wholesale move away from a matrixed governance model with strong local control to a shared services model where global functions must sell their services to leaner local business units. "We got an accountability dividend from doing that that's just been pretty amazing," he explained. "There was a lot of inefficiency there."

But several participants spoke of robust resistance to such global process initiatives, rooted, as Tuck's Hans Brechbuhl noted, in everything from 'not invented here' syndrome to local culture and business heritage. "I don't trust you globally to be able to deliver a product when I need it," said Hasbro's Schwinn, characterizing the core issue. "We have to overcome history to get the credibility in order to get to the point where they say 'yep, this group can do that type of global purchasing,'" agreed Whirlpool's Shimp.

How can corporations overcome this kind of pervasive resistance, asked TCG Advisors' Geoff Moore? What happens when the global process leader butts heads with the local business unit? "It's a negotiation," answered GM's Hillman. "The local P&L guy's goal is to look at the entire business, while the horizontal process guy is trying to understand standardized process leverage—we go through this cycling process and just work it out."

Hillman added that identifying and leveraging the major control points, such as funding mechanisms, is the first step in dealing with resistance. Capital investments in mission critical processes and enabling platforms—such as a multi-hundred million dollar CAD-based global design pipeline—can end up driving process transition by virtue of their sheer magnitude, he said.

IBM's Bruce Anderson agreed, noting the importance of de-funding existing localized processes. He recalled that when IBM shifted to a globally standardized Seibel system, people had to use it because the old one just went away. "The only way to do it is to say, we're going to move that to a lower cost place, and if you don't do it, you're going to miss your numbers." Hewlett Packard's Artur Landwehr concurred, noting that one lesson from the Compaq merger was that "we're not very good at obsoleting processes. So we came up with an overall business process architecture framework, and then you know how things fit together and what's redundant."

Another way to overcome resistance, proposed IBM's Anderson, is to use well-defined performance metrics to force local P&L owners to sit down with global process owners and hammer out compromises that allow the corporation to gain maximum efficiency. "They're sitting there with a tension between their metrics saying 'we gotta figure out how we work from the share price backward.' We don't want, for example, to drive down procurement costs and have not enough components available."

Most participants agreed that the best way to defuse resistance to global process standardization is by spreading responsibility for global process design and leadership around the globe rather than keeping it at headquarters. GM's Hillman described how headquarters gave Germany's Opel division responsibility for the success of a new car platform that would support 13 different vehicles around the globe. Cisco's Brad Boston spoke of having key IT project leaders in Singapore, the U.K., Raleigh, NC and San Jose: "They're responsible not only for the deployment locally, but to make sure they drive it across the globe."

"We really see global as a distributed model," agreed HP's Landwehr. "When we tried to define the processes centrally, all regions were opposed to whatever central teams were proposing. So, we said 'Europe, you lead that area. America lead this area. Italy, you lead that area.' Suddenly, the regions couldn't just say 'no'—they had to come up with a solution."

Global Standardization Versus Local Innovation

How much process standardization can be globally imposed on local business units without stifling local innovation and competitiveness? That was the question raised by participants at the start of a spirited discussion about finding the right equilibrium between efficiency and innovation in global operations.

"One of the things we need more of is headquarters' humility—innovation probably more often occurs out in the front lines," said Save the Children's Edward Granger-Happ. "How do we create a collaboration that occurs across many time zones and markets?" asked Hasbro's Doug Schwinn. "If you are trying to deliver a brand globally but don't understand the cultural issues within a market place, you can miss the mark by a long way. We need to find ways to be inclusive."

Cargill's Jim Haymaker made the case for preserving local autonomy to drive innovation on a case by case basis, if an organization has traditionally been very siloed. "We have to go through these [decisions] situation by situation and constantly resurface them. I think the tension between verticality and horizontally is what we're going to be wrestling with for the next who knows how long."

But TCG Advisors' Geoff Moore advocated adopting a conceptual framework for determining what local innovation is worthwhile and what isn't. "People will innovate anywhere, and innovation is very expensive. Differentiation is extremely expensive," said Moore. "Not only does the local guy differentiate, but everybody else has to connect to it. You only want to differentiate where you are creating competitive advantage relative to your end customer—in your geographic area, how do you win business?"

Moore then described a framework [see Diagram 1] for determining which functions are 'core' to a company's competitive strategy, and which are 'context'—or areas where innovation adds cost without competitive advantage. Cisco's Brad Boston agreed: "It's really about trying to cut through what are the parts of your business where you actually need to differentiate your processes for local business needs," he said. "It's about understanding what the true value of local innovation is … what's not valuable is having a different way of calculating commissions in every country in Europe."

Diagram 1:

Differentiation for Competitive Advantage

	Core	Context
Mission	Quadrant A	Quadrant B
Non-Mission Critical (Enabling)	Quadrant C	Quadrant D

Moore further elaborated his framework to make a distinction between 'mission critical' and 'non-mission critical' (e.g., a function like IT infrastructure might be mission critical, but not 'core'), and added that non-mission critical functions may also be differentiators (Quadrant C) and are easier to experiment with locally. "We can innovate, and if it gets interesting, we take it up and make it into global practice. When it stops differentiating, it moves into this quadrant (Quadrant B) which is mission critical, but no longer differentiated. This is the resource sink of all time."

In the context of Moore's framework, several participants suggested corporations should look at the local innovation versus global standardization question as an outsourcing issue. In other words, how much non-core complexity can local business units 'outsource' to global corporate shared services, to regional centers of excellence within the company, or even to third parties?

Limited resources is the forcing function for such make-or-buy, local-or-global decisions, suggested IBM's Anderson, noting that allowing local innovation in non-core areas simply starves core local processes of the resources they need. "We figured out that logistics was no longer a differentiator and never was," explained Anderson, "but no one realized that until you said 'all right, we gotta improve that thing 15 to 20 percent every year anyway'—and we don't have the scale to do that."

Cargill's James Haymaker noted that what should be differentiated changes over time, so corporations can't take a static approach to blending global scale with local innovation. And Cisco's

Boston added that the ideal approach also takes into consideration local capabilities and market conditions. "It's where they have the skill and the desire to go do it," said Boston, explaining that he gave a UK-based team global responsibility for managing the company's handheld device infrastructure not because it was a competitive differentiator in the U.K., but because Europe was more advanced in adopting mobile devices and the rest of the world could learn from their experience.

Identifying local successes quickly and then scaling them globally was a recurring theme for many of the participants. "If you want standardization," said Boston, "you've got to have a structured process to allow innovation to happen and then feed the innovation back in the process and keep enhancing the standards."

Jim Shimp told of Whirlpool's success with a small central organization charged with staying in touch with and helping foster local innovation, and then feeding learnings back to other regions to be localized across the globe. "The challenge is to have the vision, but not ignore the input," said Shimp. "That's the only way that you can successfully drive the change. Because if you dictate it, there's not a strong enough relationship to make it stick, and people try to do things off in the back room."

GM's Hillman noted that since cars are sold differently around the world—direct in Brazil, custom-order in Europe, and off dealer lots in the U.S.—GM had taken a layered view of the business processes involved in supporting those markets, building on as many standard components and processes as possible. "Fundamentally it's [about] defining the layers, and where it matters to be allowed differences … we keep challenging ourselves on that."

Moderator Witold Henisz identified a consensus among participants around building as much commonality as possible to enable innovation above the waterline—an 80/20 rule of thumb for managing globalization. And Cargill's Rita Heise said that while standardizing the eighty percent is crucial for enabling the twenty percent innovation, even the local innovation needed to be managed as part of a larger picture. "It's really important that the twenty percent is not just left helter-skelter," said Heise. "Companies run a risk in saying everybody can do their twenty percent whichever way they want. That's where you really lose a lot of benefit that you got with the eighty percent."

HP's Landwehr advocated trying to include the whole 20%—even experimental regional or local processes—as part of the global process portfolio, to leverage potential synergies with other regions and avoid unnecessary process divergence. "Then you have a global solution rather than just a minimal common global solution," he said. "We really try to get to common source code."

Laying the Groundwork for Global Collaboration

Although funding, metrics, and technology all play central roles in effective global operations management, participants seemed to agree that the 'soft side' issues—the human, intangible aspects of building global collaboration—are a make-or-break issue which requires explicit focus.

In particular, top management must get a variety of foundational things right, from planning, vision and strategy development, to shared and consistent language and development of a global corporate identity.

"I really think the soft side of this is huge," said Cargill's James Haymaker. "The signals that the top team lays down and how they model it and follow up is really big," he said, noting that top management's messaging, if consistent, can cascade down through middle management around the globe.

Cisco's Ron Ricci agreed, noting that everything Cisco does globally starts with an awareness of the company's long term vision and goals which are printed onto the back of every employee's ID badge. "I don't think you can manage behavior if you don't know what your trajectory is," said Ricci. "Our trajectory has gotten a lot more consistent because our CEO says that these are the eight things that matter to us in the next three to five years. We print 35,000 of these badges every year."

Ricci added that the key to consistency is using explicit language. "In our company we actually wrote down what the word strategy means, what a goal is, and what an initiative is. I think we are in the first 20 to 25 percent of understanding what common language is just by providing these definitions."

Training, communication, and incentive compensation systems were also identified by participants as crucial to reinforcing a consistent set of shared goals globally. "We did a ton of communication when we brought into IBM the few thousand folks from PricewaterhouseCoopers," said Bruce Anderson. "Finally people just said 'slow down, this is too much'—but, you know, it was just critical."

Pepperdine's Robert Fulmer reinforced the notion that successful global companies create cultures that provide consistency through simple but powerful common language. "Johnson and Johnson's Credo is a very soft intervention as far as providing consistency around the world," Fulmer noted, "yet they run 200 separate companies around the world with that as the common cord to hold them together." And Fulmer also advocated taking the long view, emphasizing long-term goals, values and vision: "Success is often correlated to the degree to which you are able to think about long periods of time."

Much of building global processes is a change management exercise, said HP's Artur Landwehr, and symbols and identity are a key part of that effort. "Change management has to be planned. We spend a lot of time in building this company's identity… even the buildings are the same around the world." Several participants echoed the importance of having consistent symbols around the globe. "It's really cool how you go out to all these different countries and it feels like the same thing," said Cisco's Boston. "The same color, the same format, the same everything wherever you go in the world.

But some participants noted difficulties in getting global subsidiaries to adopt common symbols like brand names and logos, even as much as 15 years following a merger or acquisition. "The symbolic issues are absolutely huge," said Doug Schwinn. "Hasbro France is a big deal versus Hasbro UK versus Hasbro Corporate."

Building Collaborative Cultures, Teams, and Relationships
A recurring theme throughout the day was the importance of personal relationships and trust in building effective global organizations. TCG Advisors' Geoff Moore asked the group to consider these relationships in the context of corporate cultures that tend to heavily influence managements' ability to build collaborative organizations.

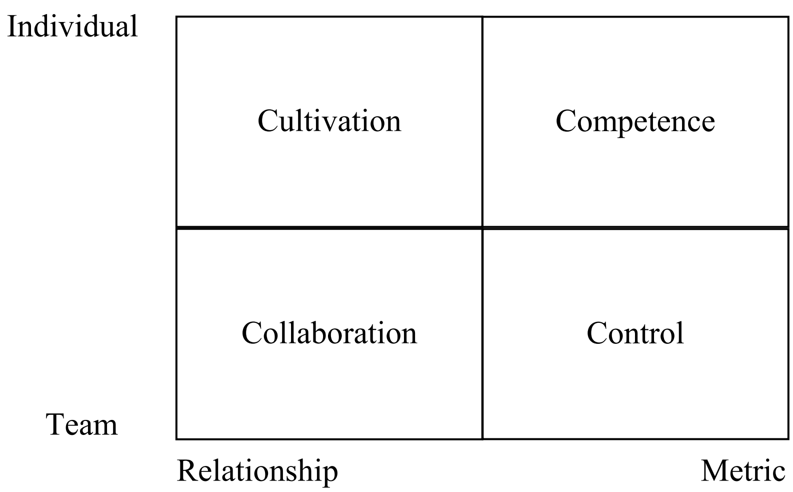
"As you're thinking about your change management initiatives and globalization efforts, ask yourself first of all, 'do we have a corporate culture?'" If you do, Moore said, then you've got to declare it—

acknowledge that "this is what it means to be a part of Cisco or Honeywell or whatever. And you have to realize there may also be a local culture."

Moore sketched out four prevalent types of common cultures based on opposing attributes (a relationship vs. metrics performance orientation, and a team vs. individual accountability orientation), on a two-by two matrix with four quadrants [see Diagram 2]. The first culture is metrics- and team-oriented—a control or 'mega-corporation' culture. The second is relationship- and individual-oriented—the Silicon Valley start-up culture. The third is relationship- and team-oriented—a collaboration culture. And the fourth is metrics- and individual-oriented—a competitive or sales culture.

Diagram 2:

Type of Corporate or Business Culture



"Each of these quadrants is looking suspiciously at the other," Moore said, in any change management effort oriented toward achieving greater global collaboration. And the group acknowledged that more than one of these cultures may co-exist in the same global organization. "We are in three of those quadrants and trying to go into the fourth," said Cargill's James Haymaker. "The dilemma we face is how can you get the other quadrants to collaborate … if you can meld the two you've got something that's amazingly powerful. But there's just this incredible tension."

"You can't just migrate people into another quadrant," said Moore. "You have to first acknowledge where are we starting from … then you can build the bridges between the cultures." At a recent meeting, Brad Boston said, a group of Cisco's global executives had gotten together to discuss wireless technologies. Despite coming together, each focused on their own individual wireless initiatives, and they quickly realized the corporation wouldn't achieve its strategic goals if they didn't focus instead on shared initiatives. "Four years ago, you couldn't have had that conversation," said Boston. "But thanks to top management beating that [collaboration] message out relentlessly, all of a sudden a bunch of guys that used to compete realized that we've got to get together amongst ourselves."

Save the Children's Edward Granger-Happ offered another example: building bridges to a more accountable, metrics-oriented approach. "Most of our organization is down in the collaboration space, but our donors are demanding that we be more accountable," he said, noting that management was trying to introduce accountability and metrics "as a subculture within the organization" as opposed to "trying to convert everybody to do it."

Not all managers will have the capacity to acknowledge and accommodate these cultural bridges, noted Cargill's Rita Heise. "We have a phrase internally: 'face the brutal facts.' Our CEO is fully aware that, as we move, there will be some that just won't make the journey. We've got to face that."

Several participants suggested other techniques for proactively building more globally collaborative, relationship-oriented cultures, starting with, as Save the Children's Granger-Happ suggested, "hiring and promoting to the culture you want to create." Others advocated rotating key managers globally as part of career development efforts. "Our purchasing organization, on their published org charts, they put a flag in your box for every country that you worked in," said GM's Hillman. "They make a point out of it … that we do really pay attention to team makeup on assignments."

"How many people in this room have done an ex-pat assignment and actually lived in other cultures?" asked Hasbro's Schwinn. "That's what you need to look at, not just the passports."

Other participants emphasized the value of frequent face-to-face meetings among key global staff, to build relationships which can then be leveraged by phone, email, and other collaborative technologies such as web conferencing. "We make a commitment to be face-to-face at least five to six times a year," said Whirlpool's Jim Shimp of his key team. "You don't get that relationship by cam." And Shimp advised rotating meetings around the globe, including conference calls, to reinforce the message that the world doesn't revolve around corporate headquarters. "Make sure that everybody is bearing the pain—a lot of times I'll be at meetings at 11 PM because that's early morning China. It drives good will."

Looking Forward

What challenges will global organizations and managers face over the next few years? Looking forward to the future, participants saw two key issues for global operations management: 1) the need for speed and flexibility to handle geopolitical instability, increasing global competition, and fast-changing market demands; and 2) the need to maintain a sense of organizational urgency, to fight complacency, and ingrain change culturally as an ongoing imperative.

"We're in a world where event risk is rising," said Cargill's James Haymaker. "There were more event risks across the global food chain this past year than any time I can remember. The volatility it creates and the potential displacements of goods, materials, etcetera, is huge." And Haymaker also noted that commodity pricing has become more volatile thanks to growth in emerging economies, with profound implications. "Global inflation and the commodity crisis will settle out at a high level and drive all kinds of changes on what gets made where."

IBM's Bruce Anderson urged the group to look at the potential implications of political unrest in key regions such as India, China, and Russia: "What's your plan?" he asked. Several participants responded by stressing the need for strong contingency plans, the ability to shift quickly to capacity elsewhere, and to be clear on what would trigger such a shift.

"We spend a lot of time understanding what opportunities are out there," said Hasbro's Doug Schwinn. "The guy that runs the Hong Kong office is spending a tremendous amount of time in Vietnam, the Philippines, and other areas … otherwise you can have a political upheaval and lose all of our business."

How do you get that same sense of urgency to apply to other aspects of managing global operations, including process and cultural change? Tuck's Eric Johnson summed up the biggest challenge facing globalization change agents in large corporations: "A lot of firms get stuck at a good point, but are not able to take the next step. They have something that's working, so it's hard to make that next step. For them, it's this kind of transition now where they say, 'we have to reinvent what it means to be global.'"

Rita Heise offered a formula that Cargill uses internally to drive change: D x V x F must be > R ('dissatisfaction' times 'passion around the vision' times 'the difficulty of the first steps toward change' must be greater than 'the resistance to change'). "We're trying to create dissatisfaction because we're coming off of some very successful years and so we're trying to tell people you need to be dissatisfied with what the future will bring if we don't change," said Heise.

So how do you create greater dissatisfaction, asked the group? Sometimes, it takes a very worked up CEO, said Cargill's Haymaker. "If there's a burning platform, that's one thing, but if you're trying to do continuous improvement, it's a tougher thing to realize."

"It's really more about looking to the future and what do we need to have," summed up Heise, "rather than what are we doing wrong today."

Participants agreed that one 'need-to-have' for the future is a way to remain competitive in rapidly commoditizing products markets. A key requirement for remaining competitive will be the development of tailored service offerings that complement product portfolios globally. A consensus seemed to emerge by the end of the day that the earlier discussion about standardization and differentiation could hold the key to effectively delivering competitive products and services to diverse global markets—that finding the right balance between global standardization and local innovation could be the Rosetta Stone of managing global operations.

Participants in Thought Leadership Summit on Digital Strategies
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