ORGANISATIONAL STRUCTURE

LOCAL VS GLOBAL: STRIKING THE RIGHT BALANCE
Cost-saving concerns and the rapid pace of technological development mean organisations increasingly see a more centralised corporate structure as both necessary and achievable. But there can be a trade-off in terms of local service and customer satisfaction. **Mark Goodridge** and **Gary Ashton** discuss how to strike the right balance.

The traditional role of country general managers (GMs) of international businesses was to ensure that the company adapted successfully to local conditions. However, with a drive for cost efficiencies, and the growing technological capability to standardise activities internationally, the increasing push towards globalisation has meant that the role of the country GM is being hollowed out. In other words, their role is being weakened with them having authority over fewer and fewer business levers. We see many battles raging between the global centre, regional centres and local companies as they attempt to dominate one another in order to meet their own performance targets. This was the case for a telecoms firm, which had grown through a series of geographically spread acquisitions. At the point of acquisition each company was a stand-alone entity with the supply chain within its direct control. The country GMs continued to be fully accountable for business performance, reporting to regional CEOs and thus through to the group CEO. The business model was simple, but it struggled to generate the efficiencies, cost-savings and assumed benefits expected at acquisition.

Like this firm, it is common for large companies to collect widely dispersed operations through organic growth and acquisition, but then fail to address the issue of how to organise and manage them. The problem? Too often targets, organisations and accountabilities are not aligned. The challenge is getting the balance right between local autonomy and global scale. The issues usually revolve around structure and people. How do we make this structure work? How do we get the right people for the increasingly complex role of the country GM?

The consequence of this challenge has been a swing away from local autonomy and towards global power, with variations in between, as described in Figure 1 (following page). But as companies shift from the local towards the global, the journey is not necessarily a smooth one, and, in some cases, they experience a swing back and forth between centralisation and local autonomy. This is often caused by the centrist enthusiasm – and its apparent clarity and simplicity on paper – being undermined by poorer customer experience. For it becomes increasingly difficult for centralised functions to manage the trade-offs necessary at a local level to provide the end-to-end customer service needed to ensure customer loyalty and retention. (See box, overleaf, ‘Case study – A step too far’.)

It took the telecoms firm in question approximately four years to get its balance right and finally benefit from synergies achieved through centralising various functions. To get there, they went through three phases, as outlined below.

**Phase 1 – Collaboration**

In the initial phase the idea is that synergy capture will be achieved by encouraging the key players (mainly country GMs) to co-operate within the formal central/global organisational boundaries. By creating a series of cross-business synergy committees, all country leaders together explored areas where there was synergy potential. Much talking was done, ideas were formed, but little action followed. It was hard for local country GMs to introduce recommendations, which not only (they felt) diluted their control, but also weakened their influence on a business for which they ultimately carried the can.

**Phase 2 – Integration and hard-wiring**

In this phase the synergy committees gave way to hard-wired structures where different aspects of the value chain were increasingly controlled by global functions. The first point of global integration was the brand. Each company was required to share a common name, logo, design and set of brand values. This had the effect of removing one of the elements from the country GM’s portfolio. This was the start of the global matrix, with global (centralised) defining of the brand, and local companies executing the brand.

The next step was products and services. These also became defined globally, as costs were too high for each country to develop its own (and which in any case would only serve to dilute the brand). Suppliers of elements of those products and services were also contracted globally, which meant another pillar of the local company was removed. This obviously created tension, with the trade-off being between loss of speed/adaptation to local markets versus the benefit of ‘develop only once’.

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Phase 3 – Striking a global versus local balance
In general, over time function after function has become increasingly influenced by global executives working on behalf of the world rather than a local market. The role of the country GM has therefore been hollowed out, leaving either a country sales/marketing manager or, in extremis, a figurehead and facilities manager where all the key business decisions have been made.

Of course, as with this particular business, country GMs can and do rebel against some of the more extreme globalisation of the organisation, as vanilla (one size fits all) solutions make little sense in some locations. But having gone through the three phases, the telecoms organisation now has a much healthier dynamic between global, regional and country businesses as they develop a stronger mutual understanding, and a better set of relationships on which to broker the shifting sands of globalisation.

The spectrum of options
The question for many international companies is to what extent do they centralise? That depends on a number of factors and where you are on the spectrum in Figure 1 (opposite). The more to the right you are (closer to option 5), the more your functions are centralised. And this depends on a series of assumptions:
• that there is a global demand for the group of products or services and its nature is similar;
• that there is little duplication of those products and services when there is more than one business stream;
• that the routes to market for different product streams are distinct and can support their own separate sales channels;
• that there are few local modifications/applications customisations required; and
• that there are supply chain efficiencies in supplying products/services in a common and integrated way.

Of course, not all global companies fulfil all of these conditions, which is why we see a spectrum of global business models where different parts of the business’s value chain may be global and others quite local. It is the balance of these that determines the option you go for. As Figure 1 (opposite) illustrates, option 5 is the truly global business that fulfils all the conditions set out above. Option 1 is the collection of separate independent companies reporting into a corporate centre that is largely operating a holding company. It is the options in-between that preoccupy most companies, and usually the point at which they seek external help.

The impact on finance
The shift from local autonomy, through to the matrix and towards full globalisation also has an impact on the role finance plays and how it is configured. When the business is managed at a local country level, the role of finance is pretty straightforward, with the local FD reporting and analysing performance at an operating company level and comparing itself to its fellow operating companies around the business.

However, as the business moves to the matrix model, things start to become more complicated. The level of reporting increases, to be both geographic and global. And the need for understanding how the business operates and how the global interfaces with the geographic becomes more important. So finance starts to assume a role of providing greater insight into where the pressure points lie and provide advice on the impact of trade-offs between global and local objectives. This increases the importance for finance to not only have the technical capability to understand how the business operates, but also to have strong behavioural capability in interpersonal impact and influence, so that the business leaders understand and take on board finance’s insights.

As the business moves towards a fully global operation, the local FD role narrows, as more finance synergies are realised through centralised global back-office transactional activities. This allows the local finance business partners to focus on having a more forward-looking decision support role.

Box 1 CASE STUDY – A STEP TOO FAR

In its enthusiasm for striving for efficiencies, one industrial manufacturing business went a step too far along the global journey and so had to backtrack to retrieve declining sales.

Initially the business was a separate set of country operating companies, functioning independently. But it then realised some synergies by clustering together countries into regions, each led by a regional GM, so reducing the country senior manager costs and creating a more consistent way of working.

Its next step, however, went too far too quickly: it proceeded to centralise its marketing, sales and logistics functions, relinquishing the need for regional GMs, and having the regional marketing, sales and logistics all report to their respective global functional heads.

In doing so, it drastically reduced its ability at a regional level to keep sales and logistics aligned locally to ensure customer services matched the sales promise.

The consequence was, despite improving its functional excellence, there was a significant deterioration in customer satisfaction that quickly led to customers switching supplier.

Once the situation was understood, the company decided to take a step back and create a matrixed business by building back in the regional GM role to manage those trade-offs.
2. What about the interdependence of these elements and the extent to which they are subject to local trade-off decisions?

Conclusion
There are no easy answers, but experience of working with many global companies suggests there is a solution out there for every organisation. Ideally, cost savings and economies of scale will be achieved by centralising the right functions for your business. And there is a risk of potentially losing some adaptability to the local market. Ultimately, it’s about getting that trade-off and balance right, and finding the most appropriate solution for your organisation. By explicitly working these issues through, you are more likely to strike the right balance for your business between local autonomy and global scale.

Common success factors
What is common across all the different organisational options is a set of critical success factors. These include:

- accurately locating accountability;
- accurately locating the best place for decisions to be made and how;
- detailed consideration of the links and trade-offs; and
- clarity of role understanding – especially in the linkages and interdependencies and hence how trade-off decisions are going to be made.

It is through focusing on meeting these criteria that you can help to speed up your integration process and minimise the turf wars so evident in global companies between functions, geographies and business units.

Of course, the resulting role of the country GM will vary considerably depending on the option you go for. Local business activities may be managed from global, regional or country levels, and the country GM has to balance these different spheres of influence and somehow weld it all into a coherent set of country based activities to meet local demands and local business conditions.

The success of the new global business model, however, will be determined by two key questions:

1. Which activities will continue to exist within the geographical entities?

2. What about the interdependence of these elements and the extent to which they are subject to local trade-off decisions?