Without a doubt, “organization” is one of the most critical levers in the successful implementation of a new corporate strategy. This is particularly true for globalization strategies being developed by manufacturing companies in response to the growing importance of international, and especially emerging, markets. These strategies often go beyond creating an international footprint in production, engineering, etc., to developing distinct products and business models to meet the needs of customers in the fast-growing BRICS and Next11 economies. But as international activities once viewed as “peripheral” gain in significance, legacy organizations may strain – and fail – to adapt, signaling a need to reassess and reinvent the organization to meet global manufacturing growth objectives.
As their businesses grow ever more global, many manufacturing companies are facing the challenge of adapting their organizations to meet their wider business horizons. “Organizational globalization” can be viewed as a process of evolution, in which manufacturing companies typically progress through four maturity stages (Exhibit 1). With regard to Western manufacturing companies, the most successful appear to be moving from stage 2 to 3 and from 3 to 4; that is, from export world champion to localization, or from localization to full global integration.

This article looks at three key challenges which globalizing companies need to manage to successfully progress to stage 4:

- Managing the balance of local autonomy and global consistency, evolving over time
- Defining the right organization design
- Developing a global culture and management team

**EXHIBIT 1: MATURITY STAGES IN ORGANIZATIONAL GLOBALIZATION**

<table>
<thead>
<tr>
<th>STAGE 1</th>
<th>Opportunistic export</th>
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<tbody>
<tr>
<td>STAGE 2</td>
<td>Export world champion</td>
</tr>
<tr>
<td>STAGE 3</td>
<td>Localization (organic, acquisition)</td>
</tr>
<tr>
<td>STAGE 4</td>
<td>Integrated and global company</td>
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BALANCING LOCAL AUTONOMY AND GLOBAL CONSISTENCY

To jumpstart international business activity, a degree of autonomy often is given to newly established country organizations. Initially, these local units typically focus on sales and subsequent service and may act much like independent dealers. Flexibility, agility, and rapid response to customer requirements are key. At this stage, there is not much “headquarters” can do to in terms of support other than providing premium products for sale. As the business grows and the scope of local activities increases (engineering, sourcing, production, product responsibility, etc.), corporate naturally will want to drive these activities from a more strategic perspective, particularly as the company will also be exposed to more risks, and more resources (management, technicians, financial) will need to be deployed locally. Interdependencies with other parts of the business also will increase, requiring greater coordination, such as the emergence of global key accounts. Consequently, autonomy at the local level will begin to decrease.

Legacy processes inherited from headquarters should be reconsidered as the company evolves toward global integration: While consistent processes are needed to coordinate global operations and support excellence, globalizing offers a unique chance to capture and deploy best practices across all operations, regardless of the source of these best practices. Ultimately, what is needed is an “excellence system”; that is, a consistent definition of operational management and business policies, standards, processes, methods, and tools that works for the organization as a whole.

Equally, global excellence systems require a standard set of KPIs and standardized reporting to enable corporate-driven decision making with respect to target setting, deviation identification and management, as well as resource allocation. Going global requires a high level of integration of IT networks and applications, especially with respect to operational and financial controlling.

As an example, one French manufacturing company going global put in place strict rules to ensure excellence in engineering and manufacturing as part of its geographic expansion. The company considers this “excellence system” to be foundational for its global operations. The system is built around a common methodology and “continuously enriched,” it strives for excellence in terms of quality, safety, delivery, and operational efficiency for products and programs in every location worldwide.
From the perspective of the local organization, any loss of autonomy associated with increased global integration is often perceived more strongly (and negatively) than the increased importance and impact of the local operation within the scope of the overall business. This phenomenon needs to be carefully addressed not only by change management techniques but by substantially involving local executives in global processes such as strategy setting and definition of standards. As the different maturity stages require different management styles, not all local executives will be able or willing to change, so management changes must be anticipated as companies progress through the various maturity stages (Exhibit 2).

DESIGNING THE RIGHT ORGANIZATION

Historically, countries or regions were only sub-structures within the sales and service function of organizations that were primarily segmented by function, or by business and then function. With an increased share of international business outside of the home market, however, and as additional functions and resources beyond sales and service are set up regionally (sourcing, engineering, production, etc.), new organizational questions arise:

- How should functions within each region be bracketed?
- What should the responsibility for such a bracket entail?
- How should this responsibility be represented at the corporate level?
The answers to these questions depend on many factors, such as whether a function that is allocated to a region only generates outputs for this region, or if it represents “shared services” for the company globally, but is advantageous to set up in a certain region (e.g., due to lower costs). In any event, most globalizing manufacturing companies find that they need to migrate to more matrix-like organizational structures (Exhibit 3), capable of supporting both a global, functional perspective (synergy, quality) and a regional perspective (market orientation, agility). Effectively balancing these two dimensions not only requires redesigning involved roles and responsibilities, but an advanced level of managerial maturity. One way to reconcile these dimensions, which has proven effective for companies at this point in their transformation, is to establish a “two-hats” model for the Executive Board, where each executive is responsible for a region in addition to a (primary) responsibility for a business or a function. Whether this model or another is used, it is critical that the regional dimension receives an “upgrade” in the overall governance structure of the company.

A special organizational challenge arises when Western premium product companies enter the mid-range market to attract emerging market customers. In these cases, a decision needs to be made as to whether it is better to address this market through a separate business unit or simply as a product range extension within the existing organizational structure.

**EXHIBIT 3: THE ORGANIZATIONAL “RISE OF THE REGION”**
As companies move from maturity stage 3 to 4, it is critical that regional management is fully integrated into all corporate processes (strategy setting, innovation roadmap, investment and resource planning, etc.). In fact, the concept of “headquarters” versus “region” should vanish, as all functions should carry equal weight regardless of their location. “Global responsibility” no longer equals “headquarters function” – functions should be locatable anywhere in the world. Equally, executives from outside of the home country need to be adequately represented on the Executive Board and in other management bodies, increasing the diversity of these teams.

**DEVELOPING A GLOBAL CULTURE AND MANAGEMENT TEAM**

In a recent Oliver Wyman survey, leading German manufacturing companies reported that they expect the number of their employees based outside of Europe to rise from an average of 25 percent in 2009 to nearly 44 percent by 2018. Clearly, legacy home market cultures will need to evolve in step to embrace the diverse perspectives of a more international employee base, with the goal of a “true” corporate culture, one that can provide the company with a new global identity.

This culture should be designed not only to drive management and employee behavior, but also guide interactions between the company and clients, partners, suppliers, and local authorities. Defining and embedding this new culture will be crucial to ensuring the sustainability of global integration. Additionally, a strong corporate culture and global identity can help attract talent and facilitate the integration of new staff at the local level.

One of the toughest challenges in global integration for manufacturers can be building a management team able to cope with the new global footprint. Usually, globalization starts from the bottom (e.g., local sales and service, local offices), but companies would realize increased efficiency if they internationalize their management teams at the same speed.

Global management requires a trade-off between expatriates and local recruits:

- **Expatriates** ensure proper connections to corporate functions, have trusted relationships with top executives, and can ensure relevant business standards are implemented locally.
- **Local recruits** enable local integration into communities (clients, suppliers, employees, authorities), provide a sense of local identity for the company, and can be developed to take on future management positions as the local business expands.
The challenge of course is to find the right balance between (costly) expatriates and local recruits, and ensure sufficient room to develop local talent. Early in the process of internationalizing the management team, it can be valuable to have local high-potential recruits transition to Europe in corporate functions for four to six years, so that they have the full skill set required to then move into top management positions in emerging countries. During their time at headquarters, these local recruits also can help European managers better understand the specificities of emerging markets.

Going global is a challenging journey in terms of human resource planning and allocation. Whether the talent in question relates to engineering, manufacturing, supply chain, or other functions, trade-offs must be made carefully between rotating talent across headquarters and regions versus developing stable resources in each country. While talent rotation ensures propagation of standard practices and talent development, stable resources promote local expertise and better local market penetration.

ONE MORE STEP

In other industries, Oliver Wyman has seen a further stage of globalization (stage 5) when companies realize that there is no longer a good reason to keep the corporate center in Western Europe. They then move their headquarters (divisional or corporate) to one of their most promising regions. Together with the development of an international management team and integrated corporate culture, this move appears to mark the “ultimate” form of corporate globalization.
ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting. With offices in 50+ cities across 25 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation. The firm’s 3,000 professionals help clients optimize their business, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is a wholly owned subsidiary of Marsh & McLennan Companies [NYSE: MMC].

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ABOUT THE ARTICLE SERIES

Globalization has opened up huge opportunities for the plant and mechanical engineering sector. But few companies have managed to transition fully from a home country-focused export business model to that of a global player. As the importance of emerging markets continues to increase, this transformation remains a key strategic challenge.

Oliver Wyman’s Manufacturing Team has worked with a wide range of manufacturers to help them develop their global presence. To highlight key strategies, trends, and implications, Oliver Wyman is publishing a series of articles over the course of the year focused on major functional areas and their role in globalizing manufacturing companies, including purchasing, engineering/R&D, manufacturing, sales & service, and the organization as a whole.