


Perspective

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Managing the Global Enterprise in Today's Multipolar World



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EXECUTIVE SUMMARY

Though most companies with international aspirations have invested significant time and resources in devising their global expansion strategies, they have not devoted commensurate attention to developing an internal management model that would enable them to thrive as a global enterprise in what is now a multipolar environment. The spectacular rise of emerging markets has transformed the nature and pace of globalization across industries over the last decade. Growth and competition have shifted from the developed economies of the U.S. and Europe to the emerging economies of the rest of the world, creating a far more complex playing field. In this new context, most companies with global ambitions—regardless of what stage they are at in realizing them—have put in place plans to either strengthen or establish their positions in burgeoning markets.

Meanwhile, high-performing companies in these emerging markets are themselves stepping out onto the global stage, expanding beyond their local and regional roots to stake aggressive positions in the developed world. The modern multinational operating in this new age of globalization—whether a developed economy veteran or an emerging market champion—has to contend with the vastly different competitive dynamics of an increasingly large number of markets around the world. The key challenge many confront is how to manage this new global enterprise effectively. How much freedom should local entities have to manage themselves, given their

different dynamics? How does one balance this local autonomy with the need to achieve global scale and standardization, so that the company is more than the sum of its individual parts? How much central coordination is optimal? Does it even make sense to have a headquarters operation anymore? And where should the management talent that runs the company come from?

In our view, global success in this multipolar world hinges on three management enablers: a rebalanced organizational structure and footprint; dispersed decision rights and tighter controls; and a fresh approach to leadership and talent management.

THE NEW WAVE OF GLOBALIZATION

Globalization 1.0—the first wave of globalization, which took hold in the 1960s and crested nearly a decade ago—was largely based on a relatively standard model. Multinationals in this era established a presence in a broad portfolio of developed economies, with the center of gravity in North America and Europe. They often staked a foothold in emerging markets, but on a vastly smaller scale. Globalization was about developing a robust global supply chain and manufacturing base to enable flexible and low-cost operations. Major multinationals in the 20th century typically were centrally managed at headquarters by a cadre of not very diverse executives who tried to export their company’s historic and inherent advantages, such as renowned brands, product innovation, access to financing, scale economies, and superior human capital.

Globalization 2.0—the second and current wave—is different in a number of ways. Emerging economies have displaced mature ones as the engines of global growth, already accounting for a majority of that growth today, according to the IMF, which projects that emerging markets will be responsible for more than 50 percent of global GDP by 2013. And emerging market consumers have been outpacing Americans—once the ultimate consumers—since 2007.¹ Fueled by favorable demographics and/or rich natural resources, strong exports, financial and

Emerging Market Champions Rise to the Fore²

- “Emerging market champions” have doubled their representation in the Fortune Global 500 in the last five years.
- It only took Infosys 10 years to grow from a US\$100 million Indian company with three small sales offices in North America and the U.K. to a US\$6 billion-plus corporation with 65 Global Development Centers in 33 countries and more than 140,000 employees.
- ArcelorMittal—the world’s largest steel company—is today larger than its next three competitors combined. Mittal Steel, its predecessor, was founded only in 1989.
- South African Breweries—the leading beverage company in South Africa for over a 100 years—is now one of the world’s three largest beer companies.
- Lenovo became the third-largest global PC player after acquiring IBM’s Personal Computing Division in 2004; Lenovo’s predecessor, the New Technology Group, had been launched in China only two decades earlier.
- Embraer of Brazil is the number three civil aircraft maker in the world and the market leader in regional jets.
- In the teeth of the recession, India’s Tata Consultancy Services bought Citigroup Global Services for US\$512 million, and HCL, another Indian technology group, purchased Britain’s Axon Group for US\$672 million.

regulatory environments that favor foreign investment, and (in some cases) strong domestic government investment programs, countries such as China, India, and Brazil are galloping forward at rates that eclipse those of their Organisation for Economic Co-operation and Development peers. This shift in economic power—both in production and consumption—has redefined the rules on where and how companies make money in the 21st century.

Today’s powerhouse multinationals look and behave a lot differently.

The iconic American and European brands that have dominated business headlines for the past several decades are ceding ground to emerging market players breaking out of their local markets and traditional management models to express their global ambitions. These “emerging market champions” have already risen to the top of many global industries—in fact, their representation in the Fortune Global 500 has more than doubled in the last five years (see “*Emerging Market Champions Rise to the Fore*”).

DEFINING A COHERENT GLOBAL ENTERPRISE MODEL

The promise of this new wave of globalization is indisputable. Modern multinationals enjoy access to hypergrowth markets and the ability to connect hundreds of millions of emerging middle-class consumers with new types of products and services that serve previously unmet needs. But Globalization 2.0 also raises a host of thorny questions about what it means to be a global company today. The sheer pace of change, the asymmetries of market dynamics across a company's portfolio, the need to localize products and services to different cultural appetites but leverage scale and synergies globally, and the demands of an increasingly diverse workforce all require multinationals to rethink how they run themselves. Our work with scores of multinationals reveals a fundamental disconnect—while companies vigorously prosecute a globalization strategy externally,

their internal organizations struggle to keep pace. They are frequently unprepared to deliver on the full promise of globalization.

Typical symptoms that we have observed run the gamut. The most ominous from our perspective is the inability to identify and deploy truly differentiating capabilities. Instead of focusing on the three to six things they do better than anyone else to outperform their competition across markets, companies revert to “copycat” strategies that are all too often misguided or inadequate. Other warning signs include lack of empowerment at the right levels or overlapping and unclear responsibilities, resulting in slow decision making—or worse, redundant, conflicting, or just plain wrong decision making. Modern multinationals also often make poor calls on what should and shouldn't be centralized,

While companies vigorously prosecute a globalization strategy externally, their internal organizations struggle to keep pace.

either sacrificing attractive global synergies or, conversely, hobbling local market responsiveness.

There is the tendency to favor large, existing businesses over new, seemingly speculative high-growth opportunities, as senior managers often have a vested stake in a company's historic businesses or apply too narrow a lens to definitions of "market," "customers," and "stakeholders." Sometimes the organization itself is the culprit, with matrix structures that impair efficiency, cumbersome business processes that produce too much information, and myriad controls that overwhelm management. Finally, many modern multinationals struggle to develop and harness talent effectively in a world where there are frequent mismatches between the pressing needs of the business and the availability of local talent to meet those needs.

These issues are multidimensional—there is no quick fix. They stem from weaknesses in structure, corporate governance, business processes, and decision rights, along with the sub-optimal utilization of IT and human capital. To start to address these entrenched problems and realize the promise of Globalization 2.0, multinationals need to look beyond the

symptoms of dysfunction and diagnose the root causes, so they can make the relevant changes to their management model.

Our global enterprise management (GEM) model offers such a diagnostic and helps focus senior management attention on five critical and interconnected building blocks (see Exhibit 1).

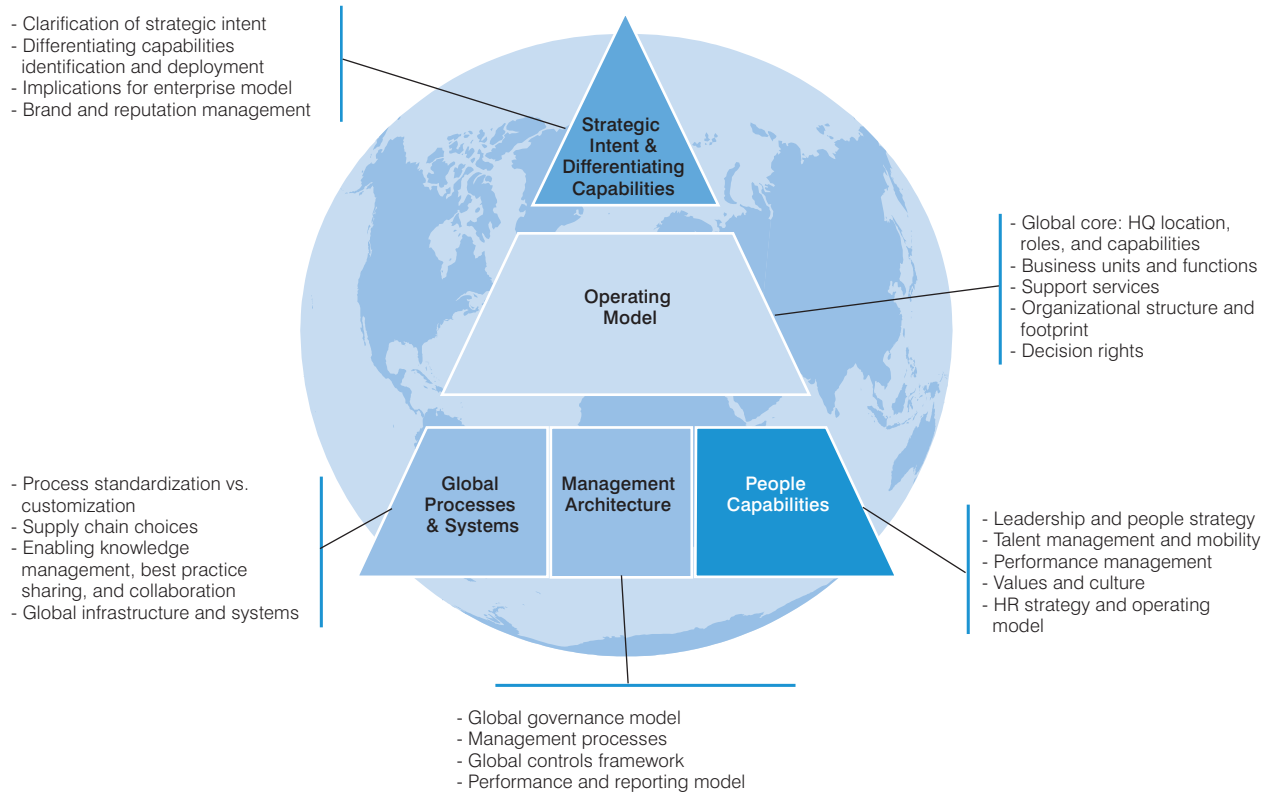
- *Strategic intent and differentiating capabilities*, the top of the GEM pyramid, is where strategy meets organization. It's where senior management defines with clarity why the enterprise is globalizing, how it will maintain and expand its footprint, what business models it will use, and how the company will apply its system of differentiating capabilities to win in each market.
- *Operating model*, the next level down, is where strategic intent and differentiating capabilities are translated into the macro attributes of the organization. These attributes include not only the structural aspects (whether matrix models should be used, what the primary axis should be, what headquarters model is appropriate, what the scope of shared services is) but also the more important nonstructural

elements (how P&Ls should be designed, which parts of the organization should be accountable for what, who gets what decision rights and information).

- *Global processes and systems, management architecture, and people capabilities*—the foundational building blocks—are the practical levers of the operating model. Together they determine the day-to-day operating environment of the global enterprise and dictate how work gets done. It's here that critical questions are addressed: How do we leverage information technology to create revenue, manage costs, and enable the workforce? What sorts of governance forums and mechanisms are needed to run the company effectively? What role will global talent, culture, and informal networks play in driving company performance?

This Perspective focuses on the global company's management model, which comprises the bottom two levels: the operating model and the three key levers that underpin it—global processes and systems, management architecture, and people capabilities.³

Exhibit 1
The Global Enterprise Management Model



Source: Booz & Company

ENABLING AN EFFECTIVE GLOBAL ENTERPRISE MODEL

Once a company's strategic intent and differentiating capabilities have been determined, the heavy lifting in implementing a global strategy begins. In our experience working with multinationals, three key management enablers consistently emerge that connect and mobilize the execution layers in our global enterprise management framework:

1. *Organizational structure and footprint:* Winning companies are rebalancing their organizational structure and footprint of key activities to reflect the increased weight and clout of emerging markets in the company's operating model.
2. *Decision rights and controls:* As enablers to their operating model and management architecture, winning companies are also delegating decision-making authority and striving for greater transparency of management information, while at the same time introducing single-point accountability and other control mechanisms to manage key risks.

3. *Leadership and talent management:* As a key enabler to people capabilities, winning companies are evolving toward more diversity, not only on their boards and executive management teams but also throughout the organization, as they put in place truly global talent strategies.

Organizational Structure and Footprint

Many globalizing and globalized company organizations are still structured to operate in the Globalization 1.0 paradigm in which multinational companies set up business units around the world staffed by expatriate managers, while controlling strategy from a central "home"-based headquarters location in New York, London, Madrid, or Frankfurt. Successful multinationals are instead globally distributing their existing operations, from sales and distribution up through the corporate center. Every function and business activity—from commoditized to core—is increasingly being performed in that part of the world where it makes the most sense and contributes the most to the business.

Every function and business activity is increasingly being performed in that part of the world where it makes the most sense.

Global companies today understand that in a multipolar world, it is more than likely that half or more of their revenues and profits will be generated beyond their home country's border—this is true for seasoned multinationals as well as emerging market champions. Consequently, both are laboring to rebalance their organizations to accommodate this new reality.

It isn't easy—old habits are hard to break. Many large multinationals persist in favoring their foundation businesses and home markets, thus missing out on attractive growth opportunities elsewhere in the world. Because top management has traditionally been concentrated at headquarters, there is no direct line of sight on new market issues. Neither is there much in the way of knowledge sharing or cross-learning across the organization—between corporate and regional operations or between regional operations. Either companies suffer unnecessary duplication or jarring inconsistencies in country-based organizational models that favor market proximity or they suffer excessive rigidity and standardization in global models that are heavily centralized in the interest of efficiency.

To overcome these hurdles, companies need to “re-weight” their organizations to better reflect the power and influence of new and emerging markets in future growth and profits. For example, a leading global bank recently revised its organizational structure to reflect the growing importance of its Brazilian and Latin American (other than Brazilian) operations by having them report directly to the CEO, on par with the company's legacy European operations. These structural adjustments—in combination with substantive changes

to decision rights and governance mechanisms—alter the balance of power within a global organization.

In addition, companies need to take a long and hard look at what activities are performed where. Leading global companies have designed new organizational constructs that allow them to enjoy the benefits of customer proximity where needed, while capturing economies of scale where available. One model that has been steadily acquiring momentum is the “cluster” model, in which only essential customer-facing activities are maintained locally, supported by a critical mass of expertise housed either regionally or centrally to avoid duplication and redundancy. For large multinationals with a significant presence in multiple markets, the optimal balance is often to establish centers at the regional level (such as call centers for Latin American markets), since they possess the scale to be efficient, yet preserve the language and cultural sensibilities that are critical to local market credibility (see “*Revamping the Organizational Structure and Footprint of Activities*,” page 8).

In developing these clusters, companies need to give careful thought to which specific functions and processes are best performed globally, regionally, and locally. Functions like finance, human resources, and IT are good prospects for substantial centralization (with some local execution-oriented tweaking). At the other extreme, sales, legal, and communication activities are generally best handled locally. Functions such as marketing, manufacturing, procurement, and R&D lie somewhere in the middle—they are good candidates for partial centralization but need some local autonomy as well.

Decision Rights and Controls

As important as the “hardware” of organizational structure is the “software” that runs on it—the set of decision rights, management processes, and control mechanisms that bring the structure to life and determine how decisions get made and executed.

Gone are the days when global businesses had a clear center of gravity and could engage in the hub-and-spoke model of decision making in which the center “decided” and country organizations “executed.” Companies are now coming to the realization that control is often better achieved in a global competitive environment by giving away responsibility and holding businesses accountable on key performance targets; headquarters needs to free business units to plan and execute in their markets without encumbrance. While the corporate function facilitates and supports through the provision of core services, business units should assume greater accountability for their decisions and actions. To hold them accountable, companies need to adopt disciplined, transparent, and tightly coordinated decision-making authorities and performance management mechanisms. Ideally, these should motivate business unit and functional managers to cooperate in exploiting economies of scale, synergies, and cross-company customer relationships.

In today's multipolar environment, global companies need to reassess their decision rights and controls to give emerging markets a greater voice in their operations as well as enterprise-wide governance and committee structures. They need to redefine key decision-making processes, including escalation and conflict resolution at the country, regional, and corporate levels, and broadly communicate these

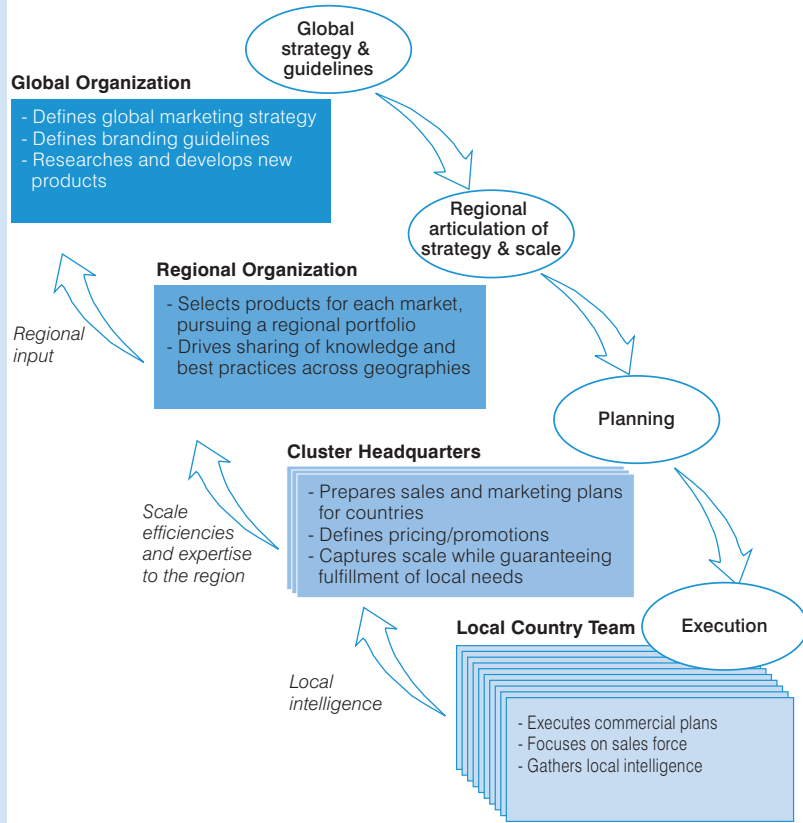
Case Study Revamping the Organizational Structure and Footprint of Activities

A leading global manufacturer of consumer products overhauled the operating model for its Latin American division not long ago. The company had experienced strong global growth over the years, resulting in a significant increase in the size and complexity of the organization. Country operations were largely autonomous, although there were small regional teams charged with control and oversight. Though this model proved effective in enabling growth over the short term, it limited regional integration and resulted in multiple inconsistencies in the delivery of branding, products, and services across geographies. It became clear that the organization needed to be redesigned, as activities were increasingly duplicated, scale economies were underleveraged, and other inefficiencies frequently cropped up.

The company embarked on this structural transformation by reallocating activities and processes to appropriate levels of the organization (global, regional, market group, local). The guiding principle in developing a new design was to capture efficiencies and leverage synergies in knowledge and infrastructure, while preserving customer proximity and local agility where needed. This case study covers the transformation of the critically important marketing organization (see *Exhibit A*).

Exhibit A Transforming Global Marketing

OPERATING MODEL (MARKETING)



Source: Booz & Company

As illustrated, the new marketing organization was built around four distinct building blocks, each with clear roles and responsibilities.

1. The *global organization* developed the worldwide strategy and guidelines and centralized research and product development.
2. The newly empowered *regional organization* became a more active liaison between the global hub and the markets. It started to make decisions on product launches in the regional portfolio and the leveraging of scale and expertise through the creation of centers of excellence. For example, its regional center for demand forecasting was created to perform cost-efficient assessments of local demand for selected products.
3. Individual country operations were grouped into *cluster headquarters*, which served as natural business units, in which the lead market acted as a hub. Activities were pushed to hubs as much as possible to improve efficiency and consistency, but local market presence was preserved. For example, sales planning, marketing development, and pricing all occurred centrally in the cluster's lead market, while the execution of activities such as sales, trade activation, and vendor administration remained local. To guarantee the quality of central decisions, teams at hubs were organized around functions as well as geographies.
4. Finally, the company created the new role of *local country team*, focused primarily on executing activities planned at hubs and providing input and in-market intelligence to support central decisions.

The company strengthened this more effective and efficient organizational design by clarifying and adjusting associated processes, roles, decision rights, and control mechanisms. The revenue impact and the savings captured were substantial and reinvested in further growth in the region.

The guiding principle in developing a new design was to capture efficiencies and leverage synergies in knowledge and infrastructure, while preserving customer proximity and local agility.

new decision roles and processes. Finally, they should establish mechanisms to assess performance against the new decision model (see “*Growing into a Global Player*,” page 12).

Of course, the decentralization of decision rights should be appropriately balanced with the proper control mechanisms, or this regional empowerment can create inefficiencies and risks that more than neutralize the benefits of agility. In designing control processes, companies need to avoid the common pitfall of collecting information for information’s sake, rather than focusing on those key metrics that materially impact performance. Striking the right balance requires companies to optimize each element of their performance management capability—starting with the identification of key performance indicators (KPIs) that link strategy to operations. Then they need to link these KPIs to the company’s primary management processes (strategic planning, budgeting, compensation, ongoing performance management). Finally, global companies need to build information systems and controls that support this performance management approach by extracting and monitoring the right kinds of information.

In short, new decision models for globalizing companies increasingly require greater delegation of decision rights to high-growth emerging markets, single-point accountability for results, and transparency of management information to ensure that decisions and rewards are based on objective data.

Leadership and Talent Management

In our conversations with CEOs of leading global and globalizing companies, the issue of management talent invariably comes up. Typically, concerns expressed relate either to specific incumbent managers who are not up to the task or to persistent vacancies that seem impossible to fill, but further probing reveals a set of more fundamental issues.

The talent issue for global enterprises starts at the top. Boards and executive committees are not often models of global diversity—their composition remains largely influenced by the company’s historic center of gravity and does not furnish the ideal breadth and diversity of experiences one would like to see governing a globalized or globalizing company. Senior management often finds it hard to shed old modes of operating and open up opportunities to new talent based on merit rather than tenure or internal political affiliation. The change management challenge for these executives is very real.

Further down the management hierarchy, mismatches in the supply and demand of key skill sets force many companies to fill management positions with individuals who are not ideally suited to the task. This is particularly true in countries such as China, where management talent is in desperately short supply. Even when companies manage to attract the right talent, they struggle to retain it in the overheated labor markets of hyper-growth countries.

But companies like agribusiness giant Bunge illustrate that the talent management challenge can be successfully addressed. You have only to look at its board—Bunge has consistently paid particular attention to selecting board members who bring the required experience to steering a truly global company’s strategy (see *Exhibit 2*). Founded in Europe at the beginning of the 19th century, Bunge had significant operations in Argentina, Brazil, and the U.S. by 1918, and its global march has only accelerated in the past decade under the leadership of its current chairman and CEO. Not only does the current board bring experience in investing and running large businesses in all the key markets where Bunge operates, but it also boasts a diverse array of expertise in areas related to agriculture, such as logistics, advertising, and food processing and packaging.

Starting with the board and senior executives, global companies need to forge more diverse management teams able to understand the opportunities and the challenges the business faces in its current and future markets. The requirement extends beyond the top levels of the organization, however. Companies need to overhaul their people capabilities model, in general, to ensure that they survive—and thrive—in the multipolar world.

Winning global companies develop comprehensive human capital strategies to acquire, develop, and retain talent in key markets around the world. Typically these plans are well

anchored in the company’s business strategy and focus on the following critical dimensions:

- Differentiating their approach to markets based on a segmentation of their “talent pools”
- Improving managers’ capabilities, behavior, effectiveness, and accountability
- Taking a holistic approach to human capital programs and policies, and measuring their effectiveness based on outcomes and KPIs
- Building employee engagement by paying for performance and providing continuous growth and development opportunities

A company that has made significant forays in deploying a truly global

approach to talent management is Siemens, the electronics and electrical engineering powerhouse that originated in Germany. Today, however, only 30 percent of its more than 400,000 employees worldwide are located in Germany—the other 70 percent are spread across 190 countries. With such a dispersed workforce, one of Siemens’s major challenges is securing and retaining the best global talent pool. “With countries like Germany we had a pretty good view,” notes a corporate technology executive, “but when we talk about emerging markets and fast growing economies we weren’t always able to attract the best talent.”⁴

To address this issue, Siemens embarked a few years ago on a successful transformation of its global people strategy, whose components included the following:

- A consistent individual performance management process based on established competency models and effective KPIs
- Robust succession planning and high-potential talent identification and development processes enterprise-wide
- A global master database that made job postings and experience profiles on individuals available to all
- A CEO-driven global diversity and inclusion program
- Leading-edge lifelong learning and development opportunities

Driving toward this type of truly global and transparent talent management model is a prerequisite to sustained success in today’s multipolar world.

Exhibit 2
Bunge Board Exemplifies Diversity in Global Leadership

BOARD COMPOSITION

| NATIONALITY | EXPERIENCE IN KEY MARKETS | | | BACKGROUND INDUSTRY |
|----------------------|---------------------------|--------|---------------|--|
| | U.S. | Europe | Latin America | |
| American | ✓ | | | - Logistics (DHL) |
| American | ✓ | ✓ | | - Food processing/packaging (Tate & Lyle, Tetra Laval) |
| American-Argentinean | ✓ | ✓ | ✓ | - Private equity (Advent) |
| American-Argentinean | ✓ | | ✓ | - Investment management (Yellow Jersey) |
| Argentinean | ✓ | ✓ | ✓ | - Agribusiness (Bunge) |
| Argentinean | | ✓ | ✓ | - Chemicals, mining (Bunge) |
| Argentinean | ✓ | ✓ | ✓ | - Financial services (Citibank) - Food & beverages (Quinsa) |
| Brazilian | ✓ | ✓ | ✓ | - Chemicals (BASF) |
| French | | ✓ | | - Advertising (Intermedia) |
| French | | ✓ | ✓ | - Agribusiness (Bunge) |

Source: Bunge’s 2010 annual report; company’s website; press clippings; Booz & Company analysis

Case Study

Growing into a Global Player

Emerging as one of the world's leading manufacturers of chemicals, fertilizers, plastics, and metals in one of the most rapid and coherent industrialization developments in recent decades is unprecedented and definitely not easy, as one company learned.

One of the challenges of growing into a global player through acquisition has been the urgent need to integrate multiple, legally distinct businesses in multiple regions into one truly global company with a common operating model and global business units across its geographies. To support that evolution, this company needed to make dramatic changes to its management processes, decision rights, and governance structure.

What was once a mix of global and regional organizations with different and overlapping scopes is now a clear set of global strategic business units (SBUs), global/regional shared services, and centralized corporate functions. Though the concept of regions has been preserved, P&L accountability has shifted entirely to the SBUs. The regional head now serves as an ambassador or liaison between local operations and corporate headquarters, enabling synergies, eliminating overlaps, and acting as the legal representative in local markets.

To manage this new streamlined structure, the company had to design a corresponding set of global decision rights. Historically, its many units had often worked at cross-purposes, each making similar decisions in different ways across the same regions and functions, utilizing inconsistent management processes and delegations of authority.

Globalizing decision making required the company to employ a number of management tools, including redesigned governance processes, new responsibility assignment matrices, and clearly delineated delegations of authority, all of which had to be applied consistently across the company's SBUs and functions.

The company replaced its regional and single-business delegations of authority with a single global one that addressed not only financial decisions but also critical decisions around planning, corporate structure, legal liability, procurement, supply chain, sales credit risk, human resources and organization, manufacturing, and technology. This global schedule laid out decision-making authorities for the company shareholders, board of directors, CEO, and direct reports.

Below this level, each organizational unit—global SBU, shared service, corporate function—had its own schedule of authority that was consistent with the global one but drilled down deeper into the needs of the unit. This approach addressed the need for a common global framework, while providing the business units and functions with sufficient latitude to run their operations nimbly.

To reinforce these aligned decision rights, a series of global policies and guidelines were introduced to provide a common and level playing field across units and functions. Among the tools developed was a global management control manual to ensure compliance with established standards and practices. Finally, a new performance assessment process, with realigned KPIs and incentives, was established.

Endnotes

¹ Emerging markets' share of global consumption went up to 34 percent vs. America's 27 percent in 2009 per JPMorgan Chase. "Grow, Grow, Grow" (*The Economist*, April 15, 2010).

² Infosys.com; *The Economist* (April 15, 2010); General Aviation Manufacturers Association.

³ "The Coherence Premium," by Paul Leinwand and Cesare Mainardi (*Harvard Business Review*, June 2010). www.booz.com/media/uploads/HBR_Coherence_Premium.pdf

⁴ "Global Talent Management in Action: Siemens—Success Through Business Execution" (HRzone, February 24, 2011). www.hrzone.co.uk/topic/technology/global-talent-management-action-siemens-success-through-business-execution/109793

HOW TO GET STARTED

Moving toward a more robust global enterprise model is a transformational journey. Tackling all five dimensions of our GEM model at the same time would be ideal but hardly practical. On the other hand, addressing each element one at a time is unlikely to generate sufficient impact.

In our experience, adapting the company's internal organization and management model is a good place to start and can create the momentum required for wholesale transformation. To get the ball rolling, companies should perform a quick diagnostic of how they are faring on each of the three enablers we have outlined: organizational structure and footprint, decision rights and controls, and leadership and talent management. Assess each against both global best practices and the company's strategic intent and

key capabilities to understand where improvement is most urgently needed. That baseline becomes the foundation on which to build an aspirational but pragmatic vision of the future global enterprise, which will serve as a guide in designing the detailed solution.

This new wave of globalization presents incredible opportunities. However, only companies that succeed in creating a more coherent and flexible global enterprise model will reap its benefits. Though each company will develop its own solution to its unique needs, the type of enterprise model that globalizing and globalized companies should look to build and deploy should adhere to certain design principles. First, it should be coherent with the company's strategic intent and designed around new sources of value growth for the company. Second, it should fully leverage its global scale and presence, while allowing local and regional operations appropriate autonomy. Third, it should access and unleash the best leadership and talent resources available around the world.

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