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Organization design and talent strategies for emerging markets

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Organizations have always wrestled with the most effective ways to expand internationally. Today the greatest opportunities for growth lie in the large emerging markets of China, India, Indonesia, Brazil and other medium to large size developing countries (Mexico, Turkey, South Africa, Vietnam, Philippines, Egypt, Nigeria, etc.). The lessons previously learned about working cross-culturally apply equally well to these markets. Yet the challenges of succeeding in these markets are unique compared with the conditions a generation ago, when companies expanded into North America and Europe. Today's emerging market economies are at earlier stages of economic development, their scale is larger, and the global business environment is much more dynamic.

In this article I address the challenges multinational companies (MNCs) face when trying to succeed in these markets, paying attention to issues of business strategy, organization design and talent strategy. I take as the starting point Bartlett and Ghoshal's transnational strategy and discuss the implications of applying it in a large emerging markets context. The discussion draws lessons from recent market developments in these economies, and the experiences of companies operating there, including action research projects I have conducted in China, India, Brazil, Indonesia and South Africa.

The transnational strategy argues that global best practices should be balanced with local adaptation and learning that does not stifle innovation. The advantage of that approach is that innovations can occur based on local market demand characteristics. The global network can then leverage the local innovation, where possible, to drive sales in other markets with similar demand characteristics. In the emerging market context, however, the demand characteristics of the local market vary greatly from the developed market context. This minimizes the potential for a pure transnational strategy to succeed, and argues instead for a diversified approach, with separate but integrated strategies for the developed versus emerging economies. "Separate" is needed so that funding decisions, investment horizons, acceptable profit margins, and scale of activity, can be addressed differently in the developed versus developing economies. "Integrated" is needed so that best practices can be shared where appropriate.

The organization design issues for the large emerging markets of today are no less unique. The "separate and integrated" strategy has direct implications for organization design and the location of decision rights. Even more important, the size and scale of the largest economies has independent implications for choosing organization designs with locally based profit-and-loss (P&L) decision-making responsibility, and the structures and processes needed to support that decision-making. The unique issues of human capital development and retention provide further support for an organization design that supports a separate and integrated strategy.

THE LARGE EMERGING MARKETS' STRATEGIC CONTEXT TODAY

All countries go through similar stages of economic development, transitioning from predominantly agricultural work to industrial work and ultimately a mostly service-based economy. That transition is no different for today's emerging markets than for the previous generation of economies that

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went from developing to developed. Yet today the world economy has evolved, presenting a different external environment and internal dynamics for currently developing economies, compared with the world economy a generation ago. Manufacturing processes and technology are more advanced, and innovation continues unabated. Financial capital flows and foreign direct investment are much larger and quicker to change. The level of competition in international trade is greater than ever, reducing cycle times and increasing both the opportunities for growth and the chances of failure. The combined effect of these trends is a more dynamic environment. There are greater opportunities for rapid economic growth, coupled with more turbulent labor markets in today's emerging economies than witnessed previously in the last set of countries that industrialized.

From a business strategy perspective, it is reasonable for organizations to consider Bartlett and Ghoshal's transnational approach. Under a transnational strategy, the company balances global best practices and centralized decision-making with local autonomy and adaptability. That strategy seems well suited for operating across international markets that have different characteristics and cultural attributes. For example, operating in both Western Europe and North America requires a balance between global and local decision-making. Differences in supply chains, distribution networks, retail channels and customer preferences can have big implications for operating in multiple international markets. For example, Walmart Stores dominates large parts of retailing in the United States, yet has had a very hard time making inroads in Europe. Large European retailers like Tesco have fared no better when they have tried to break into the U.S. market.

The transnational promise is global best practices and efficiency of execution, balanced by appropriately local innovation that can be exploited for global returns. One example cited by Bartlett and Ghoshal is Phillips, which was able to leverage innovation from multiple countries around the world in launching color TVs (Canada), stereo color TVs (Australia), teletext TVs (Britain), smart cards (France), and many, many more products developed for the first time in other countries. Telecommunications companies that pioneered mobile phone based payment systems and applications in countries with faster rates of adopting mobile Internet and web applications have successfully spread many of those innovations to other developed countries with slower rates of adoption. Many MNCs in high tech, pharmaceuticals and other industries with headquarters in the developed world have shifted some R&D (research and development) resources to China and India to save costs but also to be closer to the information needed to develop successful products for those markets.

Yet the reality of efficient decision-making is that a pure transnational strategy is not really practical. R&D resources cannot be spread across the globe like peanut butter. R&D centers need a minimum size to be effective, and corporate budgets are too tight to establish hundreds of R&D centers worldwide. Operating more than a handful of centers is usually too much even for most large companies.

For example, the largest global consumer goods and food companies have the greatest business case for creating local R&D centers: they are in upwards of 200 countries worldwide and have to sell products adapted for local tastes. Yet even these companies typically have less than 40 R&D centers globally, and not all of them conduct pure R&D. For example, Nestle, one of the most global companies in terms of total countries served, has four "fundamental" research centers that address global issues, and 34 product technology centers and R&D centers worldwide. Unilever, another of the most globally diverse companies, has six R&D laboratories that focus on breakthrough innovations, and 31 centers that develop and implement product innovations. Even these companies make compromise choices that leave them short of a pure transnational strategy.

More important, there are cost-benefit tradeoffs to propagating local innovations elsewhere. Only products that have the promise of delivering a large amount of incremental sales or cost savings are candidates. Potential sales depend on the size of the difference between the local demand characteristics in the market where the innovation was hatched and the target markets.

The local demand characteristic differences among developed countries determine whether innovations in one market mean success in other markets, as the cases of Walmart and Tesco demonstrate. When the focus is expanded to compare developed markets with the current large emerging markets, the differences become much larger and, arguably, even more important. This suggests that the transnational strategy should be even more important for MNCs headquartered in developed economies that want to establish significant market share in the large emerging markets, because of the need for local flexibility and adaptation. Yet the other part of the transnational strategy — global best practices that are informed by local innovation — runs into problems when applied to the emerging markets context. The reason is that the innovations needed to deal with the unique aspects of the emerging markets often cannot be profitably exported back to the developed economy context. The three examples below illustrate this point.

Cell phone networks

In many developing countries telecommunications companies have skipped the "normal" step of installing landlines and gone directly to establishing cell networks. This process is enabled by innovations in cell technology in the developed countries, which lowered the price point for deploying wireless telecommunications. With those cell networks in place, farmers now use text messaging for farm products pricing. This has created a path toward the development of a clearinghouse for market pricing of agricultural products, with opportunities for the organizations that provide pricing data to create market price indices through electronic gathering of information.

This path toward the development of markets and market pricing is different from how such markets developed in countries like the United States, where early-stage transactions occurred in locations where people physically came together to buy and sell commodities. Yet despite the current innovation taking place today in emerging markets, there is little to be learned that could be brought back to benefit agricultural products markets in the developed world. In those markets, sophisticated electronic trading platforms and futures and derivatives contracts have moved well beyond the early stages of market development taking place over the

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