

Global Leadership 2019-2020

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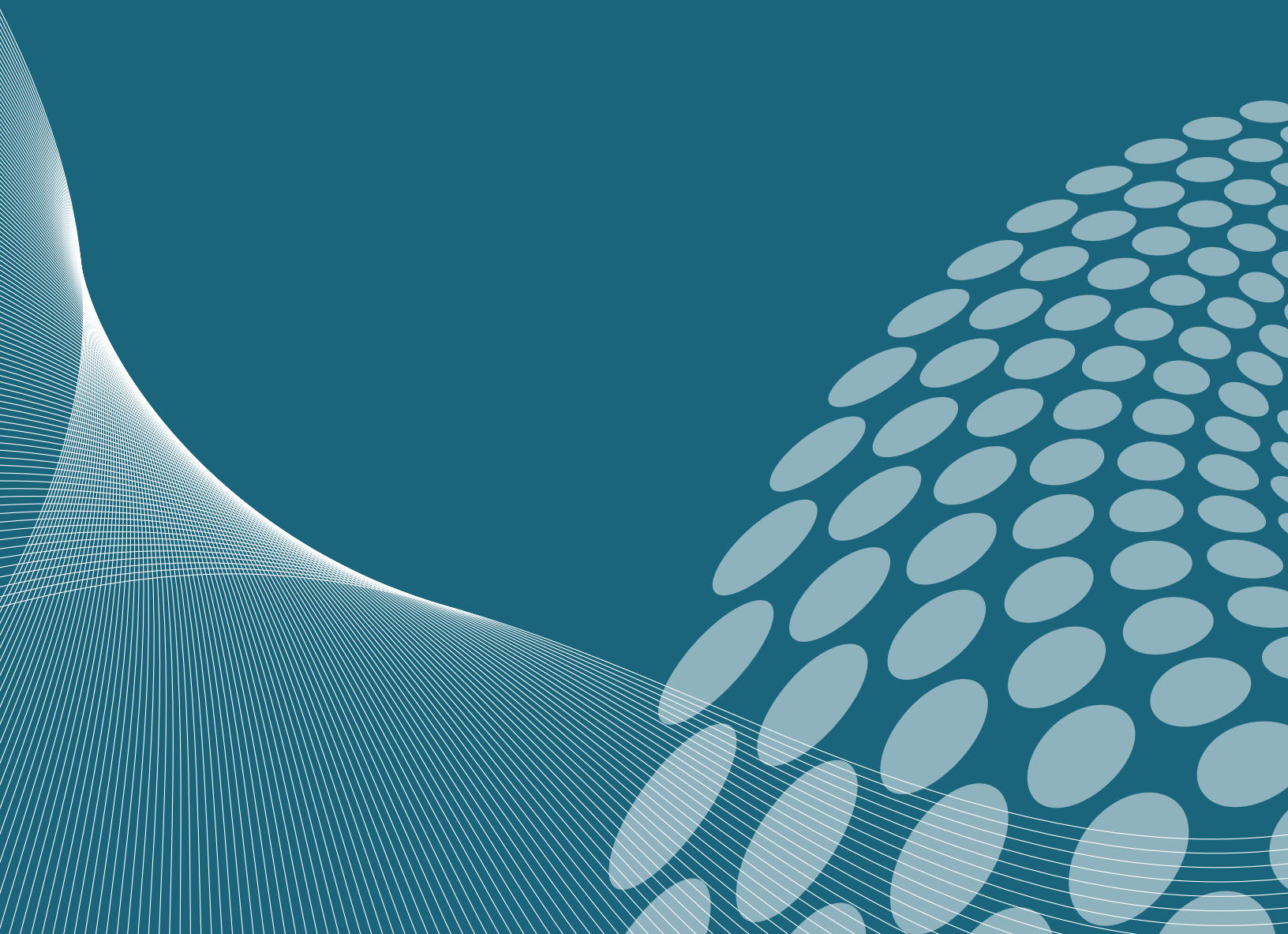


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Global leadership success through emotional and cultural intelligences

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Abstract Culturally attuned and emotionally sensitive global leaders need to be developed: leaders who can respond to the particular foreign environments of different countries and different interpersonal work situations. Two emerging constructs are especially relevant to the development of successful global leaders: cultural and emotional intelligences. When considered under the traditional view of intelligence as measured by IQ, cultural, and emotional intelligences provide a framework for better understanding cross-cultural leadership and help clarify possible adaptations that need to be implemented in leadership development programs of multinational firms. This article posits that emotional intelligence (EQ), analytical intelligence (IQ), and leadership behaviors are moderated by cultural intelligence (CQ) in the formation of global leadership success.

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“But when a prince acquires the sovereignty of a country differing from his own both in language, manners, and intellectual organization, great difficulties arise; and in order to maintain the possession of it, good fortune must unite with superior talent.” —Niccolo Machiavelli, *The Prince*

1. Global interaction and interpersonal relationships

To say that globalization is upon us is axiomatic. Conducting global, international, and cross-cul-

tural business is a mundane reality for most contemporary large organizations. Even if your business is a medium- or small-sized firm, you have probably experienced globalization through interactions with global participants that belong to at least one, or perhaps more, of these four key categories: customers, competitors, suppliers, or employees. Global business is already a substantial force in the world's economy: The World Trade Organization reported that, in 2003, international trade comprised 30% of global GDP. In their book *Race for the World*, Lowell L. Bryan et al. (1999) predicted that, by the year 2029, 80% of world output would be in global markets. Thus, while globalization has arrived, the full extent of its impact on business has yet to be felt.

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If growth in international trade continues as expected and predictions for its eventual size hold true, global business will see at least a twofold increase. Such dramatic changes in the conduct of business require leadership from individuals skilled in global aspects of business functions such as marketing, operations, finance, human resource management, information management, and R&D. However, global leaders must also be extremely skilled in the interpersonal conduct of global business. This requires emotional and cultural intelligences, the focal points of this article.

Unfortunately, while the need for global business leaders has never been so urgent, serious deficiencies exist in the preparation of corporate managers as they deal with the interpersonal realities of global business. In a comprehensive review of the global leadership literature, [Vesa Suutari \(2002\)](#) came to the following conclusions:

- Leaders need to develop global competencies.
- There is a shortage of global leaders in the corporate world.
- Many companies do not know what it means to develop corporate leaders.
- Only 8% of Fortune 500 firms have comprehensive global leadership training programs.
- There is a need to better understand the link between managerial competencies and global leadership.

Similarly, [Tracey Manning \(2003\)](#) summarized the research of many leadership scholars and found that multinational companies' efforts to develop effective global managers fell far short of the optimum:

- 85% of Fortune 500 firms surveyed did not have an adequate number of leaders.
- 65% felt their leaders needed additional skills.
- One-third of international managers underperformed in their international assignments based on their superiors' evaluations.
- Organizations have erroneously promoted leaders to international assignments based on technical and organizational skills.

Ultimately, the negative consequences of wrong leadership choices are both expensive and well-publicized. And while the overall picture of global leadership development indicates businesses are not pursuing this matter sufficiently, the outlook is even more bleak regarding the development of global leaders' emotional and cultural intelligences. Although some firms are endeavoring to enhance the emotional intelligence capabilities of their leaders, very few have moved to grow cultural

intelligence, as awareness of this important concept is still at an early stage. In this article, we discuss the concepts of emotional and cultural intelligences, why they are critical to successful global leadership, and how they may be developed in global leaders.

2. A convergence of forces

It is evident that global leadership development should be a priority for companies that interact across cultures. Fortunately, how this development should proceed is becoming clearer. Several markers of what we term "global leadership skills" are noteworthy. First, there is increasing agreement regarding what it is that good leaders do, even while management flexibility is assumed as a given. Inevitably, leadership is contingent on the factors involved in a particular situation, but we generally know what good leaders should do or consider doing most of the time, at least in the United States. Simply put, *leadership is the ability to turn vision into reality*. More specifically, Robert House and his colleagues defined leadership as "the ability to influence, motivate, and enable others to contribute toward the effectiveness and success of the organization" ([House et al., 1999](#), p. 184). Additionally, in 2002, Gary Yukl, Angela Gordon, and Tom Taber, after reviewing a half-century of leadership behavior research conducted primarily in the U.S., concluded that leaders must successfully perform 12 behaviors, which can be grouped into three broad categories: task, relationship, and change/innovation ([Yukl et al., 2002](#)). These behaviors are those that leaders/managers should engage in or consider engaging in to be successful.

A second marker of global leadership skills is an emerging focus on leadership at every level of the organization, which facilitates the creation of a platform from which to launch a global leadership development effort. This recognition of the relationship of system to manager is occurring not just in the management literature, but in numerous corporations, as well. For example, IBM, a company already well known for its strong leadership, revamped its leadership model in 2002, when newly appointed CEO Sam Palmisano realized IBM needed a new model of leadership that was future-focused, where the company's customers became clients (reflecting long-term relationships, not short-term fixes) and whereby IBM enabled its customers to "respond instantly at whatever got thrown at them" ([Tischler, 2004](#), p. 112). As Donna Riley, IBM's Vice President for Global Talent, expressed, "If leader-

ship is stuck in the past, we have a problem” (Tischler, 2004, p. 112). After a thorough examination of the situation and various options, IBM in 2004 identified a set of 11 competencies IBM’s leaders must possess. Among these are being client-centered, innovative, and environmentally aware, all on a global basis. These desired competencies are in addition to, not instead of, more traditional leadership behaviors (Tischler, 2004).

3. IQ is not the only “intelligence”

There is growing recognition that multiple intelligences are required for global leadership. For example, Ronald Riggio, Susan Murphy, and Francis Pirozzolo presented a strong case that global leaders need to possess more than high IQs. In 2002, they asserted that intelligence is a multi-dimensional construct, that there are several types of intelligences, and that different kinds of intelligences are needed for effective, situational leadership (Riggio et al., 2002). Based on all evidence available, we suggest at the core of global leadership (and, hence, the development of global leaders) are these three intelligences:

- (1) Rational and logic-based verbal and quantitative intelligence with which most people are familiar and which is measured by traditional IQ tests;
- (2) Emotional intelligence (EI), which has risen to prominence as a determiner of success in the past 10 years and which can be measured by EQ tests; and
- (3) The most recent addition to our list of intelligences, cultural intelligence (CI), which can be measured by CQ tests that are only now coming into existence.

With respect to cultural intelligence, it is important to note, as Christopher Earley and Elaine Mosakowski pointed out in 2004, that there are two major types. The first is what we call organizational CI. The second type of awareness, the focus of our CI examination, is related to geographic/ethnic culture (Earley & Mosakowski, 2004). For example, when you do business in Spain, many cultural practices are the same throughout the country, but doing business in Bilbao is not identical to doing business in Madrid or Barcelona because each of these cities has a different operant culture, each of which reflects a major Spanish subculture: Basque, Andalusian, and Catalan, respectively. Even matters such as “appropriate” hours of work differ among these three cultures. The fact that each

subculture is fiercely proud of its heritage can make for an interesting exercise in cross-cultural cooperation within Spain, itself. Leaders must be able to function across and within these various subcultures.

Robert Rosen and Patricia Digh declared that “global literacy is the new leadership competence required for business success. To be globally literate means seeing, thinking, acting, and mobilizing in culturally mindful ways” (Rosen & Digh, 2001, p. 57). Accordingly, the same authors indicate the two predictors of success in the global market place are leadership development across all levels of business and valuing multi-cultural experiences/competencies. We suggest that leadership development should follow a three-part model: assessment, education, and experience. With most if not all aspects of leadership, it is possible to assess a leader’s skill levels, provide the education that matches that person’s needs, and then let the person experience the foreign culture in its organizational or geographic/ethnic specificity. As we all know, experience itself is a great teacher, and only in the trenches can a leader begin to fully understand another culture and become functional in it. In this article, we focus on the two newest of the three intelligences we believe to be critical to successful global leadership: EI and geographic/ethnic CI.

4. Developing global leadership EQ

According to *The EQ Edge*, written in 2000 by Steven J. Stein and Howard E. Book, research across 30 mostly professional and managerial career fields reveals that anywhere from 47% to 56% of work/life success is the result of EQ, with the range being related to job type (Stein & Book, 2000). Even stronger evidence linking EQ to the success of leaders within the U.S. was noted by Daniel Goleman, Richard Boyatzis, and Annie McKee in their 2002 book, *Primal Leadership*. They found that the most critical leadership skills in the U.S. were linked to emotional intelligence (Goleman, Boyatzis, & McKee, 2002). Their research and the research of others (such as the Hay-McBer consulting firm) suggest that as much as 79% of leadership success in the U.S. results from high EQ. Based on these and other EQ studies, it would seem that leaders’ levels of emotional intelligence influence their behaviors, making them more or less successful. Similarly, organizational CI matters most, at least in the U.S., when leaders move into or work with new organizations. Often, a lack of organizational CI contributes to individual and corporate failures.

Emotional Intelligence is crucial to success in both work and life in general; it is a part of the biological, evolutionary importance of emotions in human beings. As Nigel Nicholson, in a *Harvard Business Review* article, observed, "...for human beings, no less than for any other animal, emotions are the first screen for all information received" (Nicholson, 1998, p. 138). When a person receives a piece of information, it is automatically assessed from an emotional perspective. Emotional assessment was necessary for survival when man hunted in small groups, as it initiated "fight-or-flight" responses; things are no different today. When someone receives information, the older part of the brain still considers a fight-or-flight response. This phenomenon helps explain why, for example, when a performance appraisal is conducted, even if 99% of the appraisal is positive, the "evaluatee" will fixate upon the negative 1%. To be successful in any interpersonal activity, one must be aware of one's own emotions and be able to manage them, just as one must also be aware of the emotions of others and be able to manage any interaction. EQ surveys simply measure the ability to perform these tasks across a wide variety of emotional intelligence skills.

4.1. Assessing EQ

There are three primary EQ skill level survey devices on the market today, all of which are paper-and-pencil based. The first two of these are self-report inventories: the "Emotional Quotient Inventory" or EQi and the "Emotional Competence Inventory" or ECI, which also has a university student version, the ECI-U. The EQi was created by psychologist Reuven Bar-On, who, in 1980, began a quest to determine what led to work/life success (Bar-On, 1997, 1998). By 1985, he believed he had found a partial, if not a primary, answer in a concept he labeled the emotional quotient, or EQ. Bar-On subsequently developed the EQi survey to measure EQ, a survey which meets the American Psychological Association's standards of legitimate tests. In *The EQ Edge* (Stein & Book, 2000), Steven Stein and Howard Book analyzed thousands of EQi surveys given to individuals in more than 30 occupations. Two key findings emerged. First, as noted earlier, their analyses revealed that success in domestic work/life is between 47% and 56% a function of a person's EQ. Second, their research revealed which 5 of the 15 EQ competencies used in the EQi were most critical to each job classification. The finding that different jobs require different competencies has the potential to become a major factor in job selection. Because some of the

job classifications examined were managerial positions, the study has this important implication for leadership: even in the same country, the proper leadership EQ skill set varies to some degree from situation to situation.

The ECI was created by consulting firm Hay-McBer in conjunction with Daniel Goleman. While the EQi is focused on the psychological underpinnings of EQ, the ECI focuses on EQ's business applications. In *Primal Leadership* (Goleman, Boyatzis, & McKee, 2002), Goleman and his co-authors describe a model of how EQ could be used, especially, by business leaders. One of the major contributions of this book is the identification of 15 specific EQ competencies, which are grouped into four overriding domains: self-awareness, self-management, social awareness, and relationship management. The first two of these sets of skills are intrapersonal; the latter two are interpersonal.

What makes these behaviors so useful is the development of a model that illustrates how each of these four domains of capabilities sequentially drives the next. According to this model, a person must progress from self-awareness to self-management, from self-management to social awareness, and from social awareness to relationship management. These domains are essentially hierarchical in nature: a person cannot usually successfully manage relationships if that person is not first self-aware, successful at self-management, and also socially aware. Similarly, a person cannot usually self-manage if lacking self-awareness, nor be socially aware if self-management is absent.

The third assessment device is the "Mayer-Salovey-Caruso Emotional Intelligence Test™", or MSCEIT (MSCEIT, 2005; What is the MSCEIT, 2005). The MSCEIT is an emotional problem-solving test, as opposed to a self-reported inventory. Participants are asked to solve a number of EQ problems. David Caruso (2005), co-author of the MSCEIT, indicates the test examines two tasks for each of the four following different but related emotional intelligence abilities:

- (1) "Perceiving emotions: the ability to accurately recognize how you and those around you are feeling";
- (2) "Using emotions: the ability to generate emotions and use emotions in cognitive tasks such as problem solving and creativity";
- (3) "Understanding emotions: the ability to understand complex emotions and emotional 'chains', how emotions transition from one state to another"; and
- (4) "Managing emotions: the ability to intelligently integrate the data of emotions in

yourself and in others in order to devise effective strategies that help you achieve positive outcomes”.

All three of these instruments appear to be viable. The use-values of the three surveys differ, however:

- The EQi has a substantial psychological background, meets APA standards for tests, and has additional supportive research;
- The ECI has a strong, practical business focus; and
- The MSCEIT focuses on problem solving and does not involve self-evaluation, as do the other two tests.

The EQi and ECI surveys allow for evaluations by others, which helps eliminate subjective biases. Limited numbers of comparative studies of these instruments have been performed; in fact, too few to be useful at this point. As well, since these three instruments are all essentially bound to U.S. culture, only limited use of them has been made outside of the United States. The EQi and MSCEIT are available through Multi-Health Systems (among others) and the ECI from the Hay Group.

4.2. Educating global leaders on EQ

Successful leadership development programs incorporate conceptual knowledge about EQ with role playing, case studies, simulations, experiential exercises, visualization exercises, and practice sessions that assist people in not just understanding what EQ is about, but also giving them practice at the skill. Establishing objectives for change and feedback sessions on progress are also critical ingredients for success. It is best to work on only four or five behavioral changes at a time, focusing on the lowest-scoring skills. If a leader is using the ECI survey, the progression from self-management to relationship management should guide the leader's choices for development. Some of this evaluation can be self-generated, but external evaluators are very helpful.

4.3. Experiencing improved EQ

There is no substitute for experience when behavioral change is desired. As illustrated later in this article, this is as true for CI as it is for EI. EQ improvement logs can be a helpful tool in the change process: in them, leaders can record their efforts at improving their EQ. They can keep track of successes and failures, reporting the actions they have taken to further their skills. In Stein and Books' *The EQ Edge* (Stein & Book, 2000) and in the

materials that accompany both the ECI and the MSCEIT, there are suggested exercises, readings, and other aids to help improve EQ. Although definitely worthwhile, this is not an inherently speedy process: it can take up to six months of steady work on one behavior to permanently change it. The keys are to accept that mistakes will occur, have adequate self-efficacy to continue on despite setbacks, take action to correct mistakes, and, finally, learn from that experience.

4.4. EQ and global leadership

One of the difficulties in changing emotional behavior stems from the dozens of emotional responses humans experience. In 1996, Howard Weiss and Russell Cropanzano identified six emotions as basic and universal, at least within the United States: happiness, surprise, fear, sadness, anger, and disgust (Weiss & Cropanzano, 1996). While there can be a high level of agreement within a country or specific national subculture regarding the meaning of commonly accepted emotions, many emotions and their cues (both non-verbal and even some verbal) do not readily translate across borders.

For example, in a 1991 *Los Angeles Times* report, Emmons (1991) found that, when a group of U.S. citizens was asked to identify six basic emotions using pictures of other U.S. citizens' facial expressions, there was a range of agreement from 86% to 96%. However, when Japanese citizens were asked to identify these emotions from the same set of pictures, their identification registered as accurately only for the emotion “surprise”, with 97% in agreement. Among the other five emotions, accurate identification levels ranged from 27% to 70%. This example begs the question of how high an EQ someone can have in a culture other than the one they grew up in. Because the cues to emotions across cultures vary from being somewhat different to quite different, CI becomes extremely important. CI enables leaders to translate the varying EQ behaviors of different cultures, and to then choose a more appropriate EQ action for a specific culture than the leader might otherwise have chosen.

5. Developing a global leader's cultural intelligence

Given the linkage between emotional intelligence and success, how can one transfer emotional intelligence to other nations/cultures? The answer lies in cultural intelligence, which bridges the gap in the transference of meaning. In 2003, Christopher Earley and Soon Ang claimed that emotional

intelligence may not transfer across borders if the symbolism and the ability to respond to the affective states of others carry different interpretations across cultures (Earley & Ang, 2003). Thus, in order to be EQ effective, one must also be CQ effective.

The work of Robert House and his colleagues on project GLOBE in 2002 illustrates that successful leadership behaviors differ within various cultures (House et al., 2002). Accordingly, in order for top managers to lead their organizations in the 21st century, they need to understand the regional and ethnic cultural diversity of their working environments and the cross-cultural community of workers around the world. It is becoming increasingly clear that leadership behaviors must be adapted to the cultural variety embedded in the global context.

Increasing globalization across most industries has prompted observers to pay attention to the need for augmenting cultural intelligence in workers. For example, Alexander Zakak and Steve Douvas commented in 1999 on the increasing globalization of the insurance industry. They stated that cultural intelligence is a key to business intelligence and is critical if insurers are to succeed in foreign markets (Zakak & Douvas, 1999). To demonstrate their point, they compared Polish and German markets. Their analysis contained general information about culture (e.g., values, work ethic, cultural diversity, and business protocols) and industry-specific factors (e.g., growth rate, level of competition, and the relative involvement of government). Taking into account cultural diversity and environmental differences, Zakak and his colleague suggested that U.S. insurers would be wise to use a strategy of acquiring a local insurer, developing complex products, and using a locally trained workforce in Germany, and creating joint ventures, developing simple products, and hiring expatriates to train the local employee base in Poland. In this way, the authors tailored decisions to fit culture-specific needs.

Andrew Holmes, a computer industry commentator, wrote in 2002 about the role of information technology (IT) project managers, suggesting that cultural intelligence is a new skill dimension to effective IT project management and the ability to affect change in heterogeneous locations and organizations (Holmes, 2002). Poor cultural intelligence leads to stereotyping, unnecessary conflict, delays, and leadership failure. Unfortunately, no systematic approach to developing cultural intelligence was evident in practitioner-based articles.

As the term “cultural intelligence” only came into use in recent years, few academic conceptualizations currently exist. Perhaps the most systematic

and contemporary approach to the study of cultural intelligence was published in a monograph, *Cultural Intelligence: Individual Interactions Across Cultures*, by P. Christopher Earley and Soon Ang, who defined cultural intelligence as “A person’s capability for successful adaptation to new cultural settings; that is, for unfamiliar settings attributable to cultural context” (Earley & Ang, 2003, p. 9). In like manner, in 2004, Brooks Peterson defined cultural intelligence as the aptitude to use skills and abilities appropriately in a cross-cultural environment (Peterson, 2004).

According to Earley and Ang, cultural intelligence is distinct from social and emotional intelligences in that it requires people to switch national contexts and rely on their ability to learn new patterns of social interactions and devise the right behavioral responses to these patterns:

“In a new cultural setting, familiar cues are largely or entirely absent (or present but misguided), so a common attributional and perceptual frame cannot be relied on. In this case, a person must develop a common frame of understanding from available information, even though he or she may not have an adequate understanding of local practices and norms.” (Earley & Ang, 2003, p. 61)

The authors cite numerous examples of individuals who possessed social, intellectual, and emotional intelligences, and were successful in their own country’s environment, but were unable to transfer these skills to a different country’s setting. The reason: they lacked cultural intelligence. Alternatively, Lynn Offermann and Ly Phan suggested in 2002 that cultural intelligence is “a meta-intelligence, encompassing a variety of forms of intelligence (including the traditional analytical skills) and enacting them outside of the frame of reference in which they were developed” (Offermann & Phan, 2002, p. 191). Emotional intelligence, therefore, is essential for promoting better cross-cultural interaction.

6. Global demands and cultural intelligence

How, then, does CQ facilitate effective global leadership? In 2003, Tracey Manning wrote that the need for cross-cultural effective leadership is immediate and widespread, and suggested that global competence with specific reference to the ability to manage increasing cultural diversity is the precondition for effective global leadership (Manning, 2003). After in-depth, face-to-face interviews with CEOs of more than 75 companies in 28

countries and a survey of 1000 senior executives around the world, Robert Rosen and his colleagues, in their 2000 book, *Global Literacies: Lessons on Business Leadership and National Cultures*, make two discoveries: first, that global literacies are the cornerstone of leadership universals and, second, that the more economically integrated the world becomes, the more important cultural difference becomes (Rosen et al., 2000). Cultural literacy (the ability to value and leverage cultural difference) is key among the global literacies.

Rosen and his colleagues' conception of cultural literacy is similar to Earley & Ang's (2003) conception of cultural intelligence, and provides the link between this form of intelligence and top managerial and leadership success in the global arena. Offermann & Phan (2002) offer further evidence of this link by showing that cultural congruence between leader and follower is related to superior-subordinate relationships, level of follower satisfaction, and work effectiveness. As with the emotional intelligence construct, we divide the discussion into assessment, education, and experience.

6.1. Assessing cultural intelligence

The assessment of cultural intelligence depends in part on its conceptualization. Little has been published on the construct of cultural intelligence and even less on its measurement. This is a fruitful area for future researchers, who can follow the lead of analysts such as Earley & Peterson. In 2004, they reviewed and evaluated the available assessment methods for cultural intelligence, which included paper-and-pencil inventories, role play exercises, behavioral assessment centers, self monitoring scales, cultural shock inventory, and intercultural communication inventory tests (Earley & Peterson, 2004). In turn, the authors proposed a CQ educational and learning model which consists of three facets: meta-cognitive (learning strategies and cultural sense making), motivation (cultural empathy and self-efficacy), and behavior (acceptable behavior in culture and mimicry). In a 2004 follow up article published in the *Harvard Business Review*, Earley and Elaine Mosakowski provide a self-scored diagnostic tool for measuring cultural intelligence that consists of three components: cognitive, physical, and emotional (Earley & Mosakowski, 2004). This tool, however, is rather primitive and has not been, to our knowledge, subjected to empirical validity tests.

Another assessment instrument that shows some promise is the Cross-Cultural Adaptability Inventory Test, developed by Colleen Kelly and Judith Meyers (Kelley & Meyers, 2004). It is distributed

through the Pearson group, which sells a number of tools to help companies recruit, select, track, and manage employees. The test is designed to assess the ability of the test taker to adapt to different cultural settings and interact with people from other cultures, which are skills key to successful foreign assignments and leadership success in a cross-national setting. The 50 questions in the assessment instrument are factored into four dimensions of cultural intelligence: emotional resiliency, perceptual acuity, flexibility and openness, and personal autonomy. Comparisons between people and between factors are relevant for developmental processes, as they allow the test taker and/or the evaluator to assess cross-cultural strengths and weaknesses. Using a sample of 112 individuals (35 employees of a U.S.-based corporation and 77 undergraduate students), a 1998 study by Amy Montagliani and Robert A. Giacalone found that the ability to adapt cross-culturally is positively related to impression management tendencies and suggested that both will have a positive impact on the ability to succeed in global leadership (Montagliani & Giacalone, 1998).

Finally, another method of cultural assessment is now under development by Richard Lewis and Duke University, although it is not yet commercially available. The method uses a questionnaire based on Lewis's book, *When Cultures Collide*, to assess an individual's type, and then allows the individual to compare his/her individual socio-type with the culture in question along a variety of dimensions. This test allows trainees to focus on their particular socio-type in the context of the host environment.

6.2. Educating for cultural intelligence

In an effort to educate managers on recognizing cultural differences, companies can send them to formal education programs, such as ones which result in an MBA degree, or sponsor global educational initiatives. Companies may also provide managers with books on a country, language education, mentoring, and so on. Regardless of what other steps may be taken, managers should be presented with cultural awareness case studies, and then be taught how appropriate cross-cultural behavior leads to more satisfactory solutions. Role plays, simulations, and other experiential activities are especially useful in building this awareness. Furthermore, there are books (including one edited by Ronald E. Riggio and colleagues) and articles available on differing analytical cultural frameworks, many of which focus on the context of appropriate leadership behavior. Thus, by learning of these models, the leader is better able to adapt

to appropriate modes of behaviors in the host market.

As a practical and individualized educational method, Peterson (2004) has suggested that cultural intelligence can be gained by plotting a trainee's cultural framework with those of other national origins, using a number of key cultural dimensions such as equality/hierarchy, direct/indirect, individual/group, task/relationship, and risk/certainty. An awareness of self in relation to profiles of different cultures can help develop an appreciation for the differences, the potential for conflicts, and the cultural "fit" between one's embedded socio-cultural type and model socio-cultural types in the relevant nation. This approach is similar to Lewis's yet-to-be-released assessment method, but uses established criteria from the analytical frameworks mentioned above.

Although these frameworks allow the learner to understand central tendencies in certain cultures, the models have been criticized for reductionism, oversimplification, and ethnocentrism. The complexities of cultures, even those which seem similar, are immense. For example, reporting in 2002 on one of the project GLOBE studies, Felix Brodbeck, Michael Frese, and Mansour Javidan observed several distinct differences between former East- and West-German managers with respect to GLOBE cultural factors (Brodbeck, Frese, & Javidan, 2002). Even more telling was the fact that Swiss-German managers possessed two or three very distinct behaviors from those found in German managers, overall. To complement these generalized frameworks, we suggest a specific study of host-market countries with respect to historical development, art and literature, socio-economic trends, and language. We also recommend use of the GLOBE research studies to gain knowledge of cultural trends and nuances. Additionally, trainees need to be made aware that while central tendencies are useful generalizations, the people they will meet are certain to differ from generalized norms.

We believe that one cannot fully understand a culture, and therefore develop cultural competence, without language proficiency. Language provides the basis for cultural understanding, intercultural communication, and possible immersion in a foreign culture. The relationship between linguistic competency and CQ was also suggested, but not sufficiently emphasized, by Earley & Ang (2003). The link between linguistic competence, cultural intelligence, and leadership, therefore, needs reinforcement. This notion now comes not only from industry, but also from government. As

reported in a 2004 *Wall Street Journal* article, Chile has begun a nationwide campaign to better educate high school students in English (Se habla Ingles, 2004). Furthermore, the same source reported in 2002 that the United States government realized its linguistic deficiencies in Arabic when faced with a shortage of speakers in the State Department, the armed forces, and the Central Intelligence Agency (Byron, 2002). Luckily, technology is helping facilitate the learning of foreign languages through the internet.

Cultural intelligence education should also attempt to instill motivation in the student to continue learning, experimenting, and trying. While motivation comes from within an individual, it can be extrinsically triggered. It is about satisfying unsatisfied needs that have been recognized either consciously or subconsciously, but there is also an emotional component involved; that is, how does the individual feel about satisfying this need? The larger concern is how companies can stimulate their managers' desires to behave in ways that are culturally intelligent. At the most fundamental level, companies must recognize the needs of their managers, and show them that being emotionally and culturally intelligent will satisfy those needs. For example, research illustrates that people are motivated to behave in a certain way or learn new skills if they believe these behaviors and skills will help them in the future. Corporate trainers should therefore link, in managers' minds, the relationship between developing cultural intelligence and success in their future career paths, emphasizing the benefits of learning from different cultures.

Since it has been demonstrated statistically that success in one's work life is significantly impacted by one's EQ, sharing with managers the numerous studies available that highlight the advantages of EQ and CQ will begin an important process. Once managers see a linkage between generalized "training" and their own success, the harder work of applying the information gained in cases studies, simulations, and role plays can proceed. Lastly, if you want managers to develop EQ and CQ, these elements must be included in performance appraisals, to which everyone attends. Although work and leadership performance are affected by a lack of EQ and CQ, those with low EQ and CQ are unlikely to recognize this in themselves, and will fail in foreign cultures unless there is an individual incentive. The company must draw attention to what is needed specifically in a foreign environment, and then must evaluate and reward or correct behavior related to these specifics.

6.3. Experiencing cultural intelligence

Experiential learning is needed to form behavioral patterns which support cultural intelligence. On a small scale, corporate trainers can use international culture experiential learning tools, which allow the trainee to understand and internalize skills through experience and reflection. But as reported by Jeanne McNett and Allan Bird in 2002, experientially based modules such as *Barnga*, *BaFa BaFa*, and *Ecotonus* vary in terms of costs, time investment required, flexibility, trainer skills, complexity, emotional involvement, and level of trainee/trainer knowledge needed (McNett & Bird, 2002). Cases, role plays, and simulations are all effective in this regard. It is also important in educational settings that participants set objectives for changing their behaviors, be required to work on changing those behaviors, and then be evaluated on how well they have done so during the educational program.

In 2003, Richard Lee asserted the notion of language as simply a tool to express fixed and determinate relationships between words and things was mistaken (Lee, 2003). He further posited the practice of ignoring disparate connotations in language when moving across cultures could lead to gross misinterpretations and failed interactions. Consider the concept of *guanxi* in Chinese society. To simply translate it as “connections”, while technically correct, does not and cannot explain the cultural assumptions, values, historical development, and underpinning principles that accompany the *guanxi* concept. Numerous articles and books have been written about *guanxi* and its role in management and leadership in China, including one edited by Alon in 2003 (Alon, 2003). No matter how much research a person might do, Westerners would be challenged to fully appreciate *guanxi* without living and working in that environment. As

an American MBA alum colleague of one of the authors stated regarding *guanxi*, after moving to and working in Shanghai: “Reading about it is one thing. Living it is totally different”.

Ultimately, then, there is no substitute for immersion. This was best stated by Jack Welch, who noted in a speech to GE employees in 2001 that:

“The Jack Welch of the future cannot be me. I spent my entire career in the United States. The next head of General Electric will be somebody who spent time in Bombay, in Hong Kong, in Buenos Aires. We have to send our best and brightest overseas and make sure they have the training that will allow them to be the global leaders who will make GE flourish in the future.” (Javidan & House, 2002, p. 1)

International rotation programs and international practical experience should be included as ways of developing cultural intelligence.

7. Conclusions

Due to the impact of increased globalization on business and the factors that lead to successful global leadership, firms need to embrace emotional and cultural intelligences as part of their global leadership development programs. Those that do so will most certainly be rewarded with improved levels of global performance.

The implications for the training and development units of HRM departments are clear. However, outcomes for other parts of the organization are also substantial. Since studies of EQ skill levels and managerial performance show them to be positively correlated, companies should think in terms of selecting employment candidates with high EQs, especially for leadership positions. Certainly, developing EQ is both possible but advisable, and

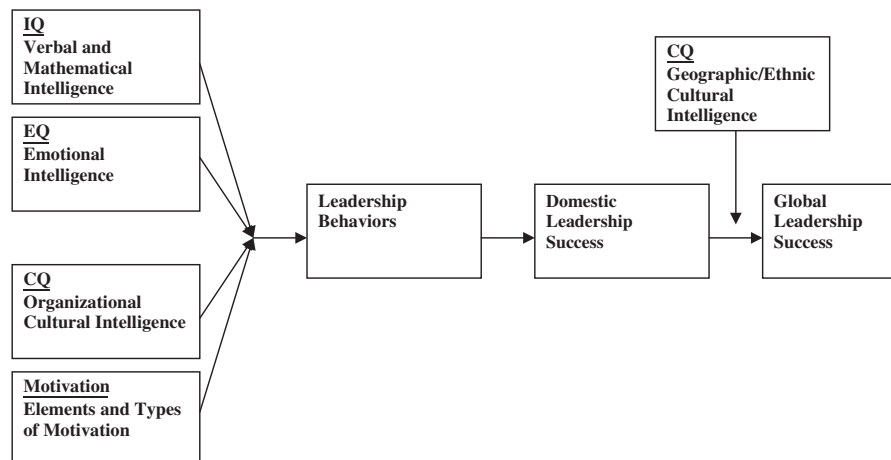


Figure 1 Components of global business leadership success.

leadership screening for those with high EQs gives the company a leg up on the competition. Similarly, when tests are developed that can accurately determine CQ, these could also be used in the employee selection process. Since only a few CQ tests are currently in development, companies could create their own based on construct validity, until scientifically valid instruments are available.

Increasing globalization will make EQ and CQ skills more relevant throughout entire organizations, and virtually everyone in management and global business situations will need to focus on possessing these two skills. The implications for mentoring, coaching, performance management, and other leader/manager activities are obvious. Compensation programs will need to reflect these skills, possibly through a skill-based pay approach, but more likely through the incorporation of success criteria into the performance review reward system.

As we have discussed in this article, there are a number of vehicles available to assist businesses as they transform their managers into cross-culturally skilled leaders. Ultimately, companies that ignore this challenge will find themselves at a competitive disadvantage; individuals who fail to develop their EQ and CQ will likewise suffer. Individuals must go through the stages of awareness, motivation, and action/reaction in order to become cross-culturally skillful, and so must each company.

We acknowledge that successful global leadership is a function not only of leadership behaviors, but also of multiple intelligences: analytical intelligence (measured by IQ), emotional intelligence (measured by EQ), and cultural intelligence (measured by CQ). In this work, we have focused on the latter two. To be successful, global leaders must not only understand but also be able to work within the local culture and display high IQ, EQ, and CQ. Fig. 1 portrays a conceptualization that links all of the concepts we have presented. To be a successful leader in the domestic environment requires IQ, EI, organizational CI, and motivation. Motivation includes the elements of motivation (its direction, intensity, and persistence) and the types of motivation such as the need for achievement, goal motivation, or the ability to overcome adversity. These motivation issues are discussed in a sidebar. The 12 leadership behaviors that are classified into the three major groupings mentioned in Box 1 are then used to achieve results, but the success levels of these behaviors are affected by the sets of factors on the left side of the model: that is, IQ, EQ, organizational CQ, and other motivation. Accomplished appropriately, domestic leadership success occurs. In summary, at the domestic level of competition, IQ or analytical intelligence, EQ or

emotional intelligence, organizational cultural intelligence, motivation and leadership behaviors contribute to successful leadership. But these factors do not immediately translate into global leadership success. Rather, CQ (cultural intelligence) is a moderating variable (Box 1).

Box 1

In addition to IQ, EQ and Organizational CQ, there is another factor which contributes to domestic leadership success: motivation; specifically, the elements of motivation and the types of motivation.

Stephen Robbins (2003) identifies the three key elements of motivation as the direction, intensity, and persistence of that motivation. The term “direction” refers to whether that motivation is aimed in a positive or negative direction, depending upon the perspective of the perceiver. For example, determination of direction might depend on whether or not the individual’s motivation is good for the individual, is good for the organization, or both. The “intensity” of the motivation describes how hard a person tries and how compelling the motivation is at some moment. The “persistence” of the motivation describes how long a person can sustain the effort and how long the intensity of the motivation remains compelling.

There are many types of motivation. McClelland & Winter’s (1969) need for achievement is one of the best known of the motivation-to-succeed motivators, but success may also be a function of goal motivation, self-actualization motivation, the desire to lead or manage, and other motivational factors. In addition, as Paul Stoltz (1997) has shown, the ability or drive to overcome adversity is often an important motivational factor.

A company seeking to have its leaders succeed globally must either select leaders with the appropriate skills or develop its existing leaders in those skills, particularly as they relate to emotional and cultural intelligences. Furthermore, it must either choose those who possess high levels of motivation to be successful leaders or develop those motivations in them. The abilities to persist in the face of adversity, endure in frustrating, confusing, and lonely foreign environments, adapt to different ways of thinking, and elicit the right responses in cross-cultural interpersonal relationships are prerequisites to successful global leadership. Learning from experiences, as well as failures, goes a long

way in developing cultural and emotional intelligences. Understanding *why* a positive or a negative outcome occurred and *how* to repeat or avoid this outcome in the future is part of a life-long learning process. From an organizational perspective, developing successful global leaders is not just the task of the human resources department; rather, the entire organization must be involved in areas such as mentoring, coaching, role modeling, assessment, education, and providing experience. Only then can the organization expect to derive the maximum impact from a global business strategy.

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The Global Leadership of Carlos Ghosn at Nissan

*"I did not try to learn too much about Japan before coming, because I didn't want to have too many preconceived ideas. I wanted to discover Japan by being in Japan with Japanese people."*¹

"Well, I think I am a practical person. I know I may fail at any moment. In my opinion, it was extremely helpful to be practical [at Nissan], not to be arrogant, and to realize that I could fail at any moment."

Carlos Ghosn, 2002²

Introduction

Nissan had been incurring losses for seven of the prior eight years when, in March 1999, Carlos Ghosn (pronounced GOHN) took over as the first non-Japanese Chief Operating Officer of Nissan. Many industry analysts anticipated a culture clash between the French leadership style and his new Japanese employees. For these analysts, the decision to bring Ghosn in came at the worst possible time because the financial situation at Nissan had become critical. The continuing losses were resulting in debts (approximately \$22 billion) that were shaking the confidence of suppliers and financiers alike. Furthermore, the Nissan brand was weakening in the minds of consumers due to a product portfolio that consisted of models far older than competitors. In fact, only four of the company's 43 models turned a profit. With little liquid capital available for new product development, there was no indication that Nissan would see increases in either margin or volume of sales to overcome the losses. The next leader of Nissan was either going to turn Nissan around within two to three years, or the company faced the prospect of going out of business.

Realizing the immediacy of the task at hand, Ghosn boldly pledged to step down if Nissan did not show a profit by March 2001, just two years after he assumed duties. But it only took eighteen months (October 2000) for him to shock critics and supporters alike when Nissan began to operate profitably under his leadership.

Background of Carlos Ghosn

Born in Brazil in 1954 to French and Brazilian parents, both of Lebanese heritage, Carlos Ghosn received his university education in Paris. Following graduation at age 24, Ghosn joined the French firm, Compagnie Générale des Etablissements Michelin. After a few years of rapid advancement to become

¹ "Decision-Making and Coordination Structures of the Alliance," 20 October 1999, <http://www.nissan-global.com>.

² "Nissan President Carlos Ghosn Talks about His Company's Recovery," *Nikkei Business*, 20 May 2002, <http://nb.nikkeibp.co.jp/Article/1142>.

COO of Michelin's Brazilian subsidiary, he learned to manage large operations under adverse conditions such as the runaway inflation rates in Brazil at that time. Similarly, as the head of Michelin North America, Ghosn faced the pressures of a recession while putting together a merger with Uniroyal Goodrich. Despite his successes in his 18 years with Michelin, Ghosn realized that he would never be promoted to company president because Michelin was a family-run company. Therefore, in 1996 he decided to resign and join Renault S.A., accepting a position as the Executive Vice President of Advanced Research & Development, Manufacturing, and Purchasing.

Ghosn led the turnaround initiative at Renault in the aftermath of its failed merger with Volvo. Because he was so focused on increasing margins by improving cost efficiencies, he earned the nickname "Le Cost-Killer" among Renault's top brass and middle management personnel. Three years later, when Renault formed a strategic alliance with Nissan, Ghosn was asked to take over the role of Nissan COO in order to turn the company around in a hurry, just as he had done earlier in his career with Michelin South America. For Ghosn this would be the fourth continent he would work on, which combined with the five languages he spoke, illustrates his capacity for global leadership.

Background of Nissan

In 1933, a company called Jidosha-Seizo Kabushiki-Kaisha (which means "Automobile Manufacturing Co., Ltd." in English) was established in Japan. It was a combination of several earlier automotive ventures and the Datsun brand which it acquired from Tobata Casting Co., Ltd. Shortly thereafter in 1934, the company name was changed to Nissan Motor Co., Ltd. After the Second World War, Nissan grew steadily, expanding its operations globally. It became especially successful in North America with a lineup of smaller gasoline efficient cars and small pickup trucks as well as a sports coupe, the Datsun 280Z. Along with other Japanese manufacturers, Nissan was successfully competing on quality, reliability and fuel efficiency. By 1991, Nissan was operating very profitably, producing four of the top ten cars in the world.

Nissan management throughout the 1990s, however, had displayed a tendency to emphasize short-term market share growth, rather than profitability or long-term strategic success. Nissan was very well known for its advanced engineering and technology, plant productivity, and quality management. During the previous decade, Nissan's designs had not reflected customer opinion because they assumed that most customers preferred to buy good quality cars rather than stylish, innovative cars. Instead of reinvesting in new product designs as other competitors did, Nissan managers seemed content to continue to harvest the success of proven designs. They tended to put retained earnings into equity of other companies, often suppliers, and into real-estate investments, as part of the Japanese business custom of *keiretsu* investing. Through these equity stakes in other companies, Ghosn's predecessors (and Japanese business leaders in general) believed that loyalty and cooperation were fostered between members of the value chain within their *keiretsu*. By 1999, Nissan had tied up over \$4 billion in the stock shares of hundreds of different companies as part of this *keiretsu* philosophy. These investments, however, were not reflected in Nissan's purchasing costs, which remained between 20-25% higher than Renault's. These *keiretsu* investments would not have been so catastrophic if the Asian financial crisis had not resulted in a devaluation of the yen from 100 to 90 yen = 1 US dollar. As a result, both Moody's and Standard & Poor's announced in February 1999, that if Nissan could not get any financial support from another automobile company, then each of them would lower Nissan's credit rating to "junk" status from "investment grade".

Clearly, Nissan was in need of a strategic partner that could lend both financing and new management ideas to foster a turnaround. In addition, Nissan sought to expand into other regions where it had less presence. In March 1999, Nissan President and Chief Executive Officer Yoshikazu Hanawa found such an alliance opportunity with Renault, which assumed a 36.8% stake in Nissan, allowing Nissan to invest \$5.4 billion and retain its investment grade status. Hanawa was also able to get Renault's top management to agree to three important principles during negotiations:

1. Nissan would maintain its company name
2. The Nissan CEO would continue to be selected by the Nissan Board of Directors
3. Nissan would take the principal responsibility of implementing a revival plan.

It was actually Hanawa who first made the request to Louis Schweitzer, CEO of Renault, to send Carlos Ghosn to Nissan to be in charge of all internal administration and operations activities.

Why would Renault agree to all of these conditions in this bailout of Nissan? Renault was also looking for a partner, one that would reduce its dependence on the European market and enhance its global position. In 1997 85% of Renault's revenue was earned in Europe, 32.8% of which came from its domestic (French) market. Renault also had high market share in Latin America, especially Brazil. On the other hand, Nissan has the second largest market share in Japan and a strong market share in North America (see Appendix 2, Nissan' market share). Nissan lacked, however, market share and distribution facilities in Latin America. By creating the new alliance, Nissan and Renault expected to balance their market portfolios and become more competitive. Renault wanted a partner that was savvy and established in the North American and Asian markets. Furthermore, the merger of Daimler and Chrysler in May 1998 gave Renault a sense of urgency about finding a partner to compete more effectively on a global scale. As a result, Renault and Nissan agreed to a Global Alliance Agreement on March 27, 1999, with Carlos Ghosn designated to join Nissan as COO.

Addressing National Culture Issues

When Ghosn went to Japan, he knew that industry analysts were reasonable in doubting whether a non-Japanese COO could overcome Japanese cultural obstacles, as well as effectively transform a bureaucratic corporate culture. Ghosn was going to have to address several Japanese cultural norms in order to transform the company back into a successful one.

The following are some of the issues he faced.

Consensus Decision-Making and its Relationship to Career Advancement

Since the war, the Japanese business culture for decades had been producing leaders who were very good at reaching consensus and working cooperatively within a department (a derivative of the *mura-shakai* consensus based society system). Thus, the conventional wisdom in Japan was that conscientiousness and cooperation were the key elements to maintaining operational efficiency and group harmony. This paradigm often resulted in delays to the decision making process in an effort to achieve consensus.

As an unintended consequence of the emphasis on conscientiousness, Japanese professionals tended to avoid making mistakes at all costs in order to protect their career growth. This can result in frequent informal informational meetings and coalitions (called *nemawashi*) that occur between professional departments prior to a decision-making meeting. Through these informal contacts, participants try to poll the opinions of other participants beforehand in order to test which positions have the strongest support so that their position is aligned with the position most likely to be influential. Then, at the time for a meeting with their superiors, participants tender their aligned positions one by one to the ultimate decision maker with the feeling that if the decision maker agrees to the consensus, then no one individual can be identified later for originating a faulty position if that decision results in failure. Rules and conformity replace process.

In Japan, age, education level, and number of years of service to an organization are key factors determining how an employee moves up the career ladder. Due to a cultural tenet called *Nennkou-Jyoretu*, placing power in the hands of the most knowledgeable and experienced, promotions are normally based on seniority and education. In practice, the only things that usually thwart these time- and education-based promotions are performance errors that reflect poorly on the team and any behavior

that causes disharmony among team members. When something goes wrong, the most senior person accepts responsibility while accountability at lower levels is diffused.

This part of Japanese culture had been useful to reinforce control over operations and enhance quality and productivity. During the postwar period of the company's growth, it contributed to great working relationships among everyday team members at Nissan, but these norms, by the mid 1990s, were actually impeding the company's decision making. Specifically, these cultural norms severely hampered risk-taking and slowed decision making at all levels. Existing teams of employees routinely spent much time on concepts and details, without much sense of urgency for taking new action, due in part to the risks involved with actions that could result in failure. This mindset contributed to a certain degree of complacency with market position and internal systems at Nissan, undermining the company's competitiveness.

In a related cultural issue, as employees became increasingly aware that Nissan was not performing well, the Japanese culture of protecting career advancement led to finger pointing rather than acceptance of responsibility. Sales managers blamed product planning. Product planning blamed engineering. Engineering blamed manufacturing and so on.

When Ghosn first arrived in Japan, he was surprised to learn that, while most of the employees sensed that there was indeed a problem within the company, they nearly always believed that their respective departments were operating optimally. The consensus was that other departments and other employees were creating the company's problems. Ghosn also learned that many of the employees of the company did not have a sense of crisis about the possibility of bankruptcy at Nissan because of the Japanese business tradition, which implied that large troubled employers would always be bailed out by the government of Japan. This view was based on the long standing partnership between the government and the major businesses to ensure employment and expand exports to world markets. The businesses for their part were committed to providing lifetime employment to their workers.

Addressing Corporate Culture Issues

Not only were there Japanese cultural norms for Ghosn to contend with, but there were procedural norms at Nissan, both formal and informal, which were holding the company back. First, once decisions were made at Nissan, the follow-up during implementation was often not effective. This was not usually the case in other Japanese companies. Second, top management had developed tunnel vision regarding its strategic focus on regaining market share, as opposed to restoring margin per unit sold. This was in part due to a focus on what was best for maintaining the company's size and its employees, i.e. more units to produce, rather than what was best for customers (newer, better products to meet market demands) or for investors (higher earnings and higher stock value). Additionally, in an unusual break from Japanese business culture, there were communication problems between the layers of the organization. Staffs seemed relatively uninformed of key corporate business decisions, while top management seemed out of touch with what policy execution issues were present at the middle and lower management levels.

Ghosn realized that Nissan's fundamental problem was the lack of vision from management and the persistent problem of ignoring the voice of Nissan's customers.³ Furthermore, he identified the following problems at Nissan:

1. Lack of a clear profit orientation
2. Insufficient focus on customers and too much focus on competitors
3. Lack of a sense of urgency

³ ルネッサンス 「再生への挑戦」 p. 155, Carlos Ghosn (2001) (August 10, 2002).

⁴ 日産ゴーン「成算ありやなしや」 p. 26, 小学館文庫 (2000) (August 8, 2002).

4. No shared vision or common long term plan
5. Lack of cross-functional, cross-border, cross-cultural lines of work.⁴

Carlos Ghosn's Philosophies of Management

Despite all of his doubters, Ghosn embraced the cultural differences between the Japanese and himself, believing fervently that cultural conflict, if paced and channeled correctly, could provide opportunity for rapid innovation. He felt that by accepting and building on strengths of the different cultures, all employees, including Ghosn himself, would be given a chance to grow personally through the consideration of different perspectives. The key, he reiterated many times, was that no one leader should try to impose his/her culture on another person who was not ready to try the culture with an open mind and heart. In this vein, Carlos Ghosn came to Japan knowing that if he were to start imposing reforms by using the authority of his company position, rather than work through the Japanese culture, then the turnaround he sought would likely backfire.

What he did bring with him was three overriding principles of management that transcended all cultures. And he used these as a backdrop to give employees structure as to their efforts of determining the proper reforms. These three principles are as follows:

1. Transparency—an organization can only be effective if followers believe that what the leaders think, say, and do are all the same thing
2. Execution is 95% of the job. Strategy is only 5%—organizational prosperity is tied directly to measurably improving quality, costs, and customer satisfaction.
3. Communication of company direction and priorities—this is the only way to get truly unified effort and buy-in. It works even when the company is facing layoffs.

The First Months in Japan and the Cross-Functional Teams

When you get a clear strategy and communicate your priorities, it's a pleasure working in Japan. The Japanese are so organized and know how to make the best of things. They respect leadership.

Ghosn⁵

Even though Ghosn expected that his attitude toward cultural respect and opportunism would lead to success, Ghosn was pleasantly surprised by how quickly Nissan employees accepted and participated in the change of their management processes. In fact, he has credited all of the success in his programs and policies (described below) to the willingness of the Nissan employees at all levels to change their mindsets and embrace new ideas.

Perhaps it was the way he started that set the foundation among the employees. He was the first manager to actually walk around the entire company and meet every employee in person, shaking hands and introducing himself. In addition, Ghosn initiated long discussions with several hundred managers in order to discuss their ideas for turning Nissan around. This began to address the problems within the vertical layers of management by bringing the highest leader of the company in touch with some of the execution issues facing middle and lower management. It also sent a signal to other executives that they needed to be doing the same thing.

But he did not stop there. After these interviews, he decided that the employees were quite energetic, as shown by their recommendations and opinions. With this in mind, Ghosn opted to develop a program for transformation which relied on the Nissan people to make recommendations, instead of hiring outside consultants. He began to organize Cross-Functional Teams to make decisions for radical

⁵ Middleton, John. *ExpressExec.com*, <http://www.expressexec.wiley.com/ee/ee07.01.07/sect0.html>, Acquired on Internet, 7 August 2002.

change. Part of his interest in doing this in-house was to address the motivation and horizontal communication issues that he encountered throughout the organization. He felt that if the employees could accomplish the revival by their own hands, then confidence in the company as a whole and motivation would again flourish. In a sense he was making it clear that he was also putting his own future in their hands because he had publicly stated several times that the Nissan company had the right employees to achieve profitability again in less than two years.

Before the strategic alliance occurred between Renault and Nissan, Renault had made an agreement with Hanawa to remain sensitive to Nissan's culture at all times, and Ghosn was intent on following through on that commitment. First and foremost, when he chose expatriates to accompany him from Renault to Nissan, he screened carefully to ensure that those expatriates would have his same cultural attitudes toward respecting Nissan and the Japanese culture. And, after completing his rounds of talking with plant employees, he chose not to use his newfound understanding of the problems to impose a revival plan. Instead, Ghosn mobilized existing Nissan managers by setting up nine Cross-Functional Teams (CFTs) of approximately 10 members each in the first month. Through these CFTs, he was allowing the company to develop a new corporate culture from the best elements of Japan's national culture.

He knew that the CFTs would be a powerful tool for getting line managers to see beyond the functional or regional boundaries that defined their direct responsibilities. In Japan, the trouble was that employees working in functional or regional departments tend not to ask themselves as many hard questions as they should. Working together in CFTs helped managers to think in new ways and challenge existing practices.

Thus, Ghosn established the nine CFTs within one month of his arrival at Nissan. The CFT teams had responsibility for the following areas: Business Development, Purchasing, Manufacturing and Logistics, Research and Development, Sales and Marketing, General and Administrative, Finance and Cost, Phase-out of Products and Parts, Complexity Management, and Organizational Structure.

Ghosn had the teams review the company's operations for three months and come up with recommendations for returning Nissan to profitability and for uncovering opportunities for future growth. Even though the teams had no decision making power, they reported to Nissan's nine-member executive committee and had access to all company information. The teams consisted of around ten members who were drawn from the company's middle management.

Ten people could not cover broad issues in depth. To overcome this each CFT formed a set of sub-teams. These sub-teams also consisted of ten members and focused on particular issues faced by the broad teams. CFTs used a system reporting to two supervisors. These leaders were drawn from the executive committee and ensured that the teams were given access to all the information that they needed. To prevent a single function's perspective from dominating, team had two senior voices that would balance each other.

One of the regular members acted as a pilot who took responsibility for driving the agenda and discussion. The pilot and leaders selected the other members. The pilots usually had frontline experience as managers.

The CFTs also prescribed some harsh medicine in the form of plant closures and employee reductions. The CFTs would remain an integral part of Nissan's management structure. They continue to brief the CEO; however the team's missions have changed somewhat. They are to carefully watch the on-going revival plan and try to find further areas for improvement.

Since the members of the teams were often mid-level managers who rarely saw beyond their own functional responsibilities, this new coordination had high impact on participants. Specifically, it allowed them to understand how the standard measures of success for their own departments were mean-

ingless to Nissan unless they were framed in a way that connected to other departments to result in customer attraction and retention. In many cases, these mid-level managers enjoyed learning about the business from a bird's eye perspective and felt fully engaged in the change process, giving them a sense of responsibility and ownership about turning Nissan around.

As Ghosn explained in a speech in May 2002, "The trouble is that people working in functional or regional teams tend not to ask themselves as many hard questions as they should. By contrast, working together in cross-functional teams helps managers to think in new ways and challenge existing practices. The teams also provide a mechanism for explaining the necessity for change and for projecting difficult messages across the entire company."⁶

Ghosn did have one great stroke of luck that helped him reinforce the need for change. At approximately the same time as he was arriving in Japan, Yamaichi, the major financial house in Japan, went bankrupt and was not bailed out by the Japanese government. Before that, Japanese employees, including Nissan's, did not worry about corporate problems because the government was always saving the day. This recent turn of events helped to develop a sense of urgency among Nissan employees. Ghosn, to his credit, used the Yamaichi example whenever he could to continue to motivate his employees, repeating that their fate would be no different if they did not put all of their effort into figuring out, and then executing, the best way to turn Nissan around.

Reforms in Full Swing

Within the first six months, the fruit of the CFTs and the increased sense of urgency were apparent. Management (especially Ghosn) was increasingly perceived as transparent among all levels of employees, which Ghosn attributed to his respect for protecting Nissan's identity. In addition, decisions were being made faster; and there was increased communication and understanding about what was important to management. There was, however, very little implementation yet, only planning. Having received from the CFTs the recommendations, which included plant closures and reduced headcount, Ghosn created and communicated what he called the Nissan Revival Plan (or NRP) in October of 1999. From that point forward he stressed implementation and follow-up, rather than planning and re-examining decisions. Other CFTs were formed, but the bulk of his efforts lay in ensuring high-quality execution of the decisions that were laid out in the plan.

Ghosn's main focus areas included: (1) development of new automobiles and markets, (2) improvement of Nissan's brand image, (3) reinvestment in research and development, and (4) cost reduction.

Reducing Redundancies

To achieve these results, the closing of five factories and the reduction of 21,000 jobs (14% of Nissan's workforce) were planned. Job cuts would occur in manufacturing, management, and the dealer network.⁷ Since Japanese business culture had tended to have lifelong employment as a principle, Ghosn endured strong criticism from the media, including being labeled as a *gaijin*, a foreigner. In addition, Ghosn fired several managers who did not meet targets, regardless of the circumstances. Many industry analysts cited his demotion of Vice President of Sales and Marketing in Japan, Mr. Hiroshi Moriyama, as unacceptable and reckless. They contended that falling revenues and dissipated market share were

⁶ Ghosn, Carlos, "Saving the Business without Losing the Company," *Harvard Business Review*, Vol. 80, No. 1, January 2002.

⁷ "Nissan's Napoleon," *Worldlink*, 11 July 2002, <http://www.worldlink.co.uk>.

⁸ Barr, C.W. "Get Used to It: Japanese Steel Themselves for Downsizing. Mitsubishi and Nippon Telephone Have Added 30,000 Layoffs to Nissan's 21,000 Announced Oct. 19," *Christian Science Monitor*, Nov. 12, 1999.

due to Nissan's aging product line rather than to Moriyama's performance. In addition to the media and industry analysts, the government, also expressed concern about the layoffs, but Prime Minister Keizo Obuchi responded by offering subsidies and programs to help the affected workers.⁸

Keiretsu Partnerships

As one of the biggest changes of the NRP, Nissan broke away from the Japanese cultural norm of *keiretsu* investments. However Nissan maintained customer-supplier relationships with those former *keiretsu* partners. As it turned out, Nissan regained billions in tied up capital to use for debt servicing and new product development without losing any significant pricing advantages. In fact, because Ghosn put such an emphasis on reducing purchasing costs, Nissan actually began to substantially lower its costs after the *keiretsu* investments were sold.

Reorganization

Another major component of the NRP was the restructuring of the organization toward permanent cross-functional departments, which each serviced one product line. As a result, the staffs gained better visibility of the entire business process and began to focus on total business success and customer satisfaction, as opposed to misleading performance goals that could be taken out of context. In addition, Ghosn also eliminated all advisor and coordinator positions that carried no responsibilities and put those personnel in positions with direct operational responsibility. Employees were disciplined much more strongly for inaccurate or poor data than misjudgment, thereby stimulating risk-taking behavior and personal accountability. Ghosn also made it clear, however, that engineers were not to reduce product cycle times or do anything that would negatively impact product quality or reliability. He repeated this often to drive home the point that the way to restore the power of the Nissan brand was through each individual customer's experience.

For higher-level staff, Ghosn created a matrix organization to improve transparency and communication. Within this matrix, he assigned each staff member two responsibilities: functional (e.g., marketing, engineering) and regional (e.g., domestic, North America). The result was that each staff member would have two bosses, thereby building awareness of both functional and regional issues. Ghosn also put an emphasis on cross-functional department members having very clear lines of responsibility and high standards of accountability. Every report, both oral and written, was to be 100% accurate. Ghosn is quoted as saying, "Right from the beginning, I made it clear that every number had to be thoroughly checked. I did not accept any report that was less than totally clear and verifiable, and I expected people to personally commit to every observation or claim they made."⁹

Performance Evaluations and Employee Advancement

Ghosn also put focus on performance by introducing a performance based incentive system. These incentives included cash incentives and stock options for achievements that could be linked directly to successful operating profits and revenue. This was a large departure from the traditional Japanese compensation system, in which managers usually received no stock options or bonuses. Under Ghosn's compensation system, the highest achievers got the highest rewards. And promotions were no longer limited to age, length of service, or educational level. For example, a female factory worker who had only a high school diploma was promoted to be a manufacturing manager based on her strong abilities to perform the work, relating promotion and salary increase to the ability to perform challenging or demanding tasks. The promotion of some younger leaders over older, longer-serving employees caused some problems regarding lack of cooperation. But just as Ghosn saw cultural differences as growth opportunities, he thought these tests of authority were growth experiences for young managers.

⁹ Ghosn, Carlos. "Saving the Business without Losing the Company," *Harvard Business Review*, Vol. 80, No. 1, January 2002.

The First Three Years

The NRP was achieved in March 2002, one year ahead of schedule.¹⁰ One success was a 20% reduction in purchasing costs. This was a result of achieving a purchase price from *kereitsu* suppliers that matched the prices offered by Renault's suppliers. In addition, the supplier base shrunk by 40% and the service suppliers decreased by 60%.¹¹

Prior to NRP, seven plants produced automobiles based on 24 platforms. After NRP, four plants produced automobiles based on 15 platforms.¹²

The Near Future—Implementation of Nissan 180

On May 9, 2002, Ghosn stated in a speech for an annual business review, "The Nissan Revival Plan is over. Two years after the start of its implementation, all the official commitments we took have been overachieved one full year ahead of schedule... Nissan is now ready to grow." He went on in the speech to set out the goals for a new plan, one he called "Nissan 180" which would focus on profitable growth. All new goals were to be accomplished by April 1, 2005. The one in "Nissan 180" represents an additional 1,000,000 car sales for Nissan worldwide; the eight, an 8% operating profitability with no changes in accounting standards; and the zero represented zero automotive debt. In addition, the plan called for an increase of global market share from 4.7% presently to 6.1%, a further reduction of purchasing costs by 15%, and a significant increase in customer satisfaction and sales satisfaction ratings. In 2002, mid-career hires (400) outnumbered college recruits (280). Because hiring outside managers might create animosity among managers within Nissan, this practice reflects a sharp change in hiring decisions. "We're moving to a system where it doesn't matter if you've been in the company ten years or 40 years...If you contribute, there will be opportunity and reward," said Kuniyuki Watanabe, Nissan's Senior Vice President for Human Resources.¹³

Not only was Ghosn aggressively launching the Nissan 180 program to transition out of the Nissan Revival Plan program, but he was also pushing a new, customer-focused initiative called "Quality 3-3-3". He said that this program focuses on three categories of quality: product attractiveness, product initial quality and reliability, and sales & service quality.

Challenges for Ghosn and Nissan

As Ghosn contemplates the future, he knows that the transformation has really just begun. How could the momentum and the energy that his employees exhibited be maintained now that they had all reached the goals that were seemingly Herculean just over two years ago. Would there be a letdown of effort and results by Nissan employees, or would Ghosn be able to mobilize them to get to the next level of profitable growth and reestablishment of brand power and market share?

He was aware that current succession plans called for him to return to Renault as its new CEO, replacing Louis Schweitzer in 2005. Before this could happen, Ghosn would be challenged to find an adequate replacement who could take Nissan to new heights of accomplishment as planned. Could the new approaches that had been so successful become part of the Nissan culture without his continued guidance? Would the success of the NRP spoil the sense of urgency that helped reinforce the need for change allowing Nissan to slip back into old habits? How could he find someone to carry forward the need to create a sustainable pattern of customer focus and profitable growth?

¹⁰ 2002 News, "Nissan Announced NRP Will Conclude One Year Earlier than Planned," <http://www.nissan-global.com>.

¹¹ Nissan 180, "Fiscal Year 01 Business Review," <http://www.nissan-global.com>.

¹² Nissan 180, "Fiscal Year 01 Business Review," <http://www.nissan-global.com>.

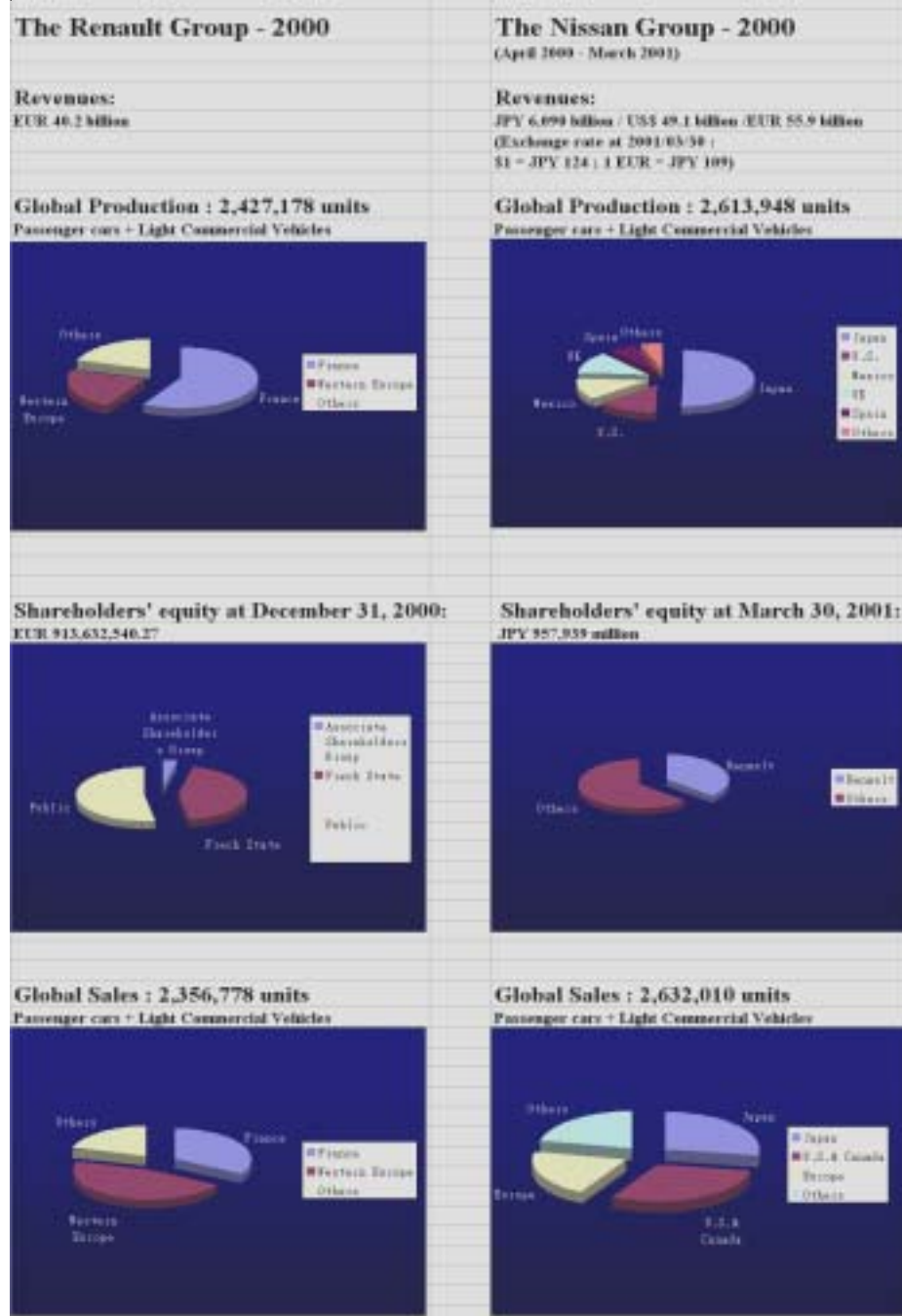
¹³ Raskin, Andy. "Voulez-Vous Completely Overhaul This Big, Slow Company and Start Making Some Cars People Actually Want *Avec Moi*?" *Business 2.0*, January 2002.

Appendix 1 Summary of Results of NRP

The turnaround at Nissan was phenomenal, with the following statistics:

- From seven out of eight years of operating losses to profitability within the first 12 months. Since 1999, Nissan has shown four consecutive semi-annual operating profits, and the year 2001 was marked by the best-ever, full-year earnings at Nissan. The current operating margin is 7.9%, over 3% greater than committed to in the NRP.
- Net automotive debt is the lowest it has been in 24 years (down from \$10.5 billion to \$4.35 billion).
- The company developed eight new car models to be launched by late 2002/early 2003, including the award-winning, revamped Altima, and the new 350Z.
- Supplier costs were reduced by 20%, as per the NRP, mainly through sourcing and other strategies to minimize exchange rate issues, as well as the reduction of the number of parts suppliers by 40% and the number of service providers by 60%.
- Five plants have been closed, according to the NRP.
- Headcount was reduced by 21,000, according to the NRP, mainly through natural turnover, retirements, pre-retirement programs, and by selling off non-core businesses to other companies.
- The number of car models that were profitable increased to 18 of 36 models from 4 of 43 models.

Appendix 2 Nissan and Renault Profile



Appendix 3 Carlos Ghosn's Background*

1954	Born in Brazil, March 9
1974	Receives chemical Engineering degree from École Polytechnique, Paris
1978	Graduates from École des Mines de Paris. Joins Michelin
1981	Becomes plant manager at Le Puy plant, France
1984	Becomes head of R&D
1985	Becomes COO of South American operations. Turns company around
1989	President and COO of North American operations
1990	Named CEO of North American operations
1996	Joins Renault as Executive VP of advanced R&D, car engineering and development, power train operations, manufacturing, and purchasing. Gains nickname, "Le Cost-Killer"
1999	Named Nissan president and COO

* <http://www.google.co.jp/search?q=cache:NNR0tavWLwAC:www.ai-online.com/articles/0302coverstory.asp+carlos+Ghosn,+background&hl=ja&ie=UTF-8>

GOJO INDUSTRIES: AIMING FOR GLOBAL SUSTAINABILITY LEADERSHIP

Professor Chris Laszlo, Anya Briggs and Jayesh Potdar wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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How will we reach one billion people every day? Tom Marting stared at the array of handouts and posters on his desk, thinking of his company's big hairy audacious goal (BHAG), set in 2010, to deliver well-being to one billion people every day. As the sustainability and life cycle assessment (LCA) specialist for the hand hygiene company GOJO Industries (GOJO), Marting had an appreciative perspective of the company that had invented PURELL® Instant Hand Sanitizer. Through his LCA duties, he had learned about the properties of GOJO products from raw materials to customer use to the products' end of life and could link that information back to product development. He was also involved with educating team members about the importance of sustainable value.

If the company achieved its BHAG, as measured by an algorithm that tracked "hygiene events" or single hand washing and sanitizing uses, the payoff would be twofold: the company would grow its business and also be able to make a significant social impact by providing a greater number of people with the health benefits of its products. In April 2013, Diarrhea was a leading cause of malnutrition in children under five years old as well as the second leading cause of child mortality, killing around 760,000 children a year. Although a significant proportion of diarrheal disease could be prevented through adequate sanitation and hygiene, there were nearly 1.7 billion cases every year.¹ A study in Colombia had confirmed that children who used PURELL® Hand Sanitizer combined with hand hygiene education had a 36 per cent reduction in diarrhea and an 18.3 per cent reduction in respiratory ailments.²

The BHAG of delivering well-being to one billion people every day could mean that the company's waterless form of sanitization would reduce fatalities caused by preventable diseases in areas of the world where clean water was scarce or absent. This was definitely an exciting thought for the GOJO team. But it was not a charitable organization. The only way such an effort could be realistically pursued was if it proved to be profitable as well. The company would have to successfully enter new markets, build brand recognition, increase customer adoption and find inspiration for new product development.

¹ World Health Organization, "Diarrheal Disease," www.who.int/mediacentre/factsheets/fs330/en/, accessed June 10, 2013.

² GOJO Sustainability Report 2011, www.gojo.com/united-states/sustainability/report-2011.aspx, accessed October 7, 2013.

In 2013, GOJO was a strong leader in North American markets but had a relatively limited presence elsewhere.³ Even if every single North American used GOJO products, the company would still be only one-third of the way toward its BHAG. Could a mid-sized family-owned company achieve such a global ambition in the face of competition from publicly owned companies 50 times its size? Following the wise advice of the management guru Peter F. Drucker, how could the company leverage its existing strengths so as to make its weaknesses irrelevant?

In addition to its BHAG, GOJO set a 2020 goal of becoming a sustainable organization by embedding sustainability in everything it did. Driven by its purpose of saving lives and making life better through well-being solutions, GOJO had the opportunity to become a global leader in its category. Marting could not help but feel that success in achieving this goal would hinge on how well GOJO integrated its pursuit of both its market-facing BHAG and its internal sustainability initiative.

Marting was a systems thinker. In his work he often had to think across the silos that commonly separated functions and departments in an organization. To achieve sustainability leadership, GOJO would have to embed sustainability into all of its decisions and actions. As GOJO President Mark Lerner said, “The qualities that we look for, for a real solid, good initiative as it relates to sustainability, are the same qualities that we look for when we look for any good business project . . . there’s not a bunch of sustainability projects over here and a bunch of business initiatives over there. They’re one and the same, and sustainability becomes one of the attributes within an initiative or a project; it’s one of the critical success factors so that we make sure we examine the initiative from a sustainability perspective as well as many other perspectives.”⁴ Marting couldn’t agree more. He believed that if GOJO was going to achieve its BHAG, team member engagement would be essential. With the right level of engagement, the possible outcomes would be incredible for both the business and society.

Marting walked to his window overlooking the city of Akron, Ohio where GOJO was headquartered and recalled the story of Tank 121. A maintenance worker who believed in environmental responsibility noticed that the factory had been wasting tons of water to clean one of the most used tanks in the production line. The worker believed so strongly in the importance of this issue that he came in on his day off and replaced the waterspouts with spray nozzles, which drastically reduced the amount of water usage but also cut operating costs.

The development of GOJO SANITARY SEALED™ refill products was also the result of sustainability efforts, this time socially focused. Many soap dispensers were open to the environment to enable refilling, but this design was known to promote product contamination.⁵ While other companies continued to produce dispensers with this potential health risk, GOJO was committed to ensuring the highest standards of health for hand washers. With social commitment driving the innovation process, GOJO developed factory-sealed soap dispensers and took a proactive stance in educating stakeholders about the potential health risks associated with refillable bulk soap dispensers, making a clear distinction between itself and the competition. For the company that invented PURELL® Hand Sanitizer to improve health and hand sanitization, these examples of “doing the right thing” were not new. They contributed to its competitive advantage and also showed that GOJO could profit from pursuing societal goals; in other words, GOJO had a long track record of “doing well by doing good.”

Marting knew that GOJO both attracted and recruited employees who were driven and who would never be satisfied with a given end product but were always seeking to improve. He also understood that the

³ As of 2013, less than 20 per cent of the company's sales were outside of North America.

⁴ Interview with Mark Lerner, April 4, 2013.

⁵ <http://aem.asm.org/content/77/9/2898.full>, accessed June 10, 2013.

pursuit of sustainable practices and solutions presented a golden opportunity for unlocking the innovation potential of GOJO employees. By connecting its people to greater social and environmental awareness and targets, GOJO had already discovered new ways to reduce its costs and increase its sales. Marting was convinced that if the company could align its efforts to be sustainable and make this a core attribute of GOJO operations, the company would discover even more ways to prosper.

He was not alone in his thinking. GOJO senior leaders had recently advanced a business strategy of embedding sustainability into the company's practices. But while this commitment was an important step, how were they to do it? Would sustainability further spur the innovation, collaboration and growth needed to reach its BHAG? If so, how could GOJO make every team member see that sustainability was critical to his or her performance success? How could GOJO present team members at every level of the company with the opportunities to contribute to innovation? How would they alter processes and product designs that had been in place for decades?

COMPANY HISTORY

GOJO was born in 1946 when Goldie and Jerry Lippman sought to help Goldie and her coworkers in a rubber factory remove tough soils such as graphite, tar and carbon from their hands. Their goal was to make a hand cleaner that would effectively remove the residue without damaging skin in the way that other commonly used soil-removing chemicals such as benzene had. After working with Professor Clarence Cook from Kent State University, they finally developed a suitable product. They wanted to name the hand cleaner "GOGO," intending to use the slogan "Make dirt go with GOGO," but replaced the second "G" with a "J" to stand for Goldie and Jerry.

The couple expanded the business, selling the hand cleaner from the back of their car then building up a sales force that sold trunk loads of product to gas stations and auto parts stores. After customers complained that the product was too expensive, Jerry Lippman realized that customers were using more of the product than was necessary. This discovery led the couple to create the first portion-control hand cleaner dispenser to eliminate product waste. GOJO grew rapidly over the next two decades, becoming a leader in the heavy-duty hand cleaner market.

The first GOJO factory-sealed refill restroom soap systems were installed in 1983 with refillable cartridges that protected against the contamination that commonly occurred in bar soaps and open refillable bulk soap dispensers. Through this social commitment to reduce contamination, GOJO expanded into the commercial hand cleaning business, providing the industry's most reliable dispensing systems and gentle soap formulas. The GOJO focus on skin care allowed it to develop product lines specially designed for use in the health care and food service markets, which required hand cleaners that could be used multiple times without causing harm to skin. Demand grew as food-borne illnesses drove restaurant workers to seek germ control measures in the face of legal obligations. Hospitals and health care professionals also needed a form of sanitization that would reduce the time spent cleansing with soap and water. These demands led to the production of PURELL® Hand Sanitizer. This invention revolutionized hand hygiene, and GOJO soon opened up operations in Europe, Japan and Latin America.

"The invention of PURELL® Hand Sanitizer was a turning point for GOJO and for hand hygiene. Realizing the potential to bring well-being to people everywhere, GOJO launched PURELL® Hand Sanitizer as a consumer product in the late 1990s. Waterless hand hygiene was suddenly within reach

wherever people happened to be. PURELL® Hand Sanitizer soon became a household name — and America's number one hand sanitizer.”⁶

The introduction of PURELL® Hand Sanitizer was not easy at first. GOJO met resistance, especially from health care workers who were convinced that soap and water sanitizing was the best way to guard against germs and disease. GOJO conducted a series of studies to prove the product's ability to reduce infection and improve skin condition. Over time, GOJO was able to reshape the public perception of hand sanitization, particularly in the medical field, and make a positive social impact through its product. Today, organizations such as the Centers for Disease Control and Prevention and the World Health Organization support the use of the instant hand sanitizer and include it in hand hygiene guidelines for health care, schools and other facilities.⁷ GOJO continued to expand upon its portfolio of products with a growing focus on sustainable design and the creation of sustainable value.

CREATING BUSINESS VALUE BY EMBEDDING SUSTAINABILITY⁸

Declining natural resources, an increasing demand for transparency and government restrictions had businesses of every industry looking for ways to show that they were doing their part to be sustainable. Unfortunately, this external motivation often led companies to adopt “bolt-on” measures, which could be both costly and burdensome while failing to make true social or environmental impacts.

Bolt-on procedures typically originate from the company's sustainability department whose efforts are primarily market facing. The few in-house greening efforts that a bolt-on approach would permit are generally superficial and involve trade-offs between sustainability and shareholder value. Products marketed as green or socially responsible are offered at a premium or at the detriment of product quality. Bolt-on solutions are made to secure business value through the simplest means. By brushing sustainability aside as a burden to be quickly and easily dealt with, companies miss opportunities to not only make more profound social or environmental impacts but to create business value as well.

Sustainable value refers to the ongoing dual generation of value for both shareholders and stakeholders. Companies achieve and prosper from this potential synergy when they fully embed sustainability into the core of the organization. Inherently opposite to bolt-on approaches, embedding sustainability means that it becomes a part of all business activities, eliminating trade-offs through innovation, influencing the entire value chain and leading to better products and services. Embedding sustainability means weaving sustainability into the DNA of an organization. Companies that succeed in doing this can reap great rewards, but the process of getting there is not short or simple.

EMBEDDING SUSTAINABILITY AT GOJO

Sustainability was been a priority at GOJO since its inception. When the Lippmans first founded the company, they used old pickle jars to store the cleaning product and window cranks from junked cars as handles for dispensers. Their portion-control innovation reduced waste, and the factory-sealed refill products were developed to provide health benefits to consumers. Long before scholars and professionals had dreamed up the contemporary buzzword, GOJO was putting sustainability into practice. In 2009,

⁶ www.gojo.com/united-states/about-gojo/company-information/history.aspx, accessed June 10, 2013.

⁷ www.purell.com/news/corporate%20statements/2012/newsreleaseitem1.aspx, accessed June 10, 2013.

⁸ See Chris Laszlo and Nadya Zhexembayeva, *Embedded Sustainability: The Next Big Competitive Advantage*, Stanford Business Books, Stanford, CA, 2011.

GOJO held a summit engaging hundreds of internal and external stakeholders to make its sustainable practices more formal and intentional. Company managers came away from the summit with the goal of making GOJO the sustainability leader in its category. As Lerner said,

I think that customers are demanding [sustainability] and if organizations like ours don't respond to those needs and those demands of end users, somebody else will. So I think it becomes a business imperative and if you can do it better than your competition, if you can lead your industry in integrating sustainability into everything that you do, then I think that's going to add to competitive advantage and I think that's going to separate the winners from the losers.⁹

In order to fully embed sustainability, GOJO created a concept called Sustainable Ways of Working (SWOW), which encompassed policies, practices and teams focused on specific elements of the company's sustainability strategy. In 2011, GOJO formed the Sustainability Enterprise Team to identify and oversee priorities from the Sustainable Value Business Plan developed to ensure progress against corporate goals while embedding sustainability into the company's daily work processes. As the corporate sponsor for sustainability, chief financial officer and administrative vice-president Scott Levin guided the team's work. The team was comprised of champions from across GOJO work groups and was led by Global Sustainability Marketing Director Nicole Koharik to promote integration between SWOW and market-facing priorities. Ultimately, SWOW will become not merely another sustainability initiative but a way of thinking and acting for GOJO employees. Aspects of SWOW span different strategic approaches from risk mitigation to new market entry. Exhibit 1 frames the process of embedding sustainability as success across six levels of strategic focus that clearly showcases the GOJO progress thus far.

SUSTAINABILITY INITIATIVES TO DATE

Mitigating Risk (Level 1)

GOJO risk aversion efforts have included the development of a sustainable chemistry strategy, which includes principles for environmentally sensitive and socially effective chemical practices to prevent risk and to further green innovation. In 2013, GOJO was devising a screening list of unacceptable raw materials, such as potentially carcinogenic ingredients. As senior regulatory affairs specialist Kristin Hartzell noted, there was a deep connection between risk management and the GOJO market facing BHAG. Regarding the goal of reaching one billion people every day, she said, "To do that, we have to ensure that our products are the safest products possible for both human health and the environment."¹⁰ Understanding that bolt-on solutions rely on internal perspectives and planning and to avoid this trap, GOJO used an internal team along with external stakeholders from customers and vendors to third-party organizations to help determine the best practices for risk management as well as other ways that responsibility to people and the planet could translate into business value.

Reducing Energy, Waste and Materials (Level 2)

For GOJO, LCA was an important part of identifying potentially negative impacts from material selection, through production and distribution and all the way through the product's end of life. Marting described the process as "accounting for all of the enterprise's environmental impacts, analyzing them so their consequences are fully understood and then using this information to help guide business

⁹ Interview with Mark Lerner, April 4, 2013.

¹⁰ GOJO Sustainability Report 2012.

decisions.”¹¹ Information gathered from LCA regarding greenhouse gas emissions and energy use led to great efficiencies throughout the value chain.

In 2012, GOJO introduced its environmental management system (EMS) with a team of employees focused on laying out the best approaches for achieving the company’s five-year goals of cutting water, waste and greenhouse gases and embedding those approaches as part of SWOW. GOJO aimed to reduce water use by 30 per cent relative to the baseline rate and nearly achieved that goal three years ahead of the target. The Water Reduction Team made improvements in equipment and operations to save more than 1.5 million gallons in one year. With 84 per cent of waste over the past year being recycled, the company was well on its way to reducing solid waste by 25 per cent. In this area, GOJO was also able to combine social and environmental impact by donating excess product to a charitable organization rather than sending it to a landfill. Installing energy-saving equipment and fixtures, bringing a supplier closer to the manufacturing centre and reducing pre-printed materials allowed GOJO to triple its original 5 per cent target for greenhouse gas reduction. In addition to these efforts, GOJO pursued more sustainable packaging, including the lightweight GOJO SmartFlex™ PET bottles that contain 30 per cent less plastic than standard HDPE bottles, and team member education programs to encourage personal sustainability practices such as using company provided refillable water bottles. (See Exhibit 2 for full sustainability metrics.)

Differentiation (Level 3)

Product differentiation was a part of the GOJO history and success. The desire to create a hand cleaner that was both effective and gentle spurred the earliest GOJO innovations, including PURELL® Hand Sanitizer. Commitment to improving public health led to the development of new soap dispensers and formulations that surpassed competitors’ performance standards. Sustainable product innovation led GOJO to launch the world’s first green certified hand sanitizer and to develop the only product of its kind to meet U.S. Food and Drug Administration (FDA) germ kill regulations with a single 1.2 millilitre dispense.¹² Its focus on greening hand hygiene products earned GOJO recognition from EcoLogo® environmental leadership certification. It boasted a complete green certified hand hygiene portfolio, which proved to yield triple the growth of regular products (see Exhibit 3 for sales metrics). As GOJO looked to the next generation of hand hygiene formulations and dispensers, a driver was sustainability-inspired innovation (see Exhibit 4 for GOJO innovations that serve multiple bottom lines). By having a separate line for its sustainable products, GOJO had not yet fully embedded sustainability in terms of differentiation; however, it was on the right path. Through an initiative called Project Green Beans, GOJO sought input from both internal and external stakeholders as it planned for the next phase of production.

Entering New Markets (Level 4)

Over the years, sustainability-driven product innovations have transformed GOJO from a company focused solely on heavy-duty hand cleaning for factory workers to a market leader in health and hand hygiene, permeating industries from health care to food services. These transitions were not without difficulty. Entrance into health care was met with resistance, as GOJO had to prove that its simple hand sanitization method could be as effective as soap and water. The company’s successful expansion into

¹¹ Interview with Tom Marting, April 6, 2013.

¹² PURELL Advanced Instant Hand Sanitizer exceeds FDA health care personnel hand wash requirements with 1.2 millilitres of product. Applies to ADX and LTX dispensers with a fully primed pump through 95 per cent of refill.

new markets brought value to GOJO and its stakeholders alike, exposing more people to the health benefits of GOJO products while increasing sales for the company.

GOJO had been looking to expand geographically, and while in the past sustainability drove GOJO into new markets, an even more exciting prospect was GOJO bringing sustainability into new areas of the world. In April 2013, the GOJO global green product portfolio received green certification from the Brazilian Association of Technical Standards (ABNT). Market Watch credited the company's progression toward global leadership to its "green-certified products portfolio" and "highly effective and sustainable formulations."¹³ A lot more remained to be done in terms of geographic expansion if the company was to reach its BHAG of creating well-being for one billion people every day.

Protecting and Enhancing Brand (Level 5)

GOJO was increasingly well-known in North America. Interestingly, the product that offered the most in terms of both social and environmental sustainability was the company's most well-known brand. The ability of PURELL® Hand Sanitizer to cut water use, provide an easy form of hand sanitization in any circumstance and allow multiple uses without any skin damage, combined with its new natural-based formulation, made the PURELL® brand exemplify the GOJO story and commitment to sustainability.

Influencing Industry Standards (Level 6)

GOJO described its sustainability journey as being a matter of leading and learning. As the first company to develop a hand sanitizer that exceeded FDA health care personnel hand wash requirements, GOJO challenged others in its category to rethink formulas as well as packaging. Additionally, GOJO influenced the inclusion of hand hygiene requirements for LEED existing building certification and earned Ohio's Environmental Protection Agency recognition for its environmental management system. The GOJO ability to influence industry standards came from both its external collaboration and its commitment to provide solutions to social challenges.

External collaboration was a core tenet of SWOW and also one of the company's priority initiatives for 2013. GOJO learned from its partners and customers and had opportunities to influence them. Not only did GOJO receive certification from ABNT, it worked with that organization to develop its certification criteria. ABNT used GOJO's sustainability achievements as a model for its certification, and thus GOJO helped to set the standard for companies in Brazil. GOJO made a point of educating other companies about the risk of contamination in refillable bulk soap dispensers and designed its dispenser and refill systems to address this public health risk.

PURSUING GLOBAL LEADERSHIP

BHAG: Bring Well-Being to One Billion People Every Day

Since its formalization in 2010, the GOJO BHAG of reaching one billion people every day had already seen a 25 per cent increase towards its target by 2012, as measured by an internally developed algorithm based on product uses (See Exhibit 2). Employees were hugely motivated and inspired by the ambition of

¹³ www.marketwatch.com/story/gojo-adds-to-growing-global-portfolio-of-green-certified-products-2013-04-02, accessed: June 27, 2013.

the goal. At an in-house innovation fair, employees credited many of their ideas to the inspiration they gleaned from the company's daring objective. Vice-chair Marcella Kanfer Rolnick attributed this inspiration to the dual nature of the goal: "We've always been inspired to have our sustainability commitment and strategy be at the heart of our business strategy. . . . Our enterprise BHAG is our social sustainability BHAG too. . . . Our whole business, therefore, is galvanized by it."¹⁴

How could GOJO further contribute to public health and hygiene? What should it do in terms of product innovation, public education and market access to reach its 2020 goal? How could it build on its existing strategic assets rather than force a growth model ill-fitted to its way of operating? GOJO was not a global Fortune 500 consumer goods giant and would have to find other ways to accomplish its two-pronged goal of business and societal success. GOJO would have to keep educating the public and providing new customers with access to its products in new ways, but what else could it do to achieve its goal of reaching one billion people every day?

2020 Goal: Be Sustainable Through Sustainable Ways of Working

The GOJO purpose of "saving lives and making lives better through well-being solutions" showed that sustainability was already at the core of the company's reason for being. As GOJO worked to put principle to practice, it continued to drive radical innovation on its journey from cleaning soiled hands in 1946 to contributing to a healthy world in 2013. GOJO was already making great strides at each of the six levels of sustainable value creation, but two questions remained: Would existing efforts be enough to help GOJO achieve its BHAG on its way to becoming a global leader? What radical innovations in product design, processes and business models could GOJO undertake by 2020?

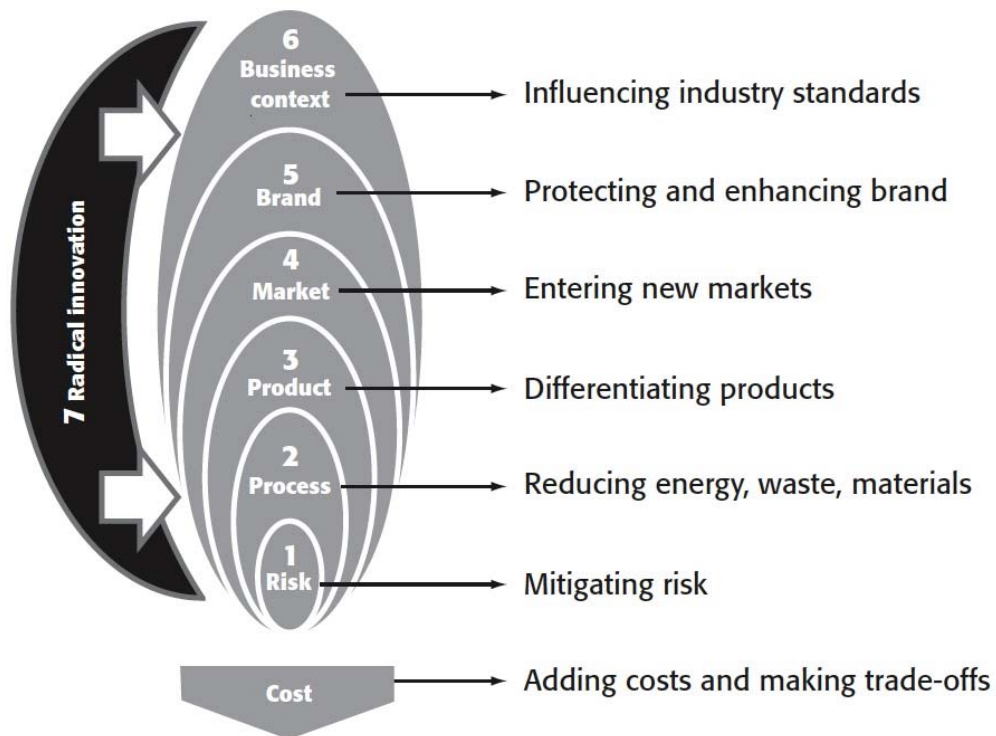
STARTING AT HOME

GOJO was already working to create sustainable value across the six major levels of impact, but could its SWOW initiative possibly be the glue that would pull all its efforts together and launch the company into a global leadership position? What might GOJO need to do to further embed sustainability in every part of its value chain and each function and department? How could SWOW tap into employee creativity and innovation to enable the company to reach its BHAG?

These were the questions that continued to roll around in Marting's mind as he gathered up the materials for his "Lunch & Learn" session. His mind drifted back to the Tank 121 story. Because of one person's passion and creativity, the company had been able to conserve so much water. What if every single person in the company had an idea like that, whether inward-facing to further improve material selection through operations and distribution or market-facing to enable its global expansion plans? GOJO was doing well in achieving its sustainability goals, but there were still many challenges that needed to be solved and new ways to improve. How could the company's sustainability champions manage to reach everyone in the company — get them excited about sustainability and give them the opportunity to share their ideas? Perhaps to bring well-being to one billion people every day, the company would have to start by engaging more deeply each and every team member in the company first. Marting picked up his educational materials and headed to the cafeteria to do just that.

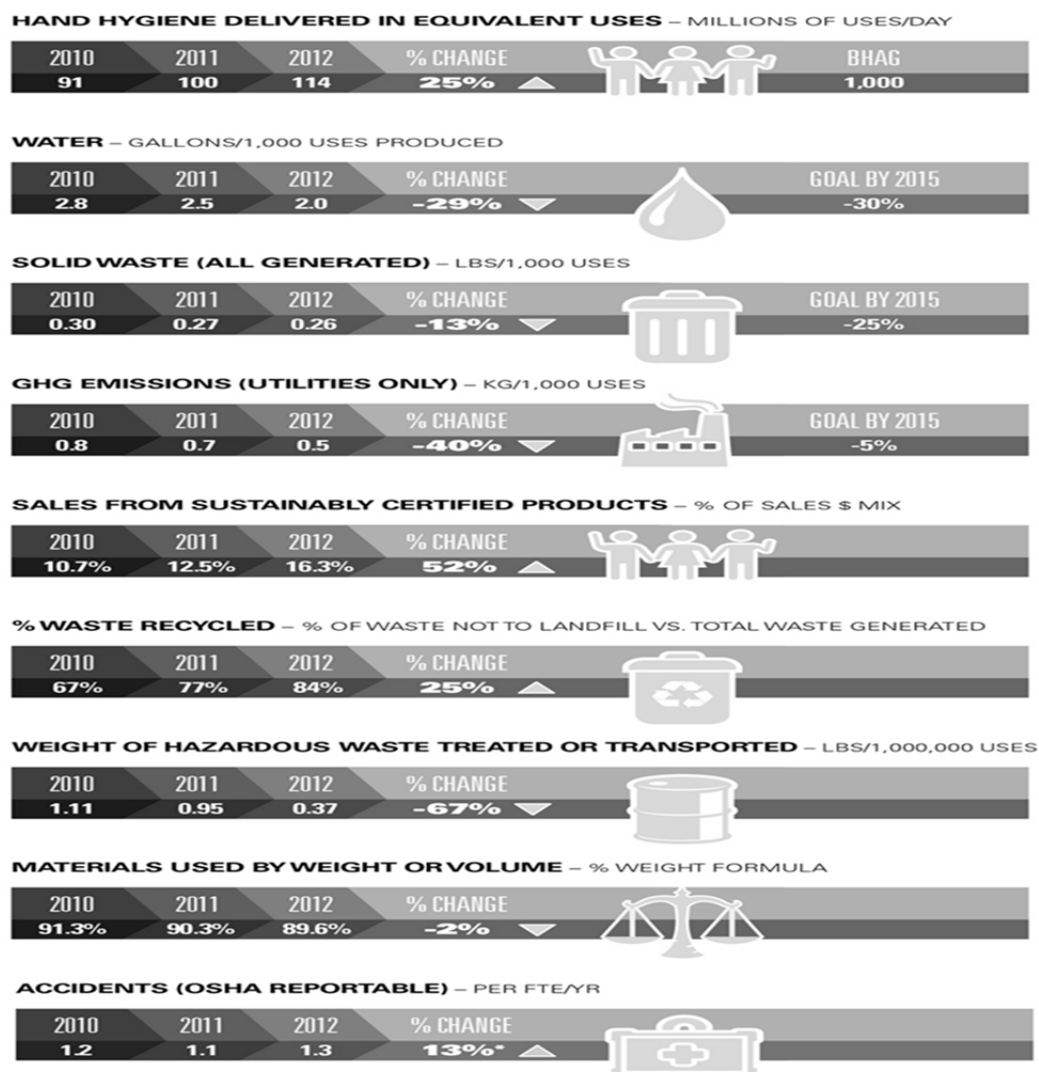
¹⁴ Interview with vice-chair Marcella Kanfer Rolnick, July 9, 2013.

EXHIBIT 1: GENERIC STRATEGY RESPONSES TO SUSTAINABILITY



From *The Sustainable Company*, by Chris Laszlo. Copyright © 2003 Chris Laszlo. Reproduced by permission of Island Press, Washington, D.C.

EXHIBIT 2: GOJO SUSTAINABILITY METRICS



Source: Company files.

EXHIBIT 3: BREAKDOWN OF SALES BY CHANNEL

MarketRU	Values	YEAR		Sales\$ %	
	Uses	2011	2012	2011	2012
Commercial		73%	72%	67%	66%
Specialty		12%	12%	16%	15%
Medical		12%	11%	12%	12%
Retail		3%	4%	5%	7%
Grand Total		100%	100%	100%	100%

Source: Company files.

**EXHIBIT 4: THE GOJO® LTX™ & ADX™ DISPENSING SYSTEMS: HEALTHIER FOR BUILDINGS,
THE PLANET AND CUSTOMERS' BOTTOM LINES**

	HEALTHIER BUILDINGS	HEALTHIER PLANET	HEALTHIER BOTTOM LINE
GOJO ADX and LTX dispensers	Aesthetically appealing dispensers and formulations encourage use and help maintain a healthy environment.	Designed and manufactured under LCA process to reduce environmental impact from the start. ADX impact reductions (versus previous generation): <ul style="list-style-type: none"> • 79 per cent reduction in smog emissions • 15 per cent reduction in greenhouse gases (GHG) • 20 per cent reduction in energy consumption LTX impact reductions (versus previous generation): <ul style="list-style-type: none"> • 62 per cent reduction in smog emissions • .9 per cent reduction in GHG • 14 per cent reduction in energy consumption Removable pump makes recycling easier.	Easier to service: <ul style="list-style-type: none"> • Large site window for easier monitoring of content. • Soap cartridges snap quickly and easily in place. Backed by GOJO Lifetime Performance Guarantee, including batteries. <p>Controlled consumption: LTX™ system dispenses an optimal, metered dose to support an effective hand wash while helping control usage and cost.</p>
GOJO® SANITARY SEALED™ refills	Sealed soap dispensing system locks out germs to protect health and well-being of restroom users. Fresh nozzle included with each refill.	Recyclable PET refills use 30 per cent less materials than traditional HDPE bottles. Shippers contain at least 20 per cent post-consumer recycled content (PCR).	Mess-free refills snap quickly and easily in place.
PURELL® Advanced Green Certified Instant Hand Sanitizer	Ounce for ounce, outperform other leading hand sanitizers. The only green certified hand sanitizer to meet FDA germ kill requirements with a single 1.2mL dispense. Features a natural, plant-based moisturizer and is clinically proven to maintain skin health. Dye- and fragrance-free options available.	Plant-based, biodegradable.	
Green certified GOJO® soaps	Soothing foam and spa-inspired colours and fragrances encourage use and enhance health and well-being of restroom users. Dye- and fragrance-free options available.	Plant-based, biodegradable formulations.	
LEED certification	Products support LEED (Leadership in Energy and Environmental Design) certification from U.S Green Building Council (USGBC) makes buildings more inviting to tenants, employees and visitors	Both dispenser systems include environmentally sustainable soaps and sanitizers that have earned EcoLogo® certification	

Source: www.gojo.com/united-states/sustainability/products/smartsustainableddispenserdesign.aspx, accessed June 8, 2013.



Leadership in a Globalizing World

BY

Rosabeth Moss Kanter

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LEADERSHIP IN A GLOBALIZING WORLD

Rosabeth Moss Kanter

WHAT DO leaders do? And what will they do in the future? Is this any different in a globalizing world—that is, one in which there are plural public spheres—than in other contexts?

This paper offers a sociological, empirically grounded view of leadership that is both descriptive and normative. It is based on holistic case studies of international companies that examined the perspective of employees and managers on the ground in their local/national setting as they addressed, used, and influenced global frameworks.¹ In short, the research, which is reported fully in my book, *Supercorp: How Vanguard Companies Create Innovation, Profits, Growth, and Social Good*, examined the widest possible geographic context in which leadership is exercised. A focus on the context for leadership illuminates the work of leadership, and that, in turn, illuminates the skills and qualities of persons who are chosen for leadership roles. In short, a sociological approach begins with the context and assumes that the characteristics of leaders must fit the context, mediated by the nature of the tasks leaders must perform in order to master the context.

The paper begins with generalizations (admittedly sweeping ones) about macro-trends—the meaning of globalization. The trend analysis is the basis for a simplified construct for how three aspects of globalization

(increased uncertainty, complexity, and diversity) shape the work leaders must perform. Three big tasks follow from the three conditions:

- Institutional work to deal with uncertainty
- Integrative work to deal with complexity
- Identity work to deal with diversity

I then illustrate the nature of these leadership tasks and how they can be carried out effectively with examples from my research. There is a great deal of continuity with enduring tasks performed by leaders but also some challenging differences of kind or extent that make it important to develop new knowledge about leadership for the future. The naturalistic observations and frameworks in this paper raise questions for further research.

The Context: Global Trends That Impact Leadership

Macro-trends set the context for exercising leadership, and thus we must begin with a little history.² International trade and the international scope of business are long-standing phenomena, and some of the companies in my research have been “international” in scope for a century. But even those companies are quick to point out the differences introduced by the current wave of globalization. The current wave, which has had several phases, can be traced to technological and geopolitical changes starting in the 1980s. These changes were themselves the outgrowth of technological and economic developments following World War II.

The 1980s included several important events that shaped global communication and competition: the development of personal computers and widespread use of computing technologies, the fax machine and early Internet increasing communication speed, and the rise of Japanese industry and European community deliberations causing industry restructuring. A series of events around 1989 marked geopolitical change: the fall of the Berlin Wall heralding the end of communism in Eastern Europe, the liberalization of Asian financial markets, the democratization of some Latin American regimes, and preparations to release Nelson Mandela from prison in South Africa.

The 1990s were characterized by the supposed (note the modifier) triumph of free market ideology, the formation of regional trade blocs,

rapid growth in developing countries, and the opening of China and India to more significant foreign direct investment. The creation of the World Wide Web in 1993 and the subsequent Internet business boom facilitated global communications connectivity.

However, agents of globalization had also overshot the mark, resulting, among other things, in the Asian financial crisis in 1998 and the dot-com crash in 2001. The opening years of the twenty-first century brought global terrorism, political backlash and protectionism, and the return of overtly socialist regimes in Latin America. For a time globalization was discredited and criticized, as the developed world faced slow growth and tightened national security, as well as skirmishes and war in the Middle East and Central Asia. But at the same time, the 2000s also brought Web 2.0—a more interactive form of the Internet—and continued growth opportunities in BRIC nations (Brazil, Russia, India, and China) and other attractive emerging markets. Educated populations competed for high-skilled jobs with developed countries, technology expertise and engineering talent was increasingly found in developing countries, and multinational companies no longer had to rely on expatriates to staff their operations outside of their home countries. The loss of developed country advantages and the rise of emerging country giants (including those in my research) led to declarations that the world is now “flat,” that is, a level playing field in terms of technology and industrial might.³

Over these three decades, the response of businesses to global opportunities and pressures has fed further globalization. Industry consolidation in financial services, consumer products, and basic industries such as steel and auto manufacturing, to attain economies of scale and wider scope, has had a global as well as national dimension, while competitors from emerging countries have threatened established players. As governments loosened regulations, cross-border alliances and mergers have occurred in formerly controlled industries such as air transportation and telecommunication. Service industries, such as advertising, management consulting, and systems integration, have sought mergers to ensure global scope, as illustrated by the rapid growth of Publicis Groupe, one of the companies in my research, from a European company toward the bottom of the top twenty in the industry worldwide to the fourth largest player and number one in some areas, such as digital services.

When businesses cross country lines, the business/society relationship becomes more visible and salient. It is not surprising, then, that a

globalizing world has moved the concept of corporate social responsibility—recently reframed by some companies as corporate citizenship—from periphery to mainstream, on every continent. The movement, embraced by employees as well as pushed by external activists, brings private companies into the public arena. The public role of privately owned companies is reflected in the importance of interaction with government. Walter Wriston, legendary chairman of Citigroup, one of the first extensive global banks, prematurely declared the death of sovereignty.⁴ Business can define strategy as though it is a borderless world, as Kenichi Ohmae proposed,⁵ but there are still border patrols in every country attempting to secure more of the flow of capital within the country's own boundaries while also opening markets to attract investment and growth. There is a delicate relationship between politicians and multinational—that is, foreign—companies. The business/society relationship requires management beyond the market. Ben Heineman, former general counsel for General Electric, argues that companies need their own “foreign policy.”

Taken together, these changes represent forces that cannot be ignored, nor can they be reversed by the actions of individual companies. They spread through the local ecosystem through the interactions among companies across their extended family of suppliers, distributors, customers, and investors—for example, the way that Publicis's desire to retain Nestlé's business requires finding a way to be present in all the places that Nestlé operates. This becomes a self-fueling dynamic. Globalization itself adds pressure on companies to be global—“world class”—in orientation, sourcing, and standards if not market scope, and to thrive domestically by joining global networks.⁶

Global competition forces change even in domestic players. For example, Shinhan, a bank in Korea formed in 1982 to serve the middle market (while large established banks focused on the chaebols, or conglomerates), grew profitably and survived the Asian financial crisis of 1998, while established banks needed government bailouts. Noting international banks entering its markets, Shinhan decided in 2003 to acquire one of the largest of the old banks from the government (I began to study Shinhan in the postmerger phase) and simultaneously prepare for global growth by obtaining a listing on the New York Stock Exchange. By 2006 it was the largest financial group in Korea and one of the twenty-five Asian stocks tracked by the *Wall Street Journal*, outmaneuvering both domestic and international competition in its home market by incorporating global standards.

Deconstructing Macro-Trends: Organizational Challenges and the Work of Leaders

It is popular today to view leadership as a skill and activity set apart from and different from that of management, even though popular parlance also tends to conflate leaders with those occupying positions of managerial authority. For purposes of this paper, I will confine the work of management to oversight of the technical or functional aspects of an organization, and use leadership as a more dynamic effort to shape the direction of an organization beyond its technical core. Management, or the idea of technical functionaries, is a concept rooted in the industrial age. Max Weber was thinking about government agencies, not factories, when he conceptualized bureaucracies as perfect impersonal vehicles for organizing and perpetuating routines. But it was in factories that mass production flourished and analytics dominated, keeping his idea alive. It was considered negative rather than positive by many (but not all) management theorists that the less rational human side of enterprise kept intruding on rationally engineered organizations.

Management emerged as a science in an era defined by machines and inward-focused machinelike business organizations. Much of management theory and practice in the industrial age, and the remnants in factories for services, were technocratic. There was less need to think about leadership. Indeed, Weber seemed to have an underlying disdain for the irrationality behind the appeal of charismatic leaders, and seemed relieved that once they founded organizations, agitators might continue to appeal to emotions but administrators could take over and run the place.

So much of management theory, especially as overtaken by economists, was based on a series of simplifying assumptions associated with industrial era thinking, which tended to ignore the broader ecosystem context. These assumptions were of the following:

- Relatively stable activities with clear boundaries (high routinization)
- Relatively simple structures (clear chains of decisions and reporting)
- Relatively homogenous populations (dominant majorities of similar types)
- Relatively high control over organizational and individual information (privacy and secrecy)

With such assumptions about organizations, no wonder there was not much attention given to work beyond the technocratic, and there was not much attention to leadership. Once an organization was designed, managers had control, and everyone knew what they were supposed to do—or so it was assumed.

But scholars, consultants, and practitioners have increasingly challenged those simplifying assumptions during the same three decades that I have called the current wave of globalization. There have been numerous critiques of the pathologies of bureaucracies and calls for new paradigms that would supplant command-and-control, tall hierarchies for decisions, impersonal management by money, rigid structures, and so forth (even while some processes have become even more scientific, such as the emphasis on Total Quality Management and then Six Sigma). Matrix organizations, interorganizational relationships, and networks were all discovered by theorists as they came to be used in practice. There have been numerous calls for leaders to replace managers.

Thus, there has been a search for a paradigm that stresses leadership as a skill and activity above and beyond management. It's not literal globalization (that is, greater international contact) that has produced this quest for a new paradigm, nor is it global sales. Rather, change stems from the broadening of horizons, enlarging sources of ideas as well as supplies—which is why the term *information* should be added to the term *global* in defining the globally connected information era. But certainly those companies working across national borders and viewing themselves in global terms as examples of global rather than local standards, such as the companies in my research, represent the fullest flowering of globalization's impact on organizations.

Clearly, the old simplifying assumptions are obsolete. We cannot create valid theories based on assumptions of stability, simple structures, population homogeneity, and secrecy. Instead, we must contend with four contrasting phenomena:

- *Uncertainty*: More frequent, rapid, unexpected change
- *Complexity*: More moving parts, more variables in play simultaneously
- *Diversity*: More variety of people and organizations, more dimensions of difference among those in contact
- *Transparency*: More information known about more people and organizations in more places

Organization theory has already moved away from some obsolete assumptions, as can be seen in the important emphasis on social networks and network analysis, both within and across organizations.⁷ But practice has been ahead of theory when it comes to seeing what difference all this makes for leaders and how to frame and conceptualize the nature of leadership under globalization.

First, leadership has an interpersonal dimension, although it is not purely interpersonal. An ongoing, defining task of leaders is to inspire their followers—to guide and motivate performance, to instill confidence in advance of victory. Leaders have always performed inspirational work, and they always will. A second aspect involves setting standards for what is good conduct and serving as models for meeting those standards—leaders as the laureates of the true and beautiful, who are leaders in their field while not always necessarily leaders of people. In short, integrity. Integrity work is also classic and enduring, but it does increase in importance in a globalizing world because of the fourth aspect of globalization: increased information flow and pressures for transparency, from regulatory bodies policing companies and companies assessing governments, and NGOs examining both. Misconduct is more readily exposed and risks to reputation more readily communicated by watchdog groups using Internet tools, so the task of ensuring that the organization meets high standards grows in importance and takes on global dimensions. The impending death of privacy and secrecy makes ensuring integrity in oneself and others more central to the definition of leadership. Leadership is not about financial results alone.

Those two classic I's of the tasks of leaders—inspirational work and integrity work—are just the starting point. The global forces I have identified shape the context for three important tasks for leaders as they guide organizations and influence other people:

- To deal with uncertainty, *institutional work*
- To deal with complexity, *integrative work*
- To deal with diversity, *identity work*

Top leaders perform this work personally, on behalf of the organization, and they set the framework for many people throughout the organization to do this work in addition to their technical tasks. Particularly at the top, leaders operate through the messages they espouse (what they say), the models leaders exemplify (what they do), and the

mechanisms they establish (what leaders enable others to do).⁸ But in a globalizing world, leadership is not confined to the top positions (those which traditionally have been the most highly compensated and carry the most command over resources). Top leaders rely on many people exercising these responsibilities of leadership—the essence of integrative work, which is to facilitate connections rather than exercise command.

This paper offers these three kinds of work of leaders as the future of leadership in organizations, as a kind of universal that itself is global in scope. In any country, in any culture, in any particular organization, there may be a range of individual and interpersonal styles characteristic of that entity—the cross-cultural differences often invoked in international management texts. But focusing on country norms of behavior does not get us very far in understanding leadership effectiveness and organizational performance, and it could be a futile, stereotypical dead end. Across the twenty countries in my project, there are certainly differences in leadership style—for example, loudness of voice or directness of manner—but there is also convergence at a higher level as leaders address the common tasks they must accomplish.

I will now turn to the three big tasks one by one, illustrating with empirical examples how leaders from the companies in my project perform them. I will ask readers to bear in mind four caveats: that these tasks are not easy and must be performed beyond all the technical work; that the companies in my study might not be representative of the vast majority of businesses; that no one of the companies or their leaders meets the ideal that the skeptical public holds out for perfect conduct in every respect; and that the new conditions often have a downside of unintended consequences or pernicious effects.

Leading Under Uncertainty and Rapid Change: Institutional Work

The era of globalization is characterized by frequent, rapid, and sometimes unpredictable change, both done by leaders and done to them by events in the external world. Globalization increases the speed of change, as more competitors from more places produce surprises. System effects send ripples that spread to more places faster—innovations in one place proving disruptive in others, problems in one economy triggering problems in others. Although geographic diversification is a hedge against local risk, geographic consolidation to gain economies of

scope can expose companies to risks that cannot be contained. For example, this is a concern for IBM leaders about consolidating certain data storage or processing functions in fewer places, which increases global vulnerability from local events.

Furthermore, companies acquire, divest, or are acquired; the business mix of globalizing companies changes frequently; and jobs levels fluctuate across countries. So what exactly is the same that makes us say this is the same company? Bank of America is the surviving name after numerous mergers, but the underlying surviving bank is Nation's Bank, which gave up its name but not its headquarters, management cadre, or culture. And where are the sources of certainty that permit people to take action in an uncertain world? "Management is temporary, returns are cyclical," IBM CEO Sam Palmisano said, explaining to me why he puts so much emphasis on values and culture.

The answer to the question of who we are in the future is that we are not our current widgets, but we are our values, and that can help us find the right new widgets to serve society. Globalization seemingly detaches organizations from particular societies only to require the internalizing of society and its needs (many societies) in organizations. Institutional certainty can balance business uncertainty.

Thus, leaders can compensate for uncertainty by institutional grounding—identifying something larger than transactions or today's portfolio that provide purpose and meaning. Institutional frameworks permit diverse, self-organizing people to gain coherence. Joel Podolny and Rakesh Khurana have argued that meaning-making is the central function of leaders.⁹ I am arguing that the meaning that is most important for institutionalizing an organization is a purpose and values that provide a rationale beyond the transactions or activities of the moment. Institutional work involves active efforts to build and reinforce aspects of what is loosely called organizational culture—but it is also much more than that. Culture, as generally used, is often a by-product of past actions, a passively experienced outgrowth of history. Institutional work is an investment in activities and relationships that do not yet have an instrumental purpose or a direct road to business results but that instead show what the institution stands for and how it will endure.

Institutional work is a survival strategy. Globalization increases the likelihood of shorter organizational life cycles, as a result of mergers and acquisitions, industry consolidation, and intensified competition

driving out weaker competitors. It is plausible to hypothesize that the extent and depth of institutional work can divide the survivors from those subsumed by global change, equivalent to the difference between long-lived and short-lived utopian communities in my earlier research about commitment and survival.¹⁰ The leaders whose organizational heritage lives on even if names change are likely to be masters of institutional work.

For example, ABN AMRO, a Dutch international bank, was a takeover target in 2006–2007 because of undervalued assets. Meanwhile, its Brazilian subsidiary, Banco Real, was a high-performer growing in size, reputation, and financial performance. This was widely attributed to institutional work by CEO Fabio Barbosa and other top leaders to infuse the bank with values of environmental and social responsibility. These values give larger purpose to daily work and stimulate innovation to serve customers and society with practices that meet high standards. Starting around 2001, in response to the most recent phase of globalization, Barbosa made corporate social responsibility (CSR) the core of the business strategy—the bank’s key point of differentiation. In 2006, when the Dutch parent ABN AMRO was on the auction block, producing enormous uncertainty and anxiety in Brazil, Barbosa turned again to the Banco Real’s culture. He reminded managers that the best protection was high performance stemming from intensified efforts to showcase institutional values. He told them at smaller meetings and larger conferences that certainty came from their knowledge that they were “doing the right things the right way every day” (a slogan he often repeated). In April 2007, a consortium bought ABN AMRO, and ownership of Banco Real shifted from the Netherlands to Spain’s Santander, which bought the Brazilian assets to add to the branches it already operated in Brazil. But the spirit of Banco Real involved much more than the assets. Fabio Barbosa was named CEO of the combined entity, and the Banco Real culture and values were to be infused throughout Santander Brazil. Banco Real is the institution that lives on; Barbosa is adding 25,000 new people from Santander to the 30,000 he had already led.

Institutional work infuses meaning into the organization, “institutionalizing” it as a fixture in society with continuity between past and future. Institutional work is such a broad idea that it is hard to single it out from integration, identity, and integrity tasks, all of which contribute to the grand institutional mission of being more than a bundle of business assets and transactions. The institutional work of leaders

involves establishing and reinforcing values and principles throughout the organization through conversations and actions. In so doing, leaders help the organization internalize society and societal goals.

Establishing and Transmitting Values: Conversations About Higher Purpose

Having a statement of values has become common, but the institutional work of leaders goes beyond the mere posting of a set of words. In recent years, CEOs of companies in my project headquartered in the United States, Mexico, the United Kingdom, and Japan all allocated considerable resources to breathing new life into long-standing values statements, engaging multiple levels of junior leaders in this institutional task of identifying and communicating values. The point was not the exact words themselves but the living process: to begin a dialogue that would keep the sense of social purpose in the forefront of everyone's mind and use that as a guidance mechanism for business decisions. That was how Procter & Gamble leaders saw the company's PVP (statement of purpose, values, and principles); CEO A. G. Lafley and Vice Chairman Bob McDonald spent much of their time teaching about and discussing the PVP in formal programs and in visits to locations around the world.

Omron's new CEO, Sakuta-san, led a restructuring of this Japanese global electronic sensors company from 2002 to 2006. But he says that he considers something beyond rearranging the business portfolio or technical engineering prowess more important to the long-term endurance of Omron: Omron's Principles. The Principles, which had been created many years earlier, were rewritten in 2002 and then transmitted through a massive communication process that could have seemed a distraction from the managerial work of restructuring. It proved instead the glue that helped Omron through business ups and downs. Today, groups of employees begin each workday by reciting the core slogan, salespeople start conversations with customers by talking about the Omron Principles, and representatives invoke the Principles first when meeting with companies they are vetting and courting for acquisition. (The analogy with religious ritual is apparent.) CEO Sakuta-san fully expects that 35,000 people in Omron might have different interpretations—maybe 35,000 different ones—but that the engagement and discussion is the important thing. He said, "Whenever I speak with employees, I tell them your answer should not be a set answer. Please tell what you understood,

and how you can express it using the language of the Principles. I also promote discussion among peers, colleagues, and teams to share these understandings with each other.” He puts this in terms of a very long time horizon: “No matter how different the workplaces are in terms of race, value sets, geographical locations, etc., as long as we can continue this debate and discussion, we are able to maintain our attractive and strong work environment and Principles with a flexible attitude to respond to any changes to come in 50, 100, 200, 300 years. And I believe we will be able to refine the Principles by doing so.”

IBM CEO Sam Palmisano’s process for refreshing IBM’s values for the twenty-first century was itself a dialogue on a scale beyond anything any company had ever done. By 2000, IBM had outlived others prominent in the industry twenty-five years earlier but was hardly the same company from a business perspective. It had downsized or sold manufacturing (later selling the ThinkPad to Lenovo), grown in software and services, emphasized the Internet over mainframes, had nearly as many employees in India as in the United States, and was targeting growth in all the BRIC nations. So what was IBM? One of the early leadership actions that Sam Palmisano took when he became chairman and CEO in 2002 was to refresh the IBM values through a unique participative process involving Web chats open to over 350,000 IBMers worldwide. He wanted people to have pride in IBM as an institution, not to be following a leader: “The values are the connective tissue that has longevity.”

Corporate Diplomacy Writ Large: Elevating Each Society

One paradox of globalization is that it is accompanied by a greater need for deep national and local connections in many more places, in plural public spheres. To thrive in diverse geographies and political jurisdictions, companies must build a base of relationships with government officials, public intermediaries, and customers that can ensure alignment of agendas even as circumstances (and public officials) change. In some places, these external stakeholders are interested in the quality and sustainability of the institution as a local contributor as much as the transactional capabilities of the organization. The global organizations themselves want both an extended family of relationships that can endure and a seat at the policy table for matters affecting their ability to do business in the future. So the institutional work of leaders extends outside the enterprise.

For example, IBM's Palmisano circumnavigates the globe six or seven times a year to meet with national and regional officials, bringing regional leaders with him, discussing how to help the country achieve its goals. This is not sales, not even marketing, but rather a high-level conversation to indicate IBM's interest in being an enduring institution contributing to that country. Such contacts help other IBM leaders get seats at the table discussing the country's future. That certainly provides an opening for discussion of the company's policy agenda (which is more technical than political). But any instrumental goal would not be achievable without first contributing to efforts clearly benefiting the country.

Institution building requires effort by many people. Top leaders involve others in leading diplomacy, such as representing the company to the community at conferences and civic or charitable dinners and serving communities directly through service projects.

I hypothesize, based on the companies in my research, that the more interested top leaders are in institution building for the long term, the more likely they are to involve more people in institutional work and reward it with recognition and resources. A Cemex manager in his first country manager post expressed surprise to the chairman, Lorenzo Zambrano, at how much time he had to spend making relationships with government officials and wondered if he should be doing it. "Welcome to top management," Zambrano told me he replied.

Relatively few people hold formal responsibility for these external interfaces as their primary jobs, and indeed, institutional work is less effective in terms of impact on external stakeholders when it appears to be "just a job." So instead, many others perform institutional work as volunteers, giving meetings and community service projects a ring of authentic motivation. This is not a hard sell for people either native to the area or long-term residents, because there is an emotional pull of place that makes institutional work desirable, so they are willing to volunteer personal time to do it, sometimes initiating efforts and taking others in the company with them. For others whose careers take them across geographies, institutional work is a way to connect their internal roles with the place they now live, making them feel less rootless and more at home.

Leaders from global companies operating in developing countries are often asked to advise on emerging issues where global experience could be useful. That requires special diplomatic skill: being able to

appear neutral and interested in the host country, rather than interested in the company or home country. A leader in India was typical in presenting the company's agenda to the Minister of Commerce as a slate of future-oriented issues that would help ensure India's competitiveness.

Corporate diplomacy is particularly important where country interests differ or there is active conflict (or long historical memories)—for example, U.S.-headquartered companies in the Middle East, or Japanese companies in China. Add to that challenge suspicion of foreigners and concerns about their hidden agendas. Leaders must find ways to show that they act or advise in the interests of society, beyond politics, as a company that is not tied to a specific government or interest group but serves humanity. If the values are real, then leaders are willing to invest in ways that reflect them, not as a quid pro quo but as a sign that they will be locally involved. An Indian company entering Europe faced hostility from some government officials. Company leaders, who could draw from a long tradition of social responsibility, chose to make community investments that heralded their high standards, and leaders spoke with officials primarily about their values and how, once in a country, they would remain committed to its prosperity.

When leaders come to see themselves in terms of societal purpose, even across countries, they choose to perform institutional work, including self-initiated unofficial international diplomacy. In May 2007, the chairman of IBM Greater China organized his own diplomatic mission to Washington, DC, meeting with senators, members of Congress, and White House officials on both sides of the China issue to build bridges and find areas of collaboration, such as environmental issues, because of his conviction that his role in a global company gave him a unique perspective on both countries and a desire to see both thrive as allies.

Claims of serving society are made credible and tangible when leaders allocate time, talent, and resources to national or community projects without seeking immediate returns, and when they encourage people from one country to serve another.

Internalizing Society: Leading Service Beyond the Business

Corporate citizenship increasingly means more than corporate philanthropy; it is important institutional work that helps leaders reinforce the purpose that endures in the face of business uncertainty.

IBM's approach to corporate citizenship was closely connected to its business competence—to harness the power of innovation in service to the social and educational goals of the broader society. Leaders even at middle levels saw this as a task worth their time. A Latin American executive responsible for the small and mid-sized business sector felt that IBMers were increasingly using an external or societal lens to view IBM: "I see a change in the way we think about social responsibility. Twenty years ago, I think the focus was, do the right thing internally. Before, it's like I see a problem in the society, in the community, and I don't care, because this is not inside IBM, so I have nothing to do with it. The change right now is to leverage the size of IBM and do the right thing outside our organization, into the whole supply chain with providers and customers."

A wide range of services can be performed at various levels, from international activities in collaboration with the United Nations (e.g., P&G's Children's Safe Drinking Water partnership with UNICEF), large national projects in collaboration with government ministries, products addressing unmet societal needs, or leading employees and/or other stakeholders in short-term volunteer efforts (e.g., IBM's response to the Asian tsunami, or Cemex's engagement of small distributors in Latin America in community service days).¹¹

Like Omron, Cemex's attention to social needs in particular places generated ideas that led to significant innovations: antibacterial concrete, which was particularly important for hospitals and farms; water-resistant concrete helpful in flood-prone areas; or used tires converted to road surface for countries with rapid growth in road construction. An idea from Egypt for saltwater-resistant concrete, helpful for harbor and marine applications, became a product launched in the Philippines. This was an emphasis of CEOs in both companies.

Institutional work has the greatest impact, and more people are likely to engage in it, when leaders link values with company capabilities, solidifying the institution and resting it on firm foundations. The leader of IBM for Europe and the Middle East encouraged IBMers in Egypt to work on a voluntary basis on an initiative called Building Bridges to the Arab World in partnership with the National Council of Women in Egypt, chaired by Egypt's First Lady. Building Bridges to the Arab World combined technology (a Web portal for Arab women), community service, diversity goals and women's empowerment goals,

and government relations opportunities both in Egypt and for a U.S. company in an Arab region.

Institution building connects an extended family of partners across an ecosystem. Cemex started Construrama, a distribution program for small hardware stores, in 2001 in response to competition from Home Depot and Lowes, U.S. construction product companies that were then entering Latin America. Cemex drew on its values to seek dealers with integrity who were trusted in their communities; the company rejected high-growth/high-margin candidates whose business tactics didn't meet Cemex's ethical standards. Construrama offers training, support, brand recognition, and easy access to products for small hardware stores, including sometimes the first computers and Internet access for these small enterprises. By the mid 2000s, this network in Mexico and Venezuela was the equivalent of the largest retail chain in Latin America, and it was expanding to other developing countries. Cemex owns the Construrama brand and handles promotion but doesn't charge distributors, operate stores, or have decision-making authority, although service standards must be met. About a third of the Construrama management team at headquarters spends six to eight months working at the stores. Partners participate in councils on a rotating basis. Among the Cemex values that are disseminated to partners is participation in community-building philanthropic endeavors, for example, contributing people and materials to expand an orphanage or improve a school. A Cemex executive referred to the societal sensitivity that produced Construrama as "understanding the last link in the value chain."

Widespread opportunities for individuals to use company resources to serve society further institution-building goals. In 2003, when IBM's business emphasis had shifted to on-demand computing, the company launched On Demand Community, an intranet site for technology tools designed to improve schools and community organizations. Three years later, 75,000 employees (over 20 percent of the population) had performed nearly 3.5 million hours of service. IBMers can clock their volunteer time and at 50 hours get a certificate of recognition from their country head and be eligible to apply for a grant for that organization based on IBM worldwide standards. Many people love the service for its own sake and forget to clock their hours.

Values Evangelists: Communicate Iconic Stories to External Stakeholders

The stories leaders tell reflect strategic choices about which capabilities to highlight or which relationships are valued—and thus, what future choices might be made in an uncertain world. For Omron, the safety and health benefits of their products and their particular concern with people with disabilities reflects Omron values but also the continuing potential for future contributions to society that are important to industrial customers and acquisition targets who want to know that Omron will endure.

Procter & Gamble's Children's Safe Drinking Water (CSDW) initiative, in partnership with the United Nations, shows that the company values societal benefits for children sufficiently to fund a nonprofit to continue the distribution of an unprofitable product. CSDW is the next incarnation of an unsuccessful effort to establish a market for water purification tablets in Africa; instead of abandoning the product, P&G converted it from a for-profit commercial category to a contribution to a nonprofit organization. The story of the rapid evacuation of all P&G people to Egypt during the war in Lebanon is another iconic demonstration of the company's PVP, making real the value of putting people first.

For IBM, disaster relief efforts are one of many similar examples, showing that IBM is there to serve humanitarian needs quickly. IBM's cultural heritage preservation projects in Egypt, Russia, and China; an African American oral history Web site in the United States, and an English-Arabic social networking project all serve many institutional purposes beyond goodwill in the marketplace or with government officials. They highlight the company's desire to build long-lasting relationship with particular groups and honor their cultures. Such projects also help to alleviate some fears about globalization by showing that a global company can support the deepest emotions of national and local pride.

Iconic stories give employees a way to talk about social purpose that show that the company can make big commitments without an immediate business goal and deliver on them: "Much better than talking about the weather," an executive in Egypt said, "and it demonstrates that the company cares about more than maximizing sales, especially important for an off-shore company." "If we are participating in the community, people see that we are willing to make commitments for

the long haul, that we're a company oriented toward building long-lasting relationships," an executive in India said.

The external value from investing in principles reinforces internal commitment as well as motivation to continue institutional work. A Latin American executive told this story: "Last year, a good friend of mine that works for another large international company called me because a family member had an accident and became disabled. He said, 'Marcelo, I know that IBM has very good programs. Is there anything that you can do to help me to help my family, because I know that IBM is the best company for this.' When you receive this kind of phone call, it's the prize—this is the momentum that outsiders see, a company that is here helping society." Many others had similar stories.

Toward Institutional Charisma

Charisma is a powerful force for emotional attraction, a kind of social magnetism that motivates and inspires and can keep believers adhering to a cause even with uncertainty of outcomes or uneven direction—like the ancient Israelites of Judeo-Christian lore wandering in the desert for forty years searching for the Promised Land. But, as Rakesh Khurana has argued, it is an ephemeral and misleading basis for organizational viability, and it puts too much reliance and emphasis on a single leader and his or her individual qualities.¹²

Thus, the top leader's task is paradoxical. He or she has to express and exemplify the values while routinizing charisma so that it spreads throughout the organization, with many people performing institutional work so that the entire organization holds emotional appeal, and successors can convey the founding ethos and take it in new directions. Reverence for a founder or purpose-establisher must be readily transferable to anyone representing the organization. That leader must continue to fuel the passion at the heart of institutional work while remaining aware of the distinction between organization and person. He or she must convey that the institution is larger than any one person, so that people are not following a leader but rather are following the values and principles of the institution.

When institutional work is done well, the ultimate results might not be apparent for years; survival and longevity can't be known in the short term of financial reporting periods. But the emotional impact can be immediate and powerful, and that can be measured by loyalty and commitment in the face of alternative choices, recruitment of others to

join, expressions of belief, and efforts by individuals to volunteer for institutional tasks, above and beyond their jobs. Institutional grounding in purpose and values might attract and hold customers that are not solely transaction-oriented. And if the institution has coherence and an enduring purpose, then the inevitable change of an uncertain world should be less threatening.

Sustaining the institution also requires resource attraction, so financial performance matters. But some leaders are willing to sacrifice short-term financial opportunities if those are incompatible with institutional values—for example, Banco Real walking away from customers that did not meet its tests of environmental and social responsibility. Sometimes this is justified in risk reduction terms, but it is a signal that the interests of the institution in the long term transcend short-term transactions.

Leading Under Complexity: Integrative Work

Globalization brings more moving parts, more variables in play simultaneously, and more dimensions of interest. There is a rapid flow of people, money, and ideas in and around the organization. An intensely competitive global information economy places a high premium on innovation, the faster the better, and innovation itself often reflects a new connection between previously unrelated elements or entities that now require further integration. Information has a short half-life—“use it or lose it.” So there is more need to get ideas connected to tangible products and services, and to connect innovations with applications and users. Mergers and acquisitions add further complexity, and their success rests on the effectiveness of integration among the previously unconnected organizations. The important challenges and opportunities lie across boundaries.

Open access and communication irrespective of levels are increasingly apparent everywhere in the world, even in countries with more authoritarian traditions. Information technology facilitates direct access and rewards those who seek and spread information. Some of this is generational; younger employees, even in elder-revering countries, are less hesitant than older employees to e-mail the CEO directly.

Integration in the face of complexity is harder to effect through formal structures, which are too rigid to reflect the many multidirectional pathways for resource or idea flows. Informal, self-organizing,

shape-changing, and temporary networks are more flexible and can make connections or connect bundles of resources more quickly. Formal positions come to resemble a home base for people who are highly mobile in terms of daily tasks, projects, work relationships, group membership, and physical location. Matrix organizations, in which individuals report to two bosses representing two dimensions of their tasks (e.g., reporting to a functional head and an industry head or a geographic head), become what I dub a “matrix on steroids.” In a multidimensional matrix, people are accountable along many dimensions simultaneously and consecutively, with multiple projects and with multiple interfaces that enable them to assemble resources for those projects.

Globalization thus magnifies the integrative work that leaders must perform. Leaders must ensure that ideas are captured and people connected. Top leaders must facilitate integrative work on the part of others in the organization. They must enable more people to make more connections, establishing roles and processes for connectors or integrators who link other people or link any set of resources to one another—serving as idea scouts and transfer agents. As they do so, they must let go of full control—so that self-organizing can take place, or decisions can be made by integrators connecting across boundaries. Leaders do not stand “above” on a vertical dimension; they lead by facilitating horizontal, diagonal, or multidirectional connections. The decisions that top leaders retain involve choices about which potential pathways to endow with resources to start them moving—that is, which broad initiatives to fund or which pieces of the organization to combine formally in order to facilitate closer connections between related parts.

“Management by Flying Around”: Convening, Connecting, and Building Social Capital

MBWA (“management by walking around,” a famous Hewlett-Packard practice that built a strong culture in its early days of growth) is too slow for a globalizing world (and many people might be out of the office anyway). More appropriate for leaders is MBFA, or management by flying around.

MBFA is literally true for IBM’s CEO; when Palmisano circumnavigates the globe, the company plane picks up key executives for certain legs, providing integration in the air as well as on the ground for the key customer or official meetings. Large numbers of other IBMers log more conventional air miles. Though tools and technology can be

globally integrated and support routine work and problem solving (e.g., a test engineering system that can diagnose and solve problems in any plant from any location, remotely), nonroutine issues call for physical presence. A senior leader said, “If there’s a problem or a critical situation, we darken the skies”—that is, send people to the problem.

Integrative work at the top involves frequent convening of groups cutting across the organization along many dimensions and expecting them to collaborate as well as serve as connectors between and among their home units. Groups might meet based on responsibility for a step in the value-creating process—for example, global technology, strategy, and operations—or various cuts through the organization, including geography leaders, functional leaders, or product/service leaders. There might be issues groups, permanent or ad hoc. They might meet face to face at longer intervals but hold conference calls at shorter intervals—voice communication is used even in technology companies for substantial conversations, with e-mail relegated to short factual messages.

Leaders’ investments in face-to-face meetings build their capacity to integrate. A Latin American executive said, “The leaders, they have to like people. They have to have a strong relationship with people, a face-to-face relationship,” he said. He visits people in the nine countries in which they work to build trust—and also because he needs direct observation to make difficult decisions, as in cases of poor job performance. Even though his team of direct reports at Latin American headquarters does not work in the same building, he convenes them often, which is important for conveying the same messages to everyone, providing a common platform for autonomous action. Another executive in the region shares that belief, so she provides incentives for her country-based team to spend an occasional week working in another country.

Letting Go at the Top: Lowering the Center of Gravity and Encouraging Self-Organizing

To realize his goal of transforming IBM into a globally integrated enterprise in which the best of IBM from anywhere could get to customers quickly, CEO Sam Palmisano is seeking to lower the center of gravity. The idea is to locate decision making lower in the organization and into the points of connection with customers. In his theory, those dealing with customers should be the ones to integrate IBM, taking

innovation to apply to customer needs with a minimum of organizational or operational barriers by requesting and negotiating for resources directly, without going up one hierarchy and down another. Circles of influence should replace chains of command, and people should be trusted to set priorities responsibly, starting with the customer as the focus for integration, as stated in the IBM values.

To realize this theory in action, Palmisano has made a few radical, symbolic changes. Rather than maintaining the tradition that career progression involves moves upward, ever closer to regional and global headquarters, he stressed other dimensions. In Europe, he moved about five thousand people and two hundred executives above the country level out of European headquarters and back into country organizations. He elevated the role of account manager to high status, signaling its importance, by asking a few key executives to move from what had been top vertical positions to become executives for big accounts. A Latin American executive responsible for the relationship between IBM and customers—pre-sales, post-sales, and continuing customer satisfaction—said “It’s a difficult mission, but I like it. I like it because I believe that this is the most important position inside the company. Because we have to integrate the other organization, we have to put the customer interest in front.” For example, his group would determine the best platform for a customer (UNIX, Intel) and then persuade the hardware organization to supply it.

For Fabio Barbosa, CEO of Banco Real in Brazil, a measure of his success in leading the bank to embrace social and environmental responsibility as its mission is that he lost control of the effort, as he put it. In the beginning, projects started with top leaders identifying priorities. But a few years after the new direction was established, managers started contacting one another to create and execute on initiatives that he knew nothing about. Now they work across departments to integrate the organization themselves. Similarly, when companies such as P&G expect innovation to come from the field and from outside the organization, leaders are lowering the center of gravity to permit people to go directly to the source of ideas and then find the resource to execute, within P&G principles. Shinhan Financial Group accomplished a high-payoff integration of Shinhan and Chohung Banks, even before an agreement with Chohung’s union permitted formal integration, by establishing a large number of task forces linking

the lower-level people at the two banks to discuss issues; that produced self-generated modification of practices without top leader direction.

Nick Donofrio, IBM executive vice president, encourages nearly 190,000 technical people to think of themselves as working for him, and he tries to answer hundreds of daily e-mails personally, counting on this as a major bottom-up source of information about issues, opportunities, and developments. Following the successful dialogue in 2002 that led to the IBM values, Palmisano sponsored a second huge conversation, an Innovation Jam in the summer of 2006, in which 140,000 people identified possibilities for innovation.

Self-organizing communities, operating outside of formal structures, are a valuable resource if top leaders can accept that they are not in control but can take advantage of the results of lower-level integrative leadership. The driving force for self-organized groups is curiosity and interest on the part of the people themselves, if left free to conduct the dialogue. In India, a group of engineers self-organized after the tsunami to provide support for disaster relief, asking their nominal bosses to endorse commitments they had already made and place a few phone calls to government officials on their behalf.

For IBM, a recent self-organized virtual worlds community got IBM involved in this new technology, which burst on the scene in 2003 with Second Life. At least a hundred people interested in and experimenting in virtual worlds found each other through company chat and created an ad hoc virtual universe community. They started informally, then found an IBM executive to support them as a more-or-less official activity. Dozens of people chatted via their avatars on Second Life, and later, other platforms. There were weekly calls, and the phone line was open when in the virtual world; dozens of people would participate, though mostly not by phone. A participant said, "This was one of the most exciting years I've spent in IBM, to watch this group come together outside of every structure IBM has. We acted like a bottom-up corporation or a corporation of free-lancers. People were doing it on their free time." Eventually, virtual worlds was designated an emerging business opportunity with official funding for three years. CEO Palmisano provided public endorsement of the concept in Beijing in November 2006 when he announced the results of the Innovation Jam and a partnership with the Chinese Ministry of Culture by showing his avatar entering the Forbidden City. More recently, in another example with significant

implications for the business, a self-organizing group in the United Kingdom started IBM's "green computing" initiative.

Relying on the Middle: More Leaders at More Levels

The complexity of globalization tends to induce and favor distributed rather than concentrated leadership. That is, fewer people act as power-holders monopolizing information or decision making, and more people serve as integrators using relationships and persuasion to get things done, a hallmark of a flatter organization.

Formal assignments as integrators or connectors are common in global companies, and integrative work is an expectation for many more people. A large number of people juggle multiple responsibilities and work with a large set of peers drawn quite broadly throughout the organization, sometimes leading initiatives, sometimes leading the flow of ideas that keep other initiatives moving. Some jobs are explicitly devised to connect a mix of projects and initiatives to ensure that they align with major strategic priorities for ever-larger chunks of the business. These are leadership tasks requiring persuasion to keep resources over which the person has no direct control on the same track toward the same destination.

At a large European multinational company, leaders recalled the time when country organizations operated separately and only the few top executives in each geography were in contact with the rest of the company. Now this occurs at many levels, as people engage in regular direct communication with their peers in other geographies, especially as they take responsibility for marketing, distribution, and product innovations. For Cemex such direct contact is part of spreading local innovations quickly to ensure that everyone can tap best practices. People speak of needing to understand much more about how Cemex operates elsewhere, including corporate strategy, so as to figure out how to combine the thinking of various locations.

Mentoring becomes a much more important part of the leadership role under such circumstances because of the need to transmit knowledge faster that increases people's ability to use their judgment and tap a network of relationships—that is, to acquire and use what is now called social capital. Cemex expects managers to train backups so the managers can travel, in essence embedding a leadership sensibility at lower levels. The founder of Infosys in India refers to his current position as "Chairman and Chief Mentoring Officer." At IBM, the best

leaders coach large numbers of people. The chairman of IBM Greater China, considered one of the top information technology executives and best CEOs in China, personally mentors about one hundred people: twenty-five formal and active mentees, twenty-five informal mentees, and around fifty “graduates”—former mentees with whom he maintains a close personal relationship. Sam Palmisano stopped only because he became the CEO; he said that his staff told him that if he maintained mentoring relationships it might be misinterpreted as a sign of who was favored. Palmisano spends about 20 to 25 percent of his time on executive development; planning for future jobs and for successions; developing skills, culture, and climate; and thinking about the personal characteristics associated with leadership

Those doing integrative work sometimes wear many hats. For example, a woman in Egypt serves as communications manager for the country, reporting to the country general manager and the communications head in Europe; regional manager for diversity for the Middle East (Arab countries and Pakistan), reporting to Europe; and liaison for community relations, reporting to a manager in the United Kingdom. She works closely with the human resource (HR) department and government relations in Egypt and in Europe on other initiatives, but she calls herself a volunteer on these projects, because they are not part of her formal appraisal. Her effectiveness as a leader and her ability to wield influence derives not from what she does in any one of the areas but because she connects all of them; she is a significant idea conduit. She contrasts the current approach with the past: “Before, you only have your region, and there is a ceiling you cannot see through. If you go to a higher level, then you are escalating. Now I can exchange e-mails with any corporate director. This is the beauty of the matrix organization—you find the know-how anywhere, any time. The moment you ask for support, you will find it.”

At IBM, rising stars among leaders manage cross-cutting roles and relationships of many kinds and do integrative work well beyond their formal titles. In Russia, the research lab director feels responsible for helping customer-facing teams and business partners leverage IBM research technologies; she regularly attends sales meetings with customers to add a technology perspective. She was instrumental in encouraging IBM to locate a lab in Moscow in the first place, making the case that a lab in Russia is part of a global ecosystem strategy, providing technology experts on the ground who could collaborate with

sales teams, clients, and business partners to answer questions, learn, and bring back ideas for worldwide projects. She reports locally to the country general manager and worldwide to a vice president of development in the systems and technology group in the United States. She has dotted-line relationships to the other product lines on which the lab was working. She is a member of the IBM Academy of Technology, three hundred technology professionals that advise on technology policy and direction, for which she led a team studying globalization issues related to technology. She also interacts with U.S. headquarters as a member of informal teams with people in strategy, sales, services, and research. She works with labs in Mainz, Germany; Poughkeepsie, New York; and Beijing, China, and participates in bimonthly lab directors' meetings to set priorities and assign projects among labs. And, to top it all off, she maintains numerous informal relationships. She fields near-daily instant messages from a colleague in California that he sends before he goes to the gym in the morning to learn from her, ten time zones away, if there are any issues he should address during the day.

Deploying Social Capital: Politics and Persuasion

When integrators lead projects or initiatives that require cross-cutting groups, they are often working with people whose participation has a voluntary component. Broad priorities can be set by high-level leaders, but within those there is often freedom to negotiate the work itself with the team and the managers—although negotiations can sometimes be drawn out and politely contentiousness, slowing down the speed of project delivery, and there is always the issue of whether people can leave a project in the middle to go to a sudden high-priority task. It is challenging to get the right people to the right tasks, especially as technology changes and some regions enjoy rapid growth. A leader said, “Can you find the talent fast enough, and if you do, will they let you move it, and how many fights do you have to have before it finally moves?” Cemex managers were expected to train backups so that they could leave their posts for three months to two years to work on rapid integration and upgrade of operations coming from acquisitions.

Leaders below the top who guide such integrative groups often must attract both financial and human resources for projects, with their team thus enlarging and shrinking like an accordion. The money often comes from multiple budgets and the people from many different groups, recruited as individuals or because an intact team took on one

aspect of a project at a particular point in time, so leaders must be beggars and borrowers. Project leaders knock on doors for resources, stop to see many people, and engage in arguments over priorities, because managers of other efforts do not want to lose good people. In general, integrative projects get support because they meet two tests: they are strategic to the business (which attracts capital) and motivational to the individual (which attracts talent). In China, a young woman relatively new to IBM said that although she thought her manager was a very good boss, she did not need to go through him to make decisions or find resources; she went directly to her peers. She assembled a team by using personal persuasion and the appeal of her project to encourage already-overscheduled IBMers to join her. Access across boundaries frees people from constraints, such as waiting to be told what to do, while adding to their responsibilities for taking initiative. A distributed organization has more ears to the ground, but people have to do something with what they hear. Success in many jobs requires spotting opportunities, generating ideas, and getting them moving.

Finding the resources to beg for in the first place is often a function of leaders' social capital—their stockpile of personal relationships with many people. Though technology tools are increasingly common to help people find one another, I found that even tech-savvy leaders still rely on their own personal networks to get to the right resource quickly. The director of IT for a company's Middle Eastern technology center observed that he relied on “the old-fashioned way, the knowing people type thing: I know a person who might know a person.” IBM's executive vice president for technology and innovation felt that personal networks of people one had met or worked with were often better sources for key assignments than databases of resumes.

Note that this mode of operating has characterized fast-moving, highly innovative companies in technology fields since the opening of the global information age, as this observation from my 1983¹³ book, *The Change Masters*, makes clear:

Though innovators are diverse people in diverse circumstance, they share an integrative mode of operating which produces innovation: seeing problems not within limited categories but in terms larger than received wisdom; they make new connections, both intellectual and organizational; and they work across boundaries, reaching beyond the limits of their own jobs-as-given. They are not rugged individualists as in the classic stereotype of an entrepreneur but

good builders and users of teams, as even classic business creators have to be. And so they are aided in their quest for innovation by an integrative environment, in which ideas flow freely, resources are attainable rather than locked in budgetary boxes, and support and teamwork across areas are the norm.

[J]ust about all innovating has a “political” dimension, . . . [b]ut I am using “political” not in the negative sense of backroom deal making but in the positive sense that it requires campaigning, lobbying, bargaining, negotiating, caucusing, collaborating, and winning votes. That is, an idea must be sold, resources must be acquired or rearranged, and some variable numbers of other people must agree to changes in their own areas for innovations generally cut across existing areas and have wider organization ripples, like dropping pebbles into a pond.¹⁴

Leading Under Diversity: Identity Work

Classic international trade of past decades could be carried out with relatively few points of contact between operations in a variety of countries, and within each, organizations could rely on somewhat homogeneous workforces, with expatriate home-country representatives at the top of the pyramid who might even be housed in segregated enclaves echoing home-country conditions. Although there were often great differences within a country in ethnicity and race, as well as gender divides, these were often managed by other forms of segregation and subordination. Only relatively recently have even pluralistic countries recognized diversity as a matter of legal rights and overt discussion—meaning that people would not have to pretend that differences do not exist and cannot be mentioned.

Globalization has heightened attention to workforce composition and has been accompanied by growth in the number of countries with equal opportunity legislation—and that references diversity merely within a country. Many of the geopolitical conflicts of this era have involved ethnic or religious groups engaged in identity politics writ large, sometime with a national dimension, sometimes with an ethno-religious dimension. Within companies, today’s global leaders must acknowledge and contend with much greater heterogeneity under conditions that make it impossible to maintain myths regarding the

homogeneity of internal and external players. Globalization increases the variety of people who potentially interact as well as the dimensions of difference among them. Heterogeneity is introduced within organizations through mobility, the dispersion of people from particular locations across other locations, as well as through structures that require communication across locations. Although the number sent on long-term international assignments might be a small percentage of the population, the number of people who regularly communicate with counterparts in culturally different locations is a larger proportion, and, arguably, a growing proportion as global integration increases. In short, leaders must become adept at identity work.

Some kinds of differences are obvious and task-relevant, such as linguistic differences. Some are matters of private life, including religious preferences, that are increasingly salient because of geopolitical conflicts. Some are immutable, such as gender or skin color, with the meaning ascribed to them varying itself according to differences based on location, nationality, or ethnicity. The structural point is merely that there are more dimensions of difference recognized, more types of bundles of those differences, and greater likelihood of encounters with strangers carrying those differences.

The sorting of people into social categories carries assumptions about the attitudes, approaches, capabilities, and biases of people in those categories, and categories can become bases for self-identity and the formation of identity groups based on those categories. Differences can also become the basis for rankings of superiority and inferiority and thus for systems of dominance by people of some types over those of another type—such as a bias for home-country natives or a preference for the approaches or interests of those who have typically held power.

Company identities also create an inclusion challenge when they reflect not only company culture differences in operating styles but also loyalties that influence individual identities. Merger and acquisition activity, whether cross-border or within a country, poses another diversity challenge for leaders: how to manage differentiated identities and integrate people and their work effectively.

Identities, whether of individuals, groups, or an organization as a collective, become clear when encountering others who are different. Identity is differentiation, so it takes the experience of an “Other” for “me” to know what is “not me,” and therefore “what I am.” At the risk of anthropomorphizing, I can argue that even organizations often do

not bother with explicit articulation of what they are and stand for—their values—as long as they can recruit people for similarity and then slowly and carefully socialize people into their tacit culture, thereby assuring sufficient homogeneity for operating purposes. Procter & Gamble, for example, was long known for promotion from within and for a conformist culture; this was captured in the characterization of its employees as “proctoids.” It was only when P&G made a very large acquisition (Richardson-Vicks) that the company formalized its institutional identity by crafting the PVP (purpose, values, and principles).

Social and linguistic differences and the identities that flow from them constitute a leadership challenge. They can produce miscommunication, misunderstanding, mistrust, divisiveness, distraction, inequalities, and resentment of inequalities—in short, centrifugal forces within an organization as people view how “people like me” are treated and as they must encounter otherness. Externally, they can complicate the task of diplomacy, or securing what the organization needs from power holders whose identity and interests are different.

Some progressive U.S.-headquartered companies have dealt with diversity by encouraging formal networks for people representing social categories assumed to have a harder time fitting into the mainstream, which is assumed to be white, male, and American—thus there are networks for women, African Americans, Hispanics, Asian Americans, gays and lesbians (and related sexual orientations), and so forth. For one such company, diversity and inclusion are called centerpieces of its human resource strategy. The company counts more than forty networks in the United States alone, and supports their meeting on company time if they help recruit people like them to join the company. There are many positive changes as a result. The company has increased the numbers of people from previously excluded categories and given them a vehicle for meeting others like them, trained managers about what various groups might want or need from the workplace, and spread some U.S.-originated policies (e.g., regarding work/family issues) to other countries. But the company is still deliberating about how to develop global leaders capable of working across countries in a globally integrated fashion, because diversity has come to mean fragmentation. Diversity in practice requires choosing to join a special interest group. Moreover, diversity training has reinforced stereotypes by trying to show how people from previously underrepresented social

categories might be different from prevailing norms, even if actual people do not always fit into a single social category. For that company, it is not clear what to do beyond the numbers game or policy changes. What skills do leaders need in a world of diversity?

This is the leadership challenge in a globalizing world of greater contact among people of many varieties. Global leaders must confront identity issues in a way that unites people while acknowledging individuality. Leaders must become much more interpersonally aware than was the norm when whoever they were or whatever group they came from was automatically mainstream and dominant, and others (from subordinate groups to “lesser” nations) adjusted and accommodated to those in leadership positions without anyone explicitly saying anything about it—it just happened. Today, dominance-and-subordination models are fading from the best global companies. Home-country nationals can no longer claim superiority, and they must create relationships of reciprocity in order to work effectively across borders and boundaries. Even without the pressures for fairness reflected in equal opportunity laws in a growing number of countries (for women and minorities within those countries), companies originating from homogeneity-preferring countries must deal with more pluralistic norms in other places where they do business.

Identity work involves shaping awareness and action in terms of both differentiation (acknowledging differences) and inclusion (finding points of commonality). What is called “identity politics,” which consists of hostility and conflict, occurs when neither of these conditions are met—when people feel that their differences go unacknowledged and yet they do not feel membership in the wider group.

Tuning into Others: Respect for Differences

Leaders must develop their consciousness about others, noting the things that are important to other people. They need an awareness of differences and a willingness to honor them. American social theorists in the school known as symbolic interactionism argued that all human interaction depends on the ability to put oneself in the shoes of another, but they wrote at a time when people could count on a common vocabulary with roughly the same interpretive categories. Empathy, an important aspect of what is now called “emotional intelligence,” is made more difficult and becomes a higher, more conscious skill when dimensions of difference multiply.

Effective leaders in a globalizing world must attempt to read others and put them at ease by managing their perception of the situation. This is not the front-stage/backstage impression management and facework described by Erving Goffman, which had the ring of inauthenticity and manipulation, akin to the photo opportunities of smiling political figures at contentious international summits. Instead, it involves gestures of respect and inclusion.

The CEO of Publicis Groupe, Maurice Lévy, is a master of identity work. He personally led the courtship of advertising agencies considered unattainable to grow Paris-based Publicis into the world's fourth-largest advertising and communications group, catapulting it from far behind to highly profitable and able to continue to acquire effectively. When I say "personally," I mean by himself, unaccompanied at intimate dinners with heads of target companies by aides, staff, lawyers, or investment bankers. In three cases—the acquisitions of Hal Riney in San Francisco, Saatchi & Saatchi in London, and Leo Burnett in Chicago—Lévy devoted considerable time to personal bonding sessions with the relevant CEOs, in which he revealed details of his own family history (his father escaped from the Nazis) to show his values and also observed carefully to see what mattered to each of the CEOs. The courtship metaphor is often used, but Lévy went deeper, and he saw how they—from each of their vantage points—viewed a Frenchman and the feelings they would have about being part of a French company. (Indeed, the Saatchi acquisition got a disproportionate share of media in the United Kingdom for its size or value, under headlines indicating that the French were conquering the British.) When Saatchi's CEO, Kevin Roberts, said that he didn't want to have a boss, Lévy took note—and seeing the value of many Saatchi practices, proceeded to treat the merger as a reverse takeover. But Roberts also became so enamored of Lévy that he would do anything for him should Lévy but hint—which made Lévy the boss without anyone losing face.

An important part of identity work is holding one's own ego in check in order to honor something important to others. At the first post-deal meeting of Publicis and Saatchi executives, when the executive teams were introduced to each other for the first time, the Saatchi chairman, who was British, made his opening speech entirely in French, although he did not consider himself fluent—a gesture of respect that required humility (made even though Publicis executives were all good English-speakers). Leaders of an Indian company that acquired a French

company suspended their rule of no alcohol at work to serve French wine during the workday at their facilities, including their headquarters in India.

Cross-cultural savvy is especially important for leaders who travel frequently across countries, work on international teams, or meet with their counterparts from other locations. A Mexican woman based in Brazil who leads a Latin American function commented on contrasts in behavior in staff meetings: “People from certain countries are very direct and very passionate to say something. And from another country, very soft and tentative, but it is not because that person is not involved or interested in his or her point.” The differences are clear, whether stemming from country norms or individual characteristics, but what effective leaders do is acknowledge that without making a value judgment, and expect the same of the rest of the group.

Effective leaders also point to the importance of listening and adapting one’s own style. Listening involves catching the meaning in a range of accents. When Patricia Meneses got a global assignment to manage from Brazil, she found an English teacher nearby who gave her lessons over the phone so that she could recognize words in different accents on telephone calls. An executive in Egypt is also sensitive to accents, even within his country, deliberately using a thicker accent with English words when talking with government customers, to make them feel at ease.

Many IBMers who have worked across geographies have stories about cultural tendencies, some told with admiration—for example, an American expressing appreciation for Japanese culture because of team members who are punctual, courteous, and willing to talk in the middle of their night. But for the most part, leaders in cross-cultural or multicultural situations seem drawn not to generalize about differences but to find commonalities with other IBMers or with customers in other countries. Indeed, in interviews, they minimize the effect of differences. An American IBM veteran leading a technical function in Moscow answered my question “What’s different about doing business in Russia?” by jokingly replying, “They speak Russian here.” Only then, after establishing that people are people did she mention Russia’s unique historical legacy of communism and shaky business practices that were increasingly and rapidly changing to an international model. A Brazilian who led the implementation of a global model in Italy, Ireland, and Vietnam could point to the differences in how governments were

organized or differences in accents but was most inspired by the similarities everywhere in people's passion for their children and families. Other IBMers similarly downplay country differences and are quick to point to cultural differences within countries that require equal or more sensitivity—north versus south in Brazil, regions and ethnic suburbs in the United States and India—or even differences across functions—a British engineer described adjusting his style to differences between research teams and customer-facing teams in Russia.

One important lesson from IBM's diversity focus is that leaders need not a set of stereotypes about countries or types of people but the ability to see people as individuals and to put themselves in others' shoes. What leaders provide in their messages about diversity is permission for people to talk to one another more openly, to learn what it is like for other people with different life experiences. "They take it home, to their neighborhood, to families. Some people say it helps make them much better people," a Latin American leader said.

When leaders model and encourage acknowledgment of differences, individuals feel freer to express more aspects of their identity at work, and sometimes that becomes a useful source of innovation. Because of P&G's long-standing commitment to respect in the face of diversity, an executive in Brazil who was a native of Egypt served Middle Eastern food in São Paulo to an American visitor—and, more important for the business, he used an Egyptian artifact with his team to stimulate thinking that led to an important process innovation.

Forging a Common Identity: Toward an Overarching Membership

Helping people to operate as members of a community rather than isolated in fragmented groups has both technical and emotional components. Without the right technical facilitators, communication is awkward and insufficient. Community requires a common language, a common platform for communication, and processes—which is why Cemex created "the Cemex Way" to make explicit and easy to learn all of those routines that would help people in acquired companies feel part of One Cemex and able to work out differences without contention. The technical infrastructure is important, because it increases objectivity and makes certain things givens, not arenas for conflict.

The technical side is not enough, however; that can be just bureaucracy. The main leadership work is on the emotional side, to forge a

common identity, a common feeling of membership, above and beyond the ability to conduct transactions. Although the common language of engineering or of managerial processes can provide a basis for connection, it cannot fully produce a sense of community. That feeling of membership comes from being included as a whole person (feeling that “people like me” have a place), having the opportunity to form emotional bonds with others, and experiencing a kind of shared consciousness, which helps people feel that they can understand each other and come to think alike. P&G and IBM managers say almost the same words when asked to explain why overt conflict is so rare and why people insist they do not take it personally if a request is turned down. One said: “It’s the notion of an IBMer. We understand each other really very well, and we speak the same language, and we share the same beliefs and values. When issues arise, we are making some business decisions, and it’s just done. Everyone understands.”

Omron leaders feel that the Omron Principles help them create community not only within Japan, but also with acquired companies. They use the Principles as a basis for dialogue, to find a commonality of values that then makes it easier for people from the acquired company to identify themselves as members of the Omron community. Executives from two very different U.S. companies acquired by Omron mentioned this, and noted that it helped them work through the differences with a Japanese company and educate Omron leaders in Japan about the U.S. market.

For P&G, use of the PVP facilitated the smooth integration of Gillette in 2006, its largest acquisition. A P&G country manager created the basis for a new shared identity from day one of the formal integration, when he moved absolutely everyone to a new office. Jim Kilts, Gillette’s chairman and CEO who sold Gillette to P&G, described Gillette as a “team” but P&G as a “family.” Not intended entirely as a compliment (families don’t cut off low-performing members the way teams do), this comparison indicates something about the quality of community P&G has built that arguably makes it the stronger company in terms of community, or at least the surviving one. (P&G has since adopted some of Gillette’s get-the-team-to-perform practices.)

Global leaders must not only emphasize a common identity, but also take active steps to reinforce it against all the centrifugal forces of fragmentation. Shinhan Bank, a smaller, newer bank in Korea, acquired Chohung Bank, a much larger and older bank with strong pride among

its employees; leaders proceeded to put “emotional integration” (their term) at the center of their merger integration strategy. The Chohung union protested the acquisition announcement, with 3,500 union members shaving their heads and piling the hair in front of Shinhan headquarters in Seoul—a dramatic example of identity politics becoming high-cost conflict. Negotiating with the union, Shinhan agreed to suspend formal integration for three years—and then proceeded to integrate in all but name well before the stand-still period was up. It did this by emphasizing membership in a common endeavor through three streams of activity. First was “dual bank”—separate but equal, and ready to learn from one another, as people rooted in their Chohung or Shinhan identity met in task forces discussing their practices without any assumption of superiority or inferiority and no pressure to do anything but talk. By feeling pride in their former identity as a source of best practices, people could start to feel connected to the other bank. Second was “one bank,” the stream of activities designed to produce feelings of membership in something beyond their jobs, which was also part of the institutional work Shinhan leaders performed to infuse Shinhan Financial Group with meaning. Under the “one bank” umbrella, for example, 1,500 managers climbed a mountain together at one of Korea’s most historic shrines. The third stream, called “new bank,” involved people on teams explicitly creating the future—a new concept that would be owned and embraced by everyone together.

Sensitivity to dimensions of identity—that is, cultural differences and how to overcome them—is striking in these instances of merger integration because it is so obviously lacking in many mergers that fail. A feeling of common membership comes from activities that by definition lie outside of anyone’s task role. That’s why joint community service is so powerful as a way to transcend the many things that can divide people. The “community” that leaders build overlaps with the organization but is not identical with the formal structure and boundaries (for one thing, it might include suppliers of critical services, alumni, or retirees).

Challenges

In many ways, all leadership is intergroup leadership, as I argue in another paper,¹⁵ and the enduring skills that help leaders respect differences but forge a common membership are merely applied on a larger scale, to more dimensions and combinations of differences, in a

globalizing world. Leading under diversity is difficult, both as leaders manage themselves and as they set the context for others. There are many reasons for this, stemming from biases to historical legacies to the politics of interest groups to a common tendency for the identification of differences to immediately turn into rankings of superiority and inferiority. Furthermore, as people become more conscious of social categories or aspects of their own identity, and as they see leaders willing to permit them to express it, they push for more expressions of difference at work. One global company that bans discussions or expressions of politics or religion at work—which has helped considerably with maintaining professionalism and business success as it does business in conflict-ridden regions—is now facing an employee push to allow decorations on cubicles during religious holidays.

At the organizational level, it is still a struggle for many companies to get away from home-country dominance. P&G people talk about Cincinnati, IBMers about Armonk, and Cemex people about Monterrey as though these places were persons. Cemex is referenced as though divided between “Mexicans” and Others (though “Mexican” was loosely used to encompass native Spanish-speakers from Latin America and Spain). The huge global scope of these companies poses another challenge in itself, and one not handled by the Internet. The sensing part of sensitivity blossoms when there is face-to-face contact and time for discussions that are not solely task-oriented.

The very difficulty surrounding diversity has moved it out of the HR department and into the C-suite more generally. Leaders must consider identity work critical for their personal success and that of their organizations.

Conclusion: Trends, Leadership Qualities, and Further Research

This paper has outlined three kinds of leadership work that are particularly important in a globalizing world. Organizations are being turned upside-down (e.g., lower centers of gravity, self-organizing communities) and inside-out (e.g., internalizing society and social identities while having more people on the boundaries connecting to society).

The argument in this paper describes a much more open-ended aspect to leadership than what emerged from the so-called heroic or Great Man theories of the past. The top leaders in the companies

referenced seem most effective in leading change or stimulating innovation, for example, when they establish the process but do not overly constrain the outcome, when they set challenges or define problems rather than offer answers. They are confident in other people on their team or in their organization and believe that, with an empowering framework and strong capabilities, answers will emerge.

The top of any organization has always dealt heavily in symbols as well as strategies.¹⁶ The forces of globalization make leaders' ability to think through the symbolic consequences of their actions or to find symbols that create meaning even more important, because there is so much information and so much flux.

It is easy to generate a list of qualities that leaders should possess in the context that has been emerging over the past three decades, and many writers have done so: systems thinking, initiative-taking, persuasion and diplomacy, a cosmopolitan outlook with a concern for collaborative solutions good for many people. Leaders need intellectual skills in pattern recognition, seeing similarities and differences, systems thinking, and framing and conceptualizing. Leaders need emotional skills in empathy, self-awareness, warmth and respect, and ego management. It helps to be curious. It helps to like people. It helps to communicate with drama and clarity.

Perhaps effective leaders have always possessed these qualities. But now they must exercise them with many more variables in mind, with resources they cannot control, with attention to the hearts and minds of other people who might have different assumptions or interests, and with the utmost of diplomacy. Whatever their job description, they must add the three important tasks encouraged by globalization: institutional work, integrative work, and identity work.

This analysis raises questions for further research, at both sociological (macro) and social psychological (micro) levels. Among them are the following:

- How much of the time of leaders, and at which levels, is spent performing institutional, integrative, and identity work in addition to routine or technical responsibilities, and how does this change with the amount of globalization? Can these aspects of the work of leaders be deconstructed to make them scalable, so they can be studied, analyzed, and used in practice? How does the performance of these aspects of leadership work

correlate with overall business performance and longer-term business sustainability?

- What difference does top team diversity make? Does international diversity on the top team increase effectiveness or produce competitive advantages? If so, of what kinds? What are the mediating variables? And how are truly global top leaders developed?
- How does the relative tolerance or restrictiveness of a national/local context affect the ability of global leaders to function effectively? Are global leaders more likely to emerge from some contexts rather than others? What impact can they have in contexts that are dissimilar?
- In terms of leader qualities, does globalization mean that leaders' ability to send messages (i.e., to communicate their themes or visions) must be balanced by leaders' ability to receive and interpret messages from a diverse set of others?
- In globalizing companies, do leaders' national origins and/or education tilt decisions in particular directions? That is, are there patterns in terms of strategic choices, process preferences, and public engagement based on the national origins and formative experiences of leaders? Or are those differences irrelevant?
- Can a social contract be forged with the public across diverse countries with conflicting societal needs and requirements? As the ecosystem for business reaches its theoretical limits, encompassing potentially the entire world, how can leaders maintain the national/local bonds that provide legitimation? Will the bases for legitimacy shift, as global bodies legitimate if not authorize companies, and will something resembling a global society be created—like the cosmopolitan citizens suggested by some writers?
- What are the circumstances under which universal values truly guide behavior? And what are the consequences? Will that create convergence among countries or merely provoke particularistic backlash?

It is clear that the study of leadership in a globalizing world has a world's worth of potential to enrich the interplay between theory and practice. In addition, to the extent that global leaders are developed and mobilized by companies that operate under more universalistic values, those leaders themselves have enormous potential to improve the state of the world. Thus, global leaders are not only worthy of study, they should be actively developed at all those institutions of higher learning at which researchers are encouraged to translate their findings to the classroom.

Notes

1. The research is described fully in my book, *Supercorp: How Vanguard Companies Create Innovation, Profits, Growth, and Social Good*, New York: Crown, 2009. The project involved a multi-year study of more than 15 companies with international scope, based on approximately 350 interviews in 20 countries. The companies were chosen opportunistically because of their expressed interest in further globalizing and their willingness to allow access (in several cases I was invited as a consultant), but all have been externally identified by at least one group as high reputation and high performance. All of them made significant changes to their strategies and structures between 1998 and 2003 in response to global challenges and aspirations. The companies anchored in developed countries increased their investment in emerging market countries, and several of the companies from emerging economies increased investment in the developed world. Even the oldest companies in this group, with international operations for one hundred years or more, changed their international strategies and organizational structures or processes after the year 2000. All of the companies have CEOs who are widely admired, some of whom led turnarounds following predecessors who stumbled.

The companies I studied can be arrayed along a continuum in terms of degree of globality. At the least global end, although the company earned 90 percent of its revenues outside its home country, about 80 percent of its employees were natives of the headquarters country, even those working in international facilities. The company anchoring the most global end of the continuum in my research operated in 170 countries and was reshaping its organizational model to be “globally integrated” rather than “multinational.”

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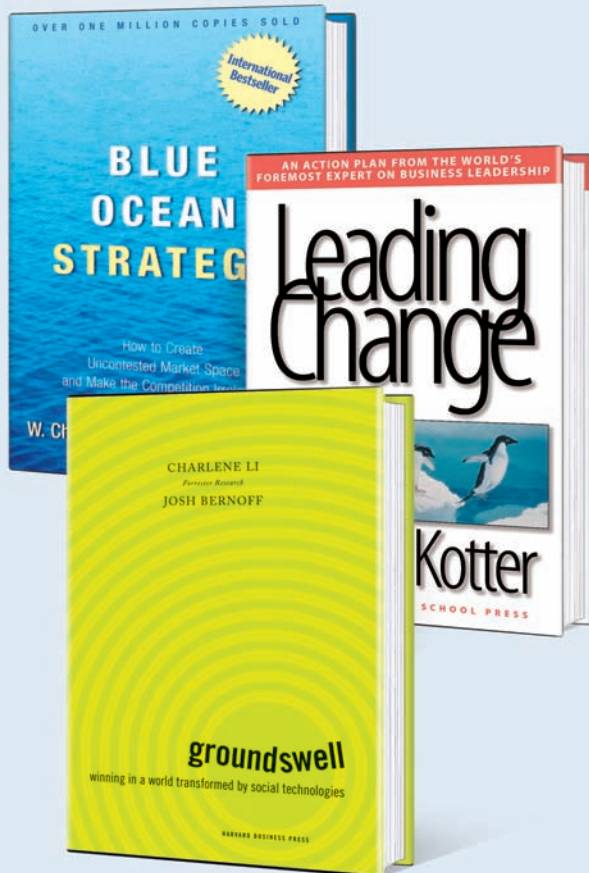
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8. Rosabeth Moss Kanter, *Confidence: How Winning Streaks and Losing Streaks Begin and End* (New York: Crown, 2004), chapter 11.
9. Joel Podolny, Rakesh Khurana, and Marya Lisl Hill-Popper, "Revisiting the Meaning of Leadership," *Research in Organizational Behavior* 26 (2004): 1–36.
10. Rosabeth Moss Kanter, *Commitment and Community* (Cambridge MA: Harvard University Press, 1972).
11. Rosabeth Moss Kanter, *Supercorp: How Vanguard Companies Create Innovation, Profits, Growth and Social Good* (New York: Crown, 2009).
12. Rakesh Khurana, *Searching for a Corporate Savior* (Princeton, NJ: Princeton University Press, 2002).
13. Rosabeth Moss Kanter, *The Change Masters* (New York: Simon and Schuster, 1983).
14. Ibid.
15. Rosabeth Moss Kanter, "Creating Common Ground: Propositions About Effective Intergroup Leadership," in *Intergroup Leadership*, ed. T.L. Pittinsky (Boston: Harvard Business School Press, 2008).
16. Rosabeth Moss Kanter, "How the Top Is Different," in *Life in Organizations*, eds. R.M. Kanter and B.A. Stein (New York: Basic Books, 1979).

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It's often a mistake to set out to create a worldwide strategy. Better results come from strong regional strategies, brought together into a global whole.

Regional Strategies for Global Leadership

by Pankaj Ghemawat

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Regional Strategies for Global Leadership

The Idea in Brief

Many companies competing in foreign markets pin their hopes for success on a single worldwide strategy—only to see lukewarm results. Why the disappointment? Despite globalization, regional distinctions (cultural, political, legal, and economic) aren't disappearing. Global powerhouses—including GE, Wal-Mart, and Toyota—capitalize on regional differences, crafting strategies that complement their global *and* individual country tactics.

How to craft a winning regional strategy? Ghemawat suggests choosing from a menu, depending on your circumstances. For example, use the “home base” strategy—locating your R&D and manufacturing in your country of origin—if the economics of concentration outweigh those of dispersion. Or use the “portfolio” strategy—establishing operations outside your home region that report to home base—if you need to average out economic cycles across regions. Shift among the five regional strategies—or combine them—as circumstances evolve.

By creatively blending regional strategies, Toyota surpassed Ford as the world's second-largest automaker in 2004.

The Idea in Practice

Ghemawat identifies five regional strategies for serving foreign markets:

Strategy	How to Implement	Example	Pros and Cons
Home base	Locate R&D and manufacturing in your country of origin.	Spanish fashion company Zara designs and makes items near its manufacturing and logistics hub in Spain and trucks them to Western European markets.	Lets you get time-sensitive items to market quickly, but you risk eventually running out of room to grow.
Portfolio	Establish operations outside your home region that report to home base.	Toyota applied its renowned production system (its distinct competitive advantage) to factories it built in the United States (its most important overseas market).	You accelerate growth in foreign regions and average out economic cycles across regions, but portfolio strategies take time to implement.
Hub	Build regional bases that provide shared resources and services to country operations.	Toyota began producing a limited number of locally exclusive models in its principal foreign plants. Each plant had its own platform, with products designed for sale within the region.	You add value at the regional level by catering to regional preferences, but you risk sacrificing cross-regional economies of scale.
Platform	Reduce the number of basic product platforms you offer worldwide.	Toyota has reduced the number of its vehicle platforms from 11 to 6 by allowing customization atop common platforms engineered for adaptability.	You achieve greater economies of scale in design, procurement, and other functions, thus delivering variety more cost-effectively, but taking platform standardization <i>too</i> far can backfire if regional customization creates excessive disparity across regions.
Mandate	Give certain regions mandates to supply particular products or perform certain roles for your entire organization.	Toyota's innovative International Multi-purpose Vehicle (IMV) project funnels common engines and manual transmissions for pickup trucks, SUVs, and minivans from Asian plants to four assembly hubs there and in Latin America and Africa. These parts are then forwarded on to major global markets except the U.S., where vehicles are larger.	You achieve economies of specialization as well as scale, but broad mandates can't handle variations in country, national, or regional conditions (which is why IMV excludes the U.S.).

It's often a mistake to set out to create a worldwide strategy. Better results come from strong regional strategies, brought together into a global whole.

Regional Strategies for Global Leadership

by Pankaj Ghemawat

Let's assume that your firm has a significant international presence. In that case, it probably has something called a "global strategy," which almost certainly represents an extraordinary investment of time, money, and energy. You and your colleagues may have adopted it with great fanfare. But, quite possibly, it has proven less than satisfactory as a road map to cross-border competition.

Disappointment with strategies that operate at a global level may explain why companies that do perform well internationally apply a regionally oriented strategy in addition to—or even instead of—a global one. Put differently, global as well as regional companies need to think through strategy at the regional level.

Jeffrey Immelt, CEO of GE, claims that regional teams are the key to his company's globalization initiatives, and he has moved to graft a network of regional headquarters onto GE's otherwise lean product-division structure. John Menzer, president and CEO of Wal-Mart International, tells employees that global lever-

age is about playing 3-d chess—at the global, regional, and local levels. Toyota may have gone furthest in exploiting the power of regionalized thinking. As Vice Chairman Fujio Cho says, "We intend to continue moving forward with globalization...by further enhancing the localization and independence of our operations in each region."

The leaders of these successful companies seem to have grasped two important truths about the global economy. First, geographic and other distinctions haven't been submerged by the rising tide of globalization; in fact, such distinctions are arguably increasing in importance. Second, regionally focused strategies are not just a halfway house between local (country-focused) and global strategies but a discrete family of strategies that, used in conjunction with local and global initiatives, can significantly boost a company's performance.

In the following article, I'll describe the various regional strategies successful companies have employed, showing how they have switched among the strategies and combined

them as their markets and businesses have evolved. I'll begin, though, by looking more closely at the economic reasons why regions are often a critical unit of analysis for cross-border strategies.

The Reality of Regions

The most common pitch for taking regions seriously is that the emergence of regional blocs has stalled the process of globalization. Implicit in this view is a tendency to see regionalization as an alternative to further cross-border economic integration.

In fact, a close look at the country-level numbers suggests that increasing cross-border integration has been accompanied by high or rising levels of regionalization. In other words, regions are not an impediment to but an enabler of cross-border integration. As the exhibit "Trade: Regional or Global?" shows, the surge of trade in the second half of the twentieth century was driven more by activity within regions than across regions. The numbers also cast doubt on the idea (held implicitly by advocates of pure global strategies) that economic vitality is promoted more by cross-regional trade. It turns out that regions whose internal trade flows are the lowest relative to trade flows with other regions—Africa, the Middle East, and some of the Eastern European transition economies—are also the poorest economic performers.

Country-level numbers also suggest that foreign direct investment (FDI) is quite regionalized, which is even more surprising than the regionalization of trade. Data from the United Nations Conference on Trade and Development show that for the two dozen countries that account for nearly 90% of the world's outward FDI stock, the median share of intraregional FDI in total FDI was 52% in 2002, the most recent year for which data are available.

The extent and persistence of regionalization in economic activity reflect the continuing importance not only of geographic proximity but also of cultural, administrative, and, to some extent, economic proximity.¹ These four factors are interrelated: Countries that are relatively close to one another are also likely to share commonalities along the other dimensions. What's more, those similarities have intensified in the past few decades through free trade agreements, regional trade preferences and tax treaties, and even currency unification,

with NAFTA and the European Union supplying the two most obvious examples. Ironically, some differences between countries within a region can combine with the similarities to expand the region's overall economic activity. For instance, we see U.S. firms in many industries nearshoring production facilities to Mexico, thereby arbitraging across economic differences between the two countries while retaining the advantages of geographic proximity and administrative and political similarities, which more distant countries, such as China, do not enjoy.

Evidence from companies' international sales also points to considerable regionalization. According to data analyzed by Susan Feinberg at Rutgers Business School, among U.S. companies operating in only one foreign country, there is a 60% chance that the country is Canada. Even the largest multinational corporations exhibit a significant regional bias. A study published by Alan Rugman and Alain Verbeke in the *Journal of International Business Studies* shows that around 88% of the world's biggest multinationals derive at least 50% of their sales—the weighted average is 80%—from their home regions. Just 2% (a total of nine companies) derive 20% or more of their sales from each of the triad of North America, Europe, and Asia.

Zooming in on large companies with relatively broad regional footprints—roughly akin to the top 12% of the previous sample—we find that even here competitive interactions are often regionally focused. Take the case of the aluminum-smelting industry. As we see in the exhibit "Industry: Regional or Global?" in the last ten years the industry has experienced some increase in concentration as measured by the Herfindahl index (a standard measure of industry concentration; the higher the index, the larger the market shares of the largest firms). But that increase in concentration reverses less than one-half of the decline of the previous 20 years, or about one-tenth of the decline experienced since 1950. In contrast, concentration in North America has doubled in the last ten years after holding more or less steady for the previous 20 years. Similar patterns appear in a range of other industries: personal computers, beer, and cement, to name just three. In other words, regions are often the level at which global oligopolists try to build up powerhouse positions.

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Let's now take a closer look at the menu of regional strategies from which your company can choose.

The Regional Strategy Menu

Broadly speaking, regional strategies can be classified into five types, each with distinct strengths and weaknesses. I have ordered the strategies according to their relative complexity, starting with the simplest, but that does not mean companies necessarily progress through the strategies as they evolve. Whereas some companies may indeed adopt the strategies in the order in which I present them, others may find themselves abandoning more-advanced strategies in favor of simpler ones—good business is about striving to maximize value, not complexity. And capable companies will often use elements of several strategies simultaneously.

The Home Base Strategy. Except for the very few companies that are virtually born global, such as Indian software services firms,

companies generally start their international expansion by serving nearby foreign markets from their home base, locating all their R&D and, usually, manufacturing in their country of origin. The home base is also where the bulk of the *Fortune* Global 500 still focuses. Even companies that have since moved on to more complex regional strategies nonetheless rely on a home base strategy—at the regional level—for long periods. Thus, for decades, Toyota's international sales came exclusively from direct exports. And some companies that move on eventually return to a home base strategy: GE did so in home appliances, as did Bayer in pharmaceuticals.

For other companies, however, a focus on the home region is a matter of neither default nor devolution but, instead, the desired long-term strategy. Take the case of Zara, the Spanish fashion company. In a cycle that takes between two and four weeks, Zara designs and makes items near its manufacturing and logistics hub in northwestern Spain and trucks

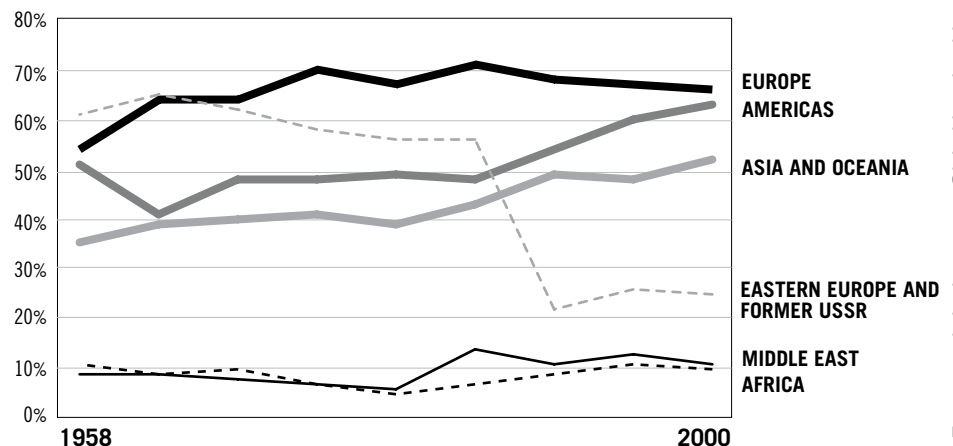
Trade: Regional or Global?

In many parts of the world, intraregional trade increased steadily as a percentage of a region's total trade in the second half of the twentieth century. For example, in 1958 some 35% of trade in Asia and Oceania took place between countries in that geographic region.

In 2000, the proportion was more than 50%. Globally, the proportion of trade within regions rose from about 47% to 55% between 1958 and 2000. The only significant decline has been in Eastern Europe, but that is explained by the collapse of communism. In

general, the numbers indicate that increasing economic integration through international trade has been accompanied by increasing rather than decreasing regionalization.

Intraregional Trade as a Percentage of Total Trade



Source: United Nations, *International Trade Statistics Yearbooks*, 1958 to 2000.

those goods to Western European markets. This rapid response lets the company produce what is selling during a fashion season instead of committing to merchandise before the season starts. The enhanced customer appeal and reduced incidence of markdowns have so far more than offset the extra costs of producing in Europe instead of Asia.

As Zara illustrates, home base strategies work well when the economics of concentration outweigh the economics of dispersion. Fashion-sensitive items do not travel easily from the Spanish hub to other regions, because the costs of expedited air shipments compromise the company's low-price positioning. More generally, the presence of any factor that collapses distance *within* the local region (such as regional grids in energy) will encourage companies to favor a single-region, home base strategy.

For some companies, the "region" that can be served from the home base is actually the globe. Operating in the highly globalized mem-

ory chip business, the Korean giant Samsung has one of the most balanced worldwide sales distributions of any major business, but it considers the colocation of most R&D and production at one site in South Korea to be a key competitive advantage. Transport costs are so low relative to product value that geographic concentration—which permits rapid interactions and iteration across R&D and production—dominates geographic dispersion even at the global level.

But cases like Samsung are rare. Typically, doing business from the home base effectively limits a company to its local region. As a result, the biggest threats to companies pursuing a home base strategy are running out of room to grow or failing to hedge risk adequately. Growth within Europe will soon be an issue for Zara. And risk has already emerged as a major concern: As of this writing, the sharp decline of the dollar against the euro has inflated Zara's costs of production relative to competitors that rely more on dollar-denominated imports

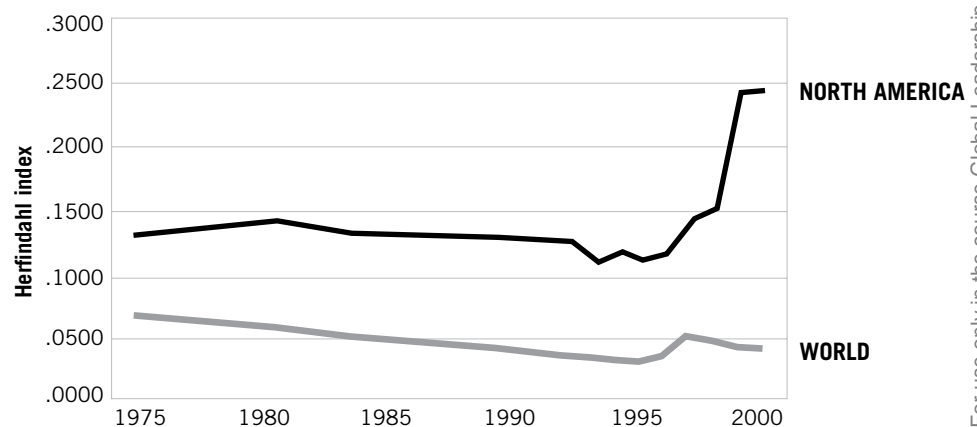
Industry: Regional or Global?

In many "global" industries, competition is playing out at a regional level. The chart below measures concentration in the aluminum-smelting industry as a summary measure of the distribution of market shares within it. The metric used is the Herfindahl

index, which measures the degree to which the industry is fragmented (lots of small to medium-sized companies splitting most of the business) or concentrated (a few players controlling most of the business). The higher the index, the larger the market shares of the

largest companies. As the chart shows, the level of global competition was relatively flat from 1975 to 2000, while concentration in North America over the same period increased dramatically.

Concentration in the Aluminum-Smelting Industry



Source: Fariborz Ghadar, Center for Global Business Studies, Penn State University.

The surge of trade in the second half of the twentieth century was driven more by activity within regions than across regions.

from Asia.

The Portfolio Strategy. This strategy involves setting up or acquiring operations outside the home region that report directly to the home base. It is usually the first strategy adopted by companies seeking to establish a presence outside the markets they can serve from home. The advantages of this approach include faster growth in nonhome regions, significant home positions that generate large amounts of cash, and the opportunity to average out economic shocks and cycles across regions.

A good example of a successful portfolio strategy is provided by Toyota's initial investments in the United States, which seemed tied together by little more than the desire to build up a manufacturing presence in the company's most important overseas market. What prevented this approach from destroying value was Toyota's distinct competitive advantage: the celebrated Toyota Production System (TPS), which was developed and still works best at home in Japan but could be applied to factories in the United States.

Although the portfolio strategy is conceptually simple, it takes time to implement, especially if a company tries to expand organically. It took Toyota more than a decade to establish itself in North America—a process that began with a joint venture with General Motors in the early 1980s. For an automaker lacking an advantage like TPS, the organic buildup of a significant presence in a new region could take far longer. Of course, companies may build a regional portfolio more quickly through acquisitions, but even that can take a decade or more. When Jack Welch began GE's globalization initiative in the second half of the 1980s, he targeted expansion in Europe, giving a trusted confidant, Nani Beccalli, wide latitude for deal making. Thanks to Beccalli's acquisitions, GE built up a strong presence in Europe, but the process of assembling the regional portfolio lasted until the early 2000s.

Companies that adopt a portfolio strategy often struggle to deal with rivals in nonhome regions. That's largely because portfolio strategies offer limited scope for letting regional—as opposed to local or global—considerations influence what happens on the ground at the local level. Indeed, this was precisely the experience of GE, whose European businesses reported to the global headquarters in the

United States, run by purported “global leaders”—many of whom were Americans who had never lived or worked abroad. Meanwhile, most of GE's toughest competitors in its nonfinancial businesses were European companies that knew their increasingly regionalized home turf and were prepared to compete aggressively there. During a talk at Harvard Business School in 2002, Immelt described the results: “I think we stink in Europe today.”

The Hub Strategy. Companies seeking to add value at the regional level frequently begin by adopting this strategy. Originally articulated by McKinsey consultant Kenichi Ohmae, a hub strategy involves building regional bases, or hubs, that provide a variety of shared resources and services to local (country) operations. The logic is that such resources may be hard for any one country to justify, but economies of scale or other factors may make them practical from a cross-country perspective.

Hub strategies often involve transforming a foreign operation into a stand-alone unit. In the early 1990s, for instance, Toyota began producing a limited number of locally exclusive models in its principal foreign plants—previously a taboo—thereby signaling the company's intention to build complete organizations in each of its regions. These plants thus started to serve as regionally distinct hubs, each with its own platform, whose products were designed for sale within the region.

In its purest form, a hub strategy is simply a multiregional version of the home base strategy. For example, if Zara were to add a second hub in, say, Asia by establishing an operation in China to serve the entire Asian market, it would shift from being home based to being a multiregional hubber. Therefore, some of the same conditions that favor a home base strategy also favor hubs. It should also be noted that multiple hubs can be very independent of one another; the more regions differ in their requirements, the weaker the rationale for hubs to share resources and policies.

A regional headquarters can be seen as a minimalist version of a hub strategy. After the European Commission blocked GE's merger with Honeywell, GE felt the need to dedicate more corporate infrastructure and resources to Europe, partly to attract, develop, and retain the best European employees and partly to acquire a more European face for political rea-

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sons. In 2001, therefore, GE switched from a portfolio to a hub strategy by establishing a regional HQ structure in Europe—complete with a CEO for GE Europe. The company followed up in 2003 by establishing a parallel organization in Asia.

The impact of the typical regional HQ is limited, however, by its focus on support functions and its weak links to operating activities. For example, the regional presidents within Wal-Mart International perform a communication-and-monitoring role, but otherwise their influence on strategy and resource allocation seems to be mainly personal. In any event, a regional HQ is seldom a sufficient basis for a regional strategy, even though it may be a necessary part of one. (See the sidebar “A Regional HQ Is Not Enough.”)

The challenge in executing a hub strategy is achieving the right balance between customization and standardization. Companies too responsive to interregional variation risk adding too much cost or sacrificing too many opportunities to share costs across regions. As a result, they may find themselves vulnerable to attacks from companies taking a more standardized approach. On the other hand, companies that try to standardize across regional hubs—and in so doing overestimate the degree of commonality from region to region—are vulnerable to competition from local players. Thus we see Dell, whose product is relatively standard across its regional operations, forced to modify its plans in China to respond to local companies competing aggressively on cost by produc-

ing less-sophisticated, lower quality products.

The Platform Strategy. Hubs, as we’ve seen, spread fixed costs across countries within a region. Interregional platforms go a step further by spreading fixed costs across regions. They tend to be particularly important for back-end activities that can deliver economies of scale and scope. Most major automakers, for example, are trying to reduce the number of basic platforms they offer worldwide in order to achieve greater economies of scale in design, engineering, administration, procurement, and operations. It is in this spirit that Toyota has been reducing the number of its platforms from 11 to six and has invested in global car brands such as the Camry and the Corolla.

It’s important to realize that the idea behind platforming is *not* to reduce the amount of product variety on offer but to deliver variety more cost-effectively by allowing customization atop common platforms explicitly engineered for adaptability. Ideally, therefore, platform strategies are almost invisible to a company’s customers. Platforming runs into difficulties when managers take standardization too far.

Let’s look again at the automobile industry. Sir Nick Scheele, outgoing COO of Ford, points out, “The single biggest barrier to globalization [in the automobile industry]...is the relatively cheap cost of motor fuel in the United States. There is a tremendous disparity between the United States and...the rest of the world, and it creates an accompanying disparity in...the most fundamental of vehicle characteristics: size and power.” This reality is precisely what Ford ignored with its Ford 2000 program. Described by one analyst as the biggest business merger in history, Ford 2000 sought to combine Ford’s regional operations—principally North America and Europe—into one global operation. This attempt to reduce duplication across the two regions sparked enormous internal turmoil and largely destroyed Ford’s European organization. Regional product development capabilities were sacrificed, and unappealingly compromised products were pushed into an unreceptive marketplace. The result: nearly \$3 billion in losses in Europe through 2000 and a fall in regional market share from 12% to 9%.

The Mandate Strategy. This cousin of the platform strategy focuses on economies of *specialization* as well as scale. Companies that

A Regional HQ Is Not Enough

Many companies with explicitly global ambitions have reacted to the regionalization of the world economy by establishing a set of regional headquarters. This kind of organizational response has, in fact, also been the focus of most of the management literature on regions. Michael Enright, for example, has described some interesting patterns in recent articles in the *Management International Review* on the functions performed by regional management centers. But to focus on regional HQs or any other organizational structure as the pri-

mary object of interest is a little like focusing on the briefcase rather than its contents. Without a clear sense of how a regional structure is supposed to add value, it is impossible to specify what the structure should try to achieve. A company with no regional HQs may still use regions as the building blocks of its overall strategy, and a company with many regional HQs may still not have a clearly articulated regional strategy. In other words, having regional headquarters doesn’t mean that you actually have a regional strategy.

adopt this strategy award certain regions broad mandates to supply particular products or perform particular roles for the whole organization. For example, Toyota's Innovative International Multi-purpose Vehicle (IMV) project funnels common engines and manual transmissions for pickup trucks, SUVs, and minivans from Asian plants to four assembly hubs there and in Latin America and Africa, and then on to almost all the major markets around the world except the United States, where such vehicles are larger. Similarly, Whirlpool is sourcing most of its small kitchen appliances from India, and a host of global companies are in the process of broadening the mandates of their production operations in China.

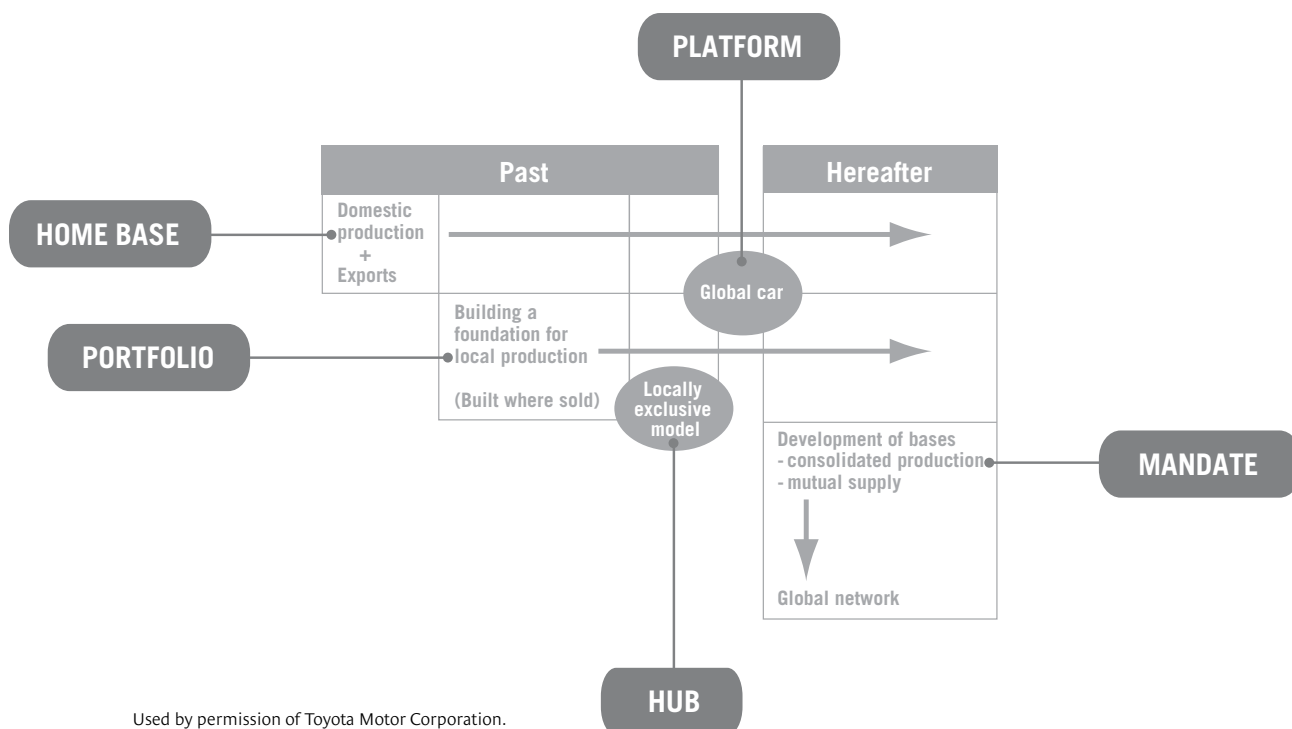
As with platforms, the scope for mandates generally increases with the degree of product standardization around the world, even though the mandate strategy involves focused resource deployments at the regional and local levels. But interregional mandates can be set

up in some businesses that afford little room for conventional platforms. For instance, global firms in consulting, engineering, financial services, and other service industries often feature centers of excellence that are recognized as repositories of particular knowledge and skills, and are charged with making that knowledge available to the rest of the firm. Such centers are often concentrated in a single location, around an individual or a small group of people, and therefore have geographic mandates that are much broader than their geographic footprints.

There are of course several risks associated with assigning broad geographic mandates to particular locations. First, such mandates can allow local, national, or regional interests to unduly influence, or even hijack, a firm's overall strategy: More than one professional service firm can be cited in this context. Second, broad mandates cannot handle variations in local, national, or regional conditions, which is why the near-global mandate for Toyota's Asian pickup

The Toyota Way

This exhibit is an almost exact reproduction of a slide presented to Toyota investors at an informational event in New York City in September 2004. The only change I have made is to label the slide to highlight how the various elements identified in the Toyota strategy correspond to the five strategies described in this article. Toyota's "global network," which combines all the other approaches, can be considered a sixth strategy.



engine and transmission plants excludes the United States. And finally, carrying the degree of specialization to extremes can create inflexibility. A company that produces everything based on global mandates would be affected worldwide by a disruption at a single location.

The reader will have noticed that Toyota figures as an illustration in all the foregoing descriptions. Indeed, this is because Toyota provides perhaps the most compelling and complete example of how the effective application of regional strategies can produce a global powerhouse. The success is apparent: Toyota surpassed Ford as the world's second-largest automaker in 2004 and is poised to overtake General Motors in the next two to three years. The exhibit "The Toyota Way" reproduces a slide that the company uses to summarize the evolution of its strategy. It shows both that Toyota looks at strategy through a regional lens and that it has, in fact, progressed through all the strategies I've just described.

What is also interesting about Toyota is that new modes of value creation at the regional level have supplemented old ones instead of replacing them. Although Toyota has moved beyond a Japanese manufacturing base (the home base strategy), exports from Japanese manufacturing facilities to the rest of the world continue to account for more than one-quarter of the company's volume and a significantly larger share of its profits. In regions other than the two in which it has strong positions—East and Southeast Asia and North America—Toyota is still following a portfolio approach. In terms of regional hubs, the promotion of a production and procurement specialist to succeed Fujio Cho as president signals an increased commitment to transplanting the Toyota Production System from Japan to the newer production hubs at a time when overseas production is being ramped up rapidly. But even as its hubs gain strength, Toyota continues to reduce the number of its major production platforms and pursue additional specialization through interregional mandates. The IMV project described earlier plays a critical role in all three respects.

The picture that emerges is not one of Toyota progressing through the various regional strategies one at a time but of a company trying to cover all the bases. One can even argue that the application of all five regional strategies itself represents a new form of strategy—

the "global network" in Toyota's slide—in which various regional operations interact with one another and the corporate center in multiple ways and at multiple levels.

Of course, Toyota's ability to employ a complex mix of regional strategies to create value is inseparable from the company's basic competitive advantage: TPS's ability to produce high-quality, reliable cars at low cost. Without this fundamental advantage, some of Toyota's coordination attempts would drown in a sea of red ink.

Defining Your Regions

As companies think through the risks and opportunities of various regional strategies, they also need to clarify what they mean by the word "region." I have so far avoided a definition, although most of my examples imply a continental perspective. My goal is not to be elusive but to avoid restricting the strategies to a particular geographic scale. Particularly with large countries, the logic of the strategies can apply to intranational as well as international regions. Oil companies, for example, consider the market for gasoline in the United States to consist of five distinct regions. Other large markets where transport costs are relatively high in relation to product value, such as cement in Brazil or beer in China, can be similarly broken down.

The general point is that one can interpret the regional strategies at different geographic levels. Assessing the level—global, continental, subcontinental, national, intranational, or local—at which scale is most tightly tied to profitability is often a helpful guide to determining what constitutes a region. Put differently, the world economy is made up of many overlapping geographic layers—from local to global—and the idea is to focus not on one layer but on many. Doing so fosters flexibility by helping companies adapt ideas about regional strategies to different geographic levels of analysis.

In addition to reconsidering what might constitute a geographic region, one can imagine being even more creative and redefining distance—and regions—according to nongeographic dimensions: cultural, administrative and political, and economic. Aggregation along nongeographic dimensions will sometimes still imply a focus on geographically contiguous regions. Toyota, for instance, groups

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Is a Regional Strategy Right for Your Company?

Take a couple of minutes to complete this short questionnaire. First, circle one option for each of the following eight categories. Then complete the scoring. Give yourself -1 for each “a” response, 0 for each “b” response, and 1 for each “c” response, and then add up the numbers. A positive score may indicate a significant need for strategy at the regional level. The higher the score, the greater is your need.

Of course, this kind of questionnaire is no substitute for analyzing your company’s situation—and regionalization options—in detail. But if the results prompt you to look at your regional strategy more carefully, the exercise will have been useful.

COMPANY FOOTPRINT

Number of countries with significant operations	SCORE
a. 1–5	
b. 6–15	
c. >15	_____
Percentage of sales from the home region	
a. >80%	
b. 50%–80%	
c. <50%	_____

COMPANY STRATEGY

Objective for interregional dispersion	
a. Decrease	
b. Maintain	
c. Increase	_____
Number of bases of aggregation (or grouping) to be pursued	
a. 1	
b. 2	
c. >2	_____

COUNTRY LINKS

Percentage of trade that is intraregional	
a. <50%	
b. 50%–70%	
c. >70%	_____
Percentage of FDI that is intraregional	
a. <40%	
b. 40%–60%	
c. >60%	_____

COMPETITIVE CONSIDERATIONS

Differences in profitability across regions	
a. Small	
b. Short-term	
c. Long-term	_____
Key competitors’ strategies	
a. Deregionalizing	
b. Unchanged	
c. Regionalizing	_____

TOTAL SCORE

SCORING: -1 for each (a) response
0 for each (b) response
1 for each (c) response

countries by existing and expected free trade areas. At other times, however, such definitions will yield regions that aren’t geographically compact. After making its first foreign investments in Spain, for example, the Mexican cement company Cemex grew through the rest of the 1990s by aggregating along the economic dimension—that is, by expanding into markets that were emerging, like its Mexican home base. This strategy created the so-called ring of gray gold: developing markets that mostly fell in a band circling the globe just north of the equator, forming a geographically contiguous but dispersed region.

At times, the parts of a region aren’t even contiguous. Spain, for example, can be thought of as “closer” to Latin America than to Europe because of long-standing colony-colonizer links. Between 1997 and 2001, 44% of a surge in FDI from Spain was directed at Latin America—about ten times Latin America’s share of world FDI. Europe’s much larger regional economy was pushed into second place as a destination for Spanish capital.

Finally, it’s important to remember that the definition of “region” often changes in response to market conditions and, indeed, to a company’s own strategic decisions. By serving the U.S. market from Japan, Toyota in its early days implicitly considered that market to be on the periphery of its own region. The North American West Coast was easy to access by sea, the United States was open to helping the Japanese economy get off the ground, and the company’s business there was dwarfed by its domestic business. But as Toyota’s U.S. sales grew, political pressures increased the political and administrative distance between the two countries, and it became apparent that Toyota needed to look at the United States as part of its own self-contained region.

Leading-edge companies are starting to grapple with these definitional issues. For example, firms in sectors as diverse as construction materials, forest products, telecommunications equipment, and pharmaceuticals have invested significantly in modern mapping technology, using such innovations as enhanced clustering techniques, better measures for analyzing networks, and expanded data on bilateral, multilateral, and unilateral country attributes to visualize new definitions of regions. At the very least, this sort of mapping sparks creativity.

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Facing the Organizational Challenge

Regional strategies, as I've noted, can take a long time to implement. One deep-seated reason for this is that an organization's existing structures may be out of alignment with—or even inimical to—a superimposed regional strategy. The question then becomes how best to mesh such strategies with a firm's existing structures, especially when the established organizational players command most of the power.

For some pointers, consider Royal Philips Electronics, which has been a border-crossing enterprise for virtually all of its 114-year history. Philips's saga not only points to alignment challenges but also reminds us that regionalization is rarely a triumphal march from the home base to interregional platforms or mandates.

Starting in the 1930s, Philips evolved into a federal system of largely autonomous national organizations presided over by a cadre of 1,500 elite expatriate managers who championed the country-oriented approach. But as competition emerged in the 1960s and 1970s from Japanese companies that were more centralized and had fewer, larger plants, this highly localized structure became expensive to maintain. Philips responded by installing a matrix organization—with countries and product divisions as its two legs—and spent roughly two decades trying, without much success, to rebalance the matrix away from the countries and toward the product divisions. Finally, in 1997, CEO Cor Boonstra abolished the geographic dimension of the matrix as a way of forcing the organization to align itself around global product divisions.

Given this long and sometimes painful history, it would be unrealistic for today's champions of regional strategies within Philips to expect to overthrow the product division structure. Would-be regionalists have to work within it. Jan Oosterveld, who served as CEO of Asia Pacific from 2003 to 2004—a position created after Philips announced the combination of two Asia Pacific subregions into one—saw that his first task was to facilitate the sharing of resources and knowledge across product divisions within the region. Ultimately, however, he aimed to help develop an Asia Pacific strategy for the company. So although the new Asian regional structure has initially focused on coordinating governmental relations, key

account management, branding, joint purchasing, and IT, HR, and other support functions, Oosterveld and others can imagine a day when much more power might be vested in regional headquarters in, say, New York, Shanghai, and Amsterdam than at the corporate level. They also recognize, however, that achieving that kind of regional strategy could take many years.

The obvious implication is that strategic initiatives can be pursued at the regional level only if some decision rights are reallocated—whether from the local or global levels, or from the other repositories of power within the organization (in Philips's case, product divisions). And just as obviously, no one likes to give up power. Leadership from the top, aimed at promoting a “one-company” mentality, is often the only way forward. One of Oosterveld's conditions for taking the job at Philips was that the board of directors hold regional conclaves twice a year to show its commitment to the regional initiative. Such conclaves might be mainly symbolic, but symbolism can go a long way.

Philips has approached regional strategy flexibly, putting in place a wide variety of arrangements that take into account not only the company's existing structure but also competitive realities, region by region. In North America, for example, Philips's principal objective continues to be to rebuild its positions and achieve satisfactory levels of performance in the all-important U.S. market. Its activities there are organized entirely around the global product divisions, which, because of the size of the market and Philips's stake in it, are thought to be capable of achieving the requisite geographic focus.

In Europe, where Philips is better established, the company has rethought the role and status of the large operations in the home country of the Netherlands within the broader regional structure. In April 2002, when Philips announced plans to set up a regional superstructure in Asia Pacific, it also folded the Netherlands into an expanded region comprising Europe, the Middle East, and Africa. The point is that irregular or asymmetric structures (in which some regions seem to be much larger than others) are often preferable to an aesthetically pleasing (and in some respects simpler) symmetry of the sort implicitly evoked by much of the discussion up to this

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point. Even Toyota seems to be focusing separately on China while its other markets are grouped into multicountry regions.

...

If your company has a significant international presence, it already has a regional strategy—even if that strategy has been arrived at by default. But given the variety of regional strategies, and the fact that no one approach is best or most evolved, there is no substitute for figuring out which ways of coordinating within or across regions make sense for your company. As we have seen, however, embracing regional strategies calls for flexibility, creativity, and hard-nosed analysis of the changing business context—all of which take time and effort.

In a highly regionalized world, the right regional strategy (or strategies) can create more value than purely global or purely local ones can. But even so, the regional approaches I have been exploring may not make sense for your company. In that case, here is what you can take away from this article: Regions represent just one way of aggregating across borders to achieve greater efficiencies than would be achievable with a country-by-country ap-

proach. Other bases of cross-border aggregation that companies have implemented include products (the global product divisions at Philips), channels (Cisco, which uses channels and partners as its primary basis), customer types or global accounts (many IT services firms), functions (most major oil companies), and technologies (ABB recently, before and after trying some of the bases that are listed above and others that aren't). Each of these bases of aggregation offers, as regions do, multiple possibilities for crafting strategies intermediate to the local and global levels by grouping things. In a world that is neither truly local nor truly global, such strategies can deliver a powerful competitive advantage.

1. For a systematic way to think about cultural, administrative, geographic, and economic distance, see the CAGE framework described in my article "Distance Still Matters: The Hard Reality of Global Expansion" (HBR September 2001).

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Huge, pricey cross-border mergers constitute another strategy that, like purely global and country tactics, often don't deliver the results companies hope for. That's because executives hold mistaken assumptions about such mergers. They believe that industries will inevitably become more concentrated as markets become more globalized. Put another way, the spoils of the market will supposedly go to a select few in each industry. If they're going to be among the winners, firms believe they will have to shore up economies of scale in manufacturing, branding, and research and development. That's how they hope to scare off potential competitors and sew up new markets.

From this perspective, cross-border mergers are a do-or-die proposition: If you want to thrive, you must be one of the world's biggest players. Yet in reality, globalizing industries have been marked by steady *decreases* in concentration since World War II. For this reason, companies need alternative, more profitable strategies to pursuing the big M&A deal. Instead of relentless expansion through megamergers, consider other options. The authors' recommendations? Buy up cast-off assets from merging rivals. Focus more on regional or domestic growth rather than global expansion. Take advantage of merging rivals' weakened market position during integration by launching an aggressive marketing campaign. And build alliances with other companies rather than buying them up.

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RISING COSTS OF BAD LEADERSHIP

By Gerard Seijts

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Rising Costs of Bad Leadership

By Gerard Seijts

Bad leadership is clearly expensive. Fraud resulting from mismanagement at Wells Fargo, for example, has already cost the bank about US\$300 million in fines and pre-settlement investigative costs while wiping out something like US\$6 billion in shareholder value. Ex-employees, meanwhile, are seeking at least US\$2.6 billion in a class-action lawsuit related to the Wells Fargo corporate culture that rewarded employees who created multiple accounts for customers without permission.

The Wells Fargo fiasco, of course, took place under the watch of CEO John Stumpf, who ironically insists on the bank's website that integrity "is not a commodity. It's the most rare and precious of personal attributes. It is the core of a person's — and a company's — reputation." So let's not forget the extra millions lost from the hit to Wells Fargo's brand value, which was listed at US\$30 billion before suffering from criminal behaviour that enriched the stock holdings of executives, but decimated public trust, while generating minimal revenue for the company.

These numbers are shocking, but not as shocking as the leadership that set the stage for employee misbehavior and then failed to do anything about it for years. As a result, U.S. Senator Elizabeth Warren was justified when scolding Stumpf during government hearings on the bank's account-opening practices, noting "you squeezed your employees to the breaking point so they would cheat customers and you could drive up the value of your stock and put hundreds of millions of dollars in your own pocket. And when it all blew up, you kept your job, you kept your multimillion-dollar bonuses and you went on television to blame thousands of \$12-an-hour employees who were just trying to meet cross-sell quotas that made you rich. This is about accountability. You should resign."

Even some ethical and caring employees appear to have checked their character at the door under Stumpf's leadership (or lack thereof). As one bank worker told a Missouri court during a 2015 foreclosure case: "I'm not here as a human being. I'm here as a representative of Wells Fargo."

It has been less than ten years since banking-sector leadership and governance failures almost toppled the global financial system, but the expensive lessons embedded in the 2008 financial crisis already appear forgotten as high-profile cases of appalling corporate behaviour continue to undermine capitalism. And the costs are unsustainable. As pointed out by former BMO Capital Markets head Eric Tripp, in a call to action aimed at the financial sector, the combined cost of character flaws in the banking industry alone over the last decade is estimated to be about US\$8 trillion if you include lost economic growth. That's more than US\$1,000 for every person on the planet.

It is no secret that good leadership requires commitment to doing the hard work it takes to look out for all of an organization's stakeholders, along with the intellect and competencies required to compete in today's disruptive and uncertain times. But as research into the global financial crisis has made clear, good leadership further requires a balance of identifiable character

dimensions. The importance of assessing character is now widely accepted. An Ivey Business School survey of directors and senior executives from for-profit and not-for-profit organizations, for example, found 86 per cent of respondents agreeing, or strongly agreeing, that boards should assess and evaluate CEO character. Furthermore, 60 per cent of survey participants agreed, or strongly agreed, that character strengths and deficits can be assessed through good interviewing, not to mention extensive and intensive reference-checking.

And yet, many organizations still fail to take steps to make sure this final pillar of good leadership is in place when making executive appointments. We unfortunately see examples of this paradox in the newspapers almost every day. Take the case of pharmaceutical firm Mylan, where the U.S. price of a two-pack EpiPen kit has jumped from about US\$100 to more than US\$600 since the company acquired rights to the life-saving product in 2007. Instead of being led by a CEO who would have recognized that price gouging allergy-prone families was not good business, the company has Heather Bresch at the helm. And when addressing the legitimate concerns of her company's critics, she further enraged customers (while showing a total lack of awareness of the corporate social responsibility movement at the same time) by bluntly stating, "I am running a business to make money."

Bresch's lack of empathy as a leader is reminiscent of former British Petroleum CEO Tony Hayward during the catastrophic Gulf of Mexico oil spill, when he infamously complained about how his enjoyment of life was being disrupted. "There's no one who wants this thing over more than I do, I'd like my life back," he said. Public outrage later forced an apology to the 11 families who had lost someone in the accident.

No corporation should be ashamed about wanting to make profits. But as Bill George, former head of Medtronic, pointed out in a blog on Bresch's testimony, when George Merck ran a pharmaceutical company, he had the character to lead his business with the following understanding: "Medicine is for the people. It is not for the profits. The profits follow." At Mylan, however, pricing policy was tainted by greed. And shareholders are paying the price. "We continue to believe the EpiPen situation is far from over with Mylan and represents a risk to the shares," Wall Street market watcher David Maris recently warned investors. And hey, he clearly knows about the costs associated with reputational damage. After all, Maris is a Wells Fargo analyst.

When recruiting leaders and directors, organizations have long invested time and money to ensure they are managed and governed by people with appropriate levels of experience and competencies. But all that time and money can be wasted when leadership character isn't also given the attention it deserves because costly failures in decision making can often be traced back to character-based issues such as closed-mindedness, impatience, and lack of accountability, empathy, humility, and courage.

The good news is that character failures can be avoided. Based on research conducted at Ivey, proactive companies are now deploying tools specifically designed to assess leader character when recruiting, onboarding, promoting, and developing people.

The costs associated with bad leadership do not have to continue to escalate. More organizations simply need to recognize the importance of assessing and developing leadership character. The issue of leadership character can be ignored, but the price of doing so can't be when paying for this neglect.

IVEY BUSINESS JOURNAL

Learning to Manage Global Innovation Projects

By Keeley Wilson and Yves Doz

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Learning to manage global innovation projects

By Keeley Wilson and Yves Doz

Keeley Wilson is a senior research fellow at INSEAD. Yves Doz is the Solvay Chaired Professor of Technological Innovation at INSEAD. They are co-authors of *Managing Global Innovation* (Harvard Business Review Press, 2012). This article is based on the book.

As the trend toward knowledge dispersion grows and intensifies, the opportunities for co-located innovation will recede further in favour of a globally integrated approach. Being able to set up and manage global projects to replicate the benefits of co-location while leveraging dispersed knowledge will be paramount to building and maintaining competitive advantage. Readers will learn how to accomplish this goal.

For most of the twentieth century the story of innovation was largely one of co-location – innovation took place in one country, albeit at different locations, but where people shared the same context and culture. But this can no longer remain the case, as the knowledge and skills needed for innovation are becoming increasingly scattered around the world. Today, lead customers, technologies and capabilities are just as likely to be found in emerging markets as they are in Japan, the United States or Western Europe. To remain competitive, companies need to learn how to leverage this dispersed knowledge. In other words, innovation has to become a globally integrated activity.

Despite having dispersed innovation networks, many companies remain steadfastly wed to co-located innovation through transnational, multi-domestic or home base, local adaptation models. Why is this the case, when global projects can deliver significant value and competitive advantage, as well as reduce time to market and cut development costs through parallel development across multiple sites? These global projects are a lever for integration, attracting and deploying knowledge from around the world, and promoting cross-site learning and knowledge sharing.

Our research points to the inherent and little-understood differences between co-located and globally dispersed projects as being the root cause of the reluctance to embrace the opportunities of global innovation. Far too many companies bring co-location mindsets, processes, capabilities and structures to global projects without realising that in a co-located environment, much of what happens in terms of communication, co-ordination and collaboration happens naturally, due to proximity, shared norms, culture and experience. As we will outline below, planning and managing global projects means that the modes of communication, co-ordination and collaboration all need to be approached differently in order to account for the challenges of distance and difference, and to reap the benefits of global innovation.

Preconditions for global innovation projects

Organisational stability is a prerequisite

A common mistake companies make when embarking on a global project armed with only co-location project experience is to underestimate the systemic nature of innovation projects and their resulting vulnerability to organizational change.

Disruptive events under way elsewhere in the organisation can have an adverse impact on the project in two different ways: First, global projects need close and continual senior management attention. Yet during periods of major change such as restructuring, reorganisation or integrating new acquisitions, these managers are likely to be pre-occupied with managing large change programs. Second, when an organisation is in a state of flux, morale is often dented and rumours of job cuts can lead to a lack of focus in project teams or even worse, the loss of a critical mass of team members who “jump before they are pushed.” It’s vital therefore, that global projects are started and completed in a climate of organisational stability.

At the root of a troubled global project at a company we shall refer to as Elecompt lay the fact that the project was launched when new acquisitions were being integrated and a massive reorganisation was in progress. Although the project was of strategic importance, management’s focus was understandably elsewhere. This meant that critical decisions for the project were not made and that mounting problems such as turf battles between sites, product architecture and subcontractors went unnoticed. Fearing the worst outcome, large numbers of staff at one site resigned, leaving a serious gap in the project team, which in turn caused further problems and delays as replacement staff had to be found and brought up to speed.

Build a competence in dispersed working

Most companies can hone deep competencies in co-located innovation as long as the employees involved share the same culture and are located in the same country. Trying to transfer these competencies to a global project environment isn’t feasible, as innovation, personnel and functions that are dispersed throw up unique challenges that require new and different practices and approaches. Dispersed project teams need to learn how to collaborate and communicate over time zones and cultural distances, and build trust in the commitment and capabilities of teams at distant sites.

For teams that are new to global projects, building the necessary competence should begin with small, non-critical collaborations among just two or three geographically dispersed sites. When the Schneider Toshiba Inverter (STI) joint venture was first established, engineers in both companies had little respect for each other and were reluctant to work together. To break down these barriers, STI’s management organised a series of small collaborative projects between the sites in France and Japan with the hope of establishing joint working practices and channels of communication, and to build mutual respect and trust. Even after the first project, each team recognised the value the others brought. By the time STI launched a major, complex global project, a critical mass of the project teams involved had developed a strong competence in dispersed work.

Invest time in defining the innovation and project

In a co-located project it’s not essential to define an optimal product or service architecture at the outset, or even a fully detailed work plan. This is so because during development, interactions between the project team members will lead to the adaptation and improvement of the innovation and adjustments to the work. However, it is unfeasible and impractical to apply this emergent architecture model to global projects, where there is little tolerance for iterative learning.

Instead, the product or service architecture in a global project has to be thoroughly defined before development is under way. The architecture also has to be made as modular as possible. Interdependencies and interfaces between modules have to be defined and the project goals, process flows, timelines, interfaces and knowledge requirements need to be thoroughly understood by all project teams. When Essilor and its alliance partners launched a project to develop a new range of photochromic lenses, despite having only two years to develop and launch the new products, the project team invested nine months of intense hard work in defining the product architecture and interfaces. The science behind the new product was very complex as were the interfaces between specialist contributions, which came from more than 20 sites around the world. For example, the photochromic coating dyes developed in one location had to be embedded in the surface of the lens (developed elsewhere) without any adverse reactions from the lens core monomer (the chemicals which produce the basic lens). Meticulous planning by experts at each site contributed significantly to a successful project outcome.

The need for capability-based resourcing

Far too many companies see global projects as an opportunity to make the most efficient use of available human resources across their innovation network at any given time. Yet, staffing global projects on the basis of current 'resource availability' undermines a fundamental tenet of global innovation - to build competitive advantage by combining the best knowledge and complementary competencies from around the world. Teams therefore need to be selected for the capabilities they bring to the project.

While it might seem expedient to use a resource availability approach to get a project launched quickly, the consequences can be divisive and derail a project. Looking again at the Elecompt project, managers chose to follow the resource-availability model of staffing. This resulted in a team in the U.S. developing a technical module requiring knowledge and competence in areas in which they had no experience. The U.S. team struggled with the development of the module as well as members' lack of knowledge, which made communication with other teams difficult. It also made it impossible to manage a distant subcontractor who was providing specialist input. The net result was delays, a huge cost overrun and a loss of morale. Ultimately, when a team with the requisite capabilities became available, it took over the work.

In co-located development, when all of the knowledge needed for an innovation is in one place and people work closely together in a common space, continual informal oversight means that adjustment to interfaces and interdependencies takes place almost naturally. This isn't the case in a global project, with its work packages dispersed across locations. To emulate the near seamless integration of co-located projects and capability resourcing, global projects require a small degree of competency overlap between sites. This provides the kernel of critical knowledge that needs to be shared to avoid modules being developed in isolation. Siemens, for example, achieves this by forming virtual cross-geography, cross-disciplinary teams of experts from each of the modules in a project. Weekly meetings between each core module-development team and the virtual oversight group allow potential integration problems to be identified and nipped in the bud.

Managing global innovation projects

The involvement of senior managers

We have alluded to the importance of senior management's involvement with regard to maintaining organisational stability. But they also have a critical role to play when the project is under way. In co-located projects, senior managers' role becomes more informal once they have sanctioned an innovation project and its budget. Expert practitioners take over running the project and co-location enables senior managers to be consulted on an ad hoc basis. But in global projects, the underlying knowledge base is fragmented and each team involved brings very different opinions, experience and solutions. Senior managers have to manage this diversity and play a more hands-on role by not only championing the project but also by keeping it together. They are ultimately responsible for the project - ensuring that it's on track and having the deciding voice in decision-making.

The importance of formal senior management involvement can be seen in Essilor's photochromic lens project. To keep the project on track, an innovative but potentially risky shortcut to speed up the production process was mooted. A member of Essilor's executive board had been assigned to oversee the project and was able to assess the technical options against the strategic demands the project addressed. He made the decision to press ahead with the shortcut in order to meet the launch date. But he made it clear that the risk this entailed belonged to the project, and ultimately, the executive committee, not the managers at the production facilities involved. This quick decision meant that there was no disruption in the workflow. Having come from the highest management echelons, the project teams were comfortable with the solution.

Strong project management driven from a lead site

The intrinsic flexibility of co-located projects enables a very light touch when it comes to project management, as co-located teams tend to adjust informally. The same does not hold for global innovation projects, where multiple locations require robust project management structures, tools and processes to juggle all of the pieces of a complex puzzle. Project managers have to recognise when particular teams aren't coping and find solutions to support them. The managers also have to ensure that everyone involved in the project is connected and aware of what is happening.

When companies first engage in global projects it's very common to find that the myth of equal partners leads to a consensus-management approach. For companies that have multi-domestic or transnational structures with independent subsidiaries performing local innovations, individual sites are used to operating with high levels of autonomy. In some companies, certain sites hold a disproportionate degree of political power. In either case, the equal-partner approach avoids the undue ruffling of feathers by the imposition of a project lead site. This approach, however, is impractical and untenable for global innovation.

Compare the approaches taken by STI and Elecompt. Even though each site involved in the STI project was a global leader in its own field, one site that had been heavily involved in driving the pre-project marketing activities was designated as the lead, responsible for liaising with senior management, co-ordinating the project management team and delivering the project. The lead site

provided oversight and clarity - problems were rapidly identified and dealt with, and the complex project was delivered on time and on budget.

At Elecompt, in contrast, each of the sites distributed across the U.S., France and Germany had a high degree of autonomy and exercised equal weight in decision-making. Every decision and aspect of co-operation had to be negotiated. As tensions rose and personality clashes came to the fore, these negotiations often ended in stalemates, with teams defending their own contributions without thinking about what was best for the overall project. With the project running over budget, extremely late and on the brink of collapse, an external project management-consulting group was brought in to act as a de facto lead - introducing processes, systems, a global work schedule and a steering committee responsible for conflict resolution.

Build plenty of communication into the project

In co-located projects, communication comes naturally. A shared context and familiarity make it easy to discuss complex ideas and solve problems through impromptu conversations. The challenge in global projects is to create the structures and processes necessary to replicate this ease and richness of communication.

While technology has revolutionised the way we work and communicate, an over-reliance on ICT in global innovation projects is counterproductive. Although they have a role to play, virtual engineering environments, video-conferencing, web meetings, forums, social media and other ICTs can lull people into a false sense of believing that the sender shares the same context as himself or herself. Nuance is lost and misinterpretation is common.

To compensate for distance and differences, global projects have to rely on what might seem an onerous level and intensity of communication channels. In addition to an array of ICTs, generous travel budgets are needed for the face-to-face site visits, secondments and project team meetings. In addition, a dense web of cross-site project reporting lines will give individuals a sense of belonging to the global activity rather than their local site and this will keep sites plugged in to the details of what is happening at other sites.

With a plethora of ICTs at its fingertips, global telecoms firm Tata Communications recognises the importance of a more comprehensive approach to communication. As a highly dispersed organisation, its culture is reinforced by cross-location accountability and reporting, while travel for face-to-face meetings is an everyday part of life for project teams and managers alike.

Identify and use multicultural managers

Pivotal to communicating complex, tacit knowledge in global projects are bi- or multicultural people who act as bridges for interpreting and transferring complex knowledge between different contexts, such as countries, cultures and business groups, and preventing misunderstandings from escalating into conflicts. These people have the ability to see things from different perspectives and are less likely to fall victim to miscommunication and misinterpretation between locations.

When HP Labs established a new innovation centre in Bangalore, India, multicultural managers played a key role in driving innovation projects. A Bangalore-based American HP veteran who had lived and worked in Northeast Asia for many years and had worked with an Indian director of the lab long-based in California, provided the critical bridges to translate the opportunities unearthed in India into a context that made sense to HP's business groups and headquarters. Without these two managers it is unlikely that much of the new knowledge from India would have been successfully integrated into global innovations.

Limit subcontractors to reduce the management burden

Even in co-located projects, outsourcing work to subcontractors requires additional management time and focus. In global projects, the extra burden of managing subcontractors can be highly disruptive. As a result, it makes sense to keep their numbers as low as possible, select trusted partners who know your products, development and integration processes, and work with those who are physically and culturally close to your own network. The role of managing each subcontractor should be given to someone on the project team who understands the interdependencies between modules in the innovation. This is essential to maintaining a dialogue and the quick resolution of any problems that might arise.

In its development of the Dreamliner, Boeing experienced first hand the problems caused by having too many distant partners. Effective oversight of the 50 partners working on different subsections all around the world was difficult and integration was beset by problems. This was a far cry from the highly co-located development of earlier decades when most of the expertise Boeing required was in-house, with staff working in open-plan hangars and freely sharing knowledge and ideas. Boeing had to return to this model and co-locate its partners for six months to resolve the many problems the Dreamliner project encountered. The aircraft was finally delivered almost three years late, suffered serious teething troubles, and as a result, lost orders to the Airbus A350.

As the trend toward knowledge dispersion grows and intensifies, the opportunities for co-located innovation will recede further in favour of a globally integrated approach. Being able to effectively set up and manage global projects to both replicate the benefits of co-location while leveraging dispersed knowledge will be paramount to building and maintaining competitive advantage.

Global Projects - Building on Co-location Experience

	Natural in co-located project	Toxic side effect when transferred to global project	Solution for global project
Pre-conditions	Project stability - project self contained, shielded from disruptive change	Complexity & systemic nature of dispersion leaves project vulnerable to organisational disruption or change	Climate of organisational stability required for large/important global projects
	Collaboration	Unfamiliarity, lack of trust, different cultures, languages, norms & experience across sites hamper collaboration	Start with non-critical projects to build dispersed project competence - working practice, co-operation & communication
	Evolving architecture & iterative learning	Too many variables to co-ordinate across distance & difference lead to delays & inaction	Innovation architecture, interfaces & integration clearly defined upfront
	Required capabilities all on site	Dispersion decision based on getting value from resources available at given time	Select sites to bring best skills, knowledge & capabilities into the project
	Informal senior management oversight	Lack of decision making & conflicts unresolved as impossible to informally oversee dispersed sites	Assign senior manager in formal role responsible for driving & delivering each project
	Lightweight project management	Lack of structure, processes & discipline needed to co-ordinate multiple sites	Appoint a lead site & strong project management team, processes & tools
	Rich face-to-face communication	Time, distance & culture create misunderstandings & multiple barriers to quality communication	Wide array of ICTs together with travel budgets for face-to-face communication
	Ease of sharing complex knowledge	No mechanism for transferring complex knowledge so nuance, meaning & value are lost	Build cadre of bi-cultural 'cosmopolitan managers' to transfer & interpret complex knowledge
	Multiple subcontractors	Adds too much additional management burden & complexity	Limit subcontractors to trusted experts with geographic & cultural proximity

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