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Steve Wyatt - Singapore Management University

As many multinational companies derive more and more of their revenues and profits from so-called 'frontier' countries outside their traditional OECD markets, they are being transformed by the experience. Singapore Management University's Steve Wyatt explains.

ceoforum.com.au: Before we look at the most important changes a multinational company can expect to experience as these non-traditional markets become more important to them, how uniform are these effects? And do we have any simple measure of how 'international' a global company is?

Steve Wyatt: Based on the observed experience of many companies to date, there are some changes that you would expect to see. Equally, however, there are a lot of variations. One major determinant, for instance, of how much a company might change is based on the percentage of revenues/profits that it derives from its home market. One of the companies we have been looking at is Syngenta, a Swiss agribusiness company, which gets more than 95% of its revenues from markets outside Switzerland. On the other hand, there are companies like Amazon, where their home market in the US makes up more than half their overall business. All things being equal, the companies that have smaller home markets are going to be changed more by internationalisation than those that have larger home markets that 'anchor' the company in certain organisational forms and practices.

Another important predictor of the degree of change that a company might experience is the number of international markets the company enters. Again, like the size of the home market, while there is no 'magic threshold' point at which the changes suddenly kick in, it does seem that more countries means more observed change. In particular, once a company enters around 50 countries or more, the changes seem much more noticeable.

On the measurement issue, there have been a number of attempts to construct a kind of 'internationalisation index' to describe the degree of internationalisation a global company has experienced. These are often based on some or all of the percentage of sales outside the home market, the number of countries operated in, the percentage of employees outside the home market, the percentage of asset value outside the home market, and so on. It would be great if we had a single number to reliably describe the internationalisation of a company, but we are not really able to do that at present.

ceoforum.com.au: What are some of the particular changes a company can experience as it becomes more and more internationalised?

SW: One of the clear signs that a global company is starting to operate in a different way is when you start to get a geographically dispersed senior management team, i.e. all of the global senior management team do not need to be based at the company's head office. You may get a CEO based in one location, a CFO in another, and so on. Standard Chartered Bank is a good example of this kind of approach.

This dispersion of the global management teams often coincides with greater ethnic diversity in the senior management team itself, but the two phenomena can also be looked at separately. Diversity is quite interesting in its own right – although many companies,

particularly Western public companies, have made very public commitments to diversity, it is less common to see this reflected in their senior management teams. Even when you do see ethnic diversity, there is often a strong similarity in educational backgrounds and professional experience, which helps the team cohere strongly. In companies that are most internationalised, however, you see the ethnic diversity combined with very different professional and even life experiences, so the diversity is much deeper. When you get to the situation, say, as a US multinational, that not only is your Asia-Pacific leader a Chinese, but she is a Chinese who has spent the large part of life, say, being educated and working in China, you are in quite a different situation than you were when all your senior team could be assumed to have, say, spent substantial time in the home market and may have studied at similar US business schools.

ceoforum.com.au: What are the potential consequences of this shift?

SW: Having this level of diversity has its advantages, of course, but it also means the team members have less in common and thus may not be able to cohere in the same fashion. There is not the same commonality of background and experiences.

If team members don't share the same background, for example, it increases the possibility they will be short-term employees, and/or act in their own short-term interests. You simply don't have the same social imperatives to be loyal as you would in a more traditional organisation.

There is a lot of organisational learning going on, but there is also a lot of re-learning too.

ceoforum.com.au: What is your view of some of the corporate rebranding exercises global companies have engaged in, such as Kraft Foods rebranding as Mondelez last year?

SW: Corporate rebranding exercises are always less risky than consumer/product rebrands, as the latter are more visible to customers. Nonetheless, corporate brands are relevant to some important stakeholder groups, such as employees, suppliers and investors. If you adopt a new corporate brand name, then questions arise such as 'How do those groups relate to the brand? What values do they see it as representing? What has been your experiences with that brand?' and so on. Sometimes there are good reasons to rebrand e.g. after a major merger, but, in all cases, you are discarding any 'brand equity' you had in the legacy brand and hoping to build a new, more compelling, corporate brand. After all, if you were satisfied with the old brand and what it represented, you would hardly go through the trouble and expense of the rebranding exercise.

That in turn creates another challenge – although the espoused values of the new brand might be quite different to the old brand, the people in the organisation are often largely the same! So you may have a mismatch between the espoused values and the actual behaviour of the organisation, at least for a while.

The link with internationalisation of multinationals is that, while companies are sometimes tempted to engage in these rebranding exercises as part of their internationalisation process, the difficulties may be greater than they initially perceive. There is an assumption in rebranding that you will create more value for the organisation, and that may, in fact occur. What is certain, however, is that you are writing off any residual value in the old

brand, and are incurring real expenses in the rebranding exercise. Making the rebranding work financially can thus be a considerable challenge.

ceoforum.com.au: What are some of the upsides for multinationals as they internationalise? So-called ‘reverse innovation’, for instance, where companies take innovations from emerging markets and bring them back to home markets, has got a lot of play in recent times.

SW: Right. This certainly can work, but it needs to be enabled by having appropriate delegation of authority. That is, the subsidiaries in these emerging markets need to be empowered to test new products, new go-to-market processes, and generally engage in more experimentation in what are very dynamic markets. Basically, you can plant a lot of seeds, see which ones take, and not worry too much that you will be cannibalising existing revenue streams (as you might worry in more established markets).

What’s interesting about this experimentation in new markets it that there is a lot of organisational learning going on, but there is also a lot of re-learning, too! Often when they enter these new markets, some multinationals heavily embrace outsourcing, so you simply don’t have the same number of long-term employees in the organisation, and thus do not have the same ‘corporate memory’ capabilities. So, while you are generating all this knowledge, it doesn’t necessarily get retained in the same way that it would if the organisation was more traditionally organised.

ceoforum.com.au: Do these effects of internationalisation differ, depending on the nationality of the parent company?

SW: Yes. It is very difficult to find a major Asian multinational company who has de-nationalized itself to a large degree (re-branding, deliberate engagement of senior most executives from diverse cultural & ethnic backgrounds). If you look at a company like Samsung, for instance, it is most definitely a Korean company in every way, yet this does not appear to be a problem for them when they operate abroad. Tata is another example – it is a massive global company, but has a very strong, cohesive, core Indian management team at its heart. Now it is possible that there is a data bias here: that virtually all the oldest management companies are Western, and that the Asian companies simply haven’t yet reached the point that they need to de-nationalize in order to grow, but it may also be that these companies will, for cultural reasons, never see a virtue in de-nationalizing themselves in the same way.

European companies, too, seem to be slower to de-nationalize in their pursuit of internationally growth (particularly German & Italian firms). It will be interesting to see how our understanding of this apparent anomaly develops as we gain more data; we are seeking more companies that we can include in the study (as we hope to raise the sample to over 200 highly internalized companies).

ceoforum.com.au: How will the CEO role change in these highly internationalised companies?

SW: I believe the CEO role will become more important – it will be up to the CEO to be a kind of steadying influence and provide the cohesion across the organization; to inculcate the company with values, vision and a sense of purpose and belonging This can’t be done

in a few years, and I expect that successful companies will have CEOs who enjoy long tenures (ten years plus). In a world where there are more forces pulling organisations apart, CEOs will have an even more important role in holding things together.