



Getting more value from your global footprint

Connections between people are the glue that holds the company together. Getting these right costs little and delivers substantial value

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Many of the companies we have studied say they get value from their global footprints, but not as much value as they would like. Product ideas and customer knowledge are trapped in “silos” — the vertically integrated structures that are necessary in global companies to manage specialization, scale, and distance. For example, it is often challenging for senior executives to get a complete picture of global purchasers’ needs across different regions and businesses.

Most companies find that formal global processes (such as the planning process) are necessary but insufficient to capture all of the value that could be derived from this footprint. Therefore they turn to a host of linkages — connections between individuals, such as meetings and calls, e-mails, instant messages, formal and informal networks, project teams, liaison and integrator roles, knowledge portals,

and so on — to capture the value in their footprints. (The connections to the corporate center are often different to the horizontal connections across businesses and regions and “Reinventing the global corporate center” on page 41 discusses how companies are managing these vital information flows.)

Linkages between people and groups are the glue that holds an organization together. Having the right structures and processes in place to enable growth and reduce complexity is essential, but without the right links among them even the best-structured organization with the most carefully designed processes will struggle. Two-thirds of executives at global companies surveyed by the McKinsey Quarterly recently said that their organization’s ability to create links across the company was a source of strength¹ (see Exhibit 1). In addition, linkages can help

¹ “McKinsey Global Survey results: Managing at global scale,” *McKinsey Quarterly*, at mckinseyquarterly.com. The survey was in the field in September 2011.

Exhibit 1

Linkages rated second most important factor in managing at global scale

Percentage of respondents who agree, n=4,643



“Our ability to create linkages across divisions, functions, and regions is a source of competitive advantage”

Source: “McKinsey Global Survey results: Managing at global scale,” McKinsey Quarterly, at mckinseyquarterly.com; the survey was in the field in September 2011



global organizations overcome the “globalization penalty” that puts them at a disadvantage to locally focused competitors.²

Modern communications technologies make some linkages easy and cheap. But connecting everyone to everyone has diminishing returns. Piling on yet another videoconference or e-mail chain consumes time and energy instead of helping senior executives make decisions and lead organizations. Instead, global firms should work to establish the ideal number and kind of linkages. Getting this right will create demonstrable value for the business, as several leading companies, described below, have already learned.

Sources of business value from linkages

Organizations derive business value from linkages in three ways.

First, linkages can accelerate business impact (such as cross-selling products and services, improving the uptake of best practices, and improving customer service). Our Organizational Health Index research shows that companies with better collaborative management capabilities also have superior financial performance—top-quartile companies on average have returns on capital that are 50 percent higher than those in the lowest quartile.³

For instance, an oil and gas company established some linkages to share best practices, including a knowledge portal and talent rotations for field personnel. Those moves reduced costs due to poor quality maintenance and manufacturing by two-thirds and boosted new-product revenue by 22 percent and talent productivity by 10 percent (due to time saved). Similarly, one of the world’s largest

engineering consultancies created IT knowledge communities in major expertise areas, and new project management teams that cut across traditional geographic and business unit boundaries to focus on a few key functional initiatives (e.g., platform standardization). The improved linkages led to a 16 percent decrease in the size of the technology group. That translated to a reduction of technology costs from 5.2 percent of revenue to 3.6 percent of revenue in about 5 years.⁴

Second, linkages can improve organizational effectiveness (e.g., improving decisions about resource and capital allocation, reducing bureaucracy and interaction costs, and better integrating new hires and making them effective sooner). For example, a global consumer company’s streamlined decision making for pivotal processes (e.g., strategic planning) by identifying and eliminating unnecessary interactions within and across silos and clarifying roles and responsibilities: in doing so it reduced SG&A by about 10 percent across the base of the organization, increased talent productivity by 80 percent, and improved decision making timing and outcomes (e.g., higher success rates of initiatives, higher forecast accuracy in business planning, winning advertising copy).

Third, companies can improve external stakeholder management to reduce the vulnerability that arises when only a few leaders hold the majority of relationships with external stakeholders.

Understanding your pattern of linkages

For senior executives, the linkages that drive performance are often hidden behind an opaque wall of formal mechanisms and structures. They cannot see whether they have too few linkages

2 Martin Dewhurst, Jonathan Harris, and Suzanne Heywood, “Understanding your ‘globalization penalty,’” *McKinsey Quarterly*, July 2011.

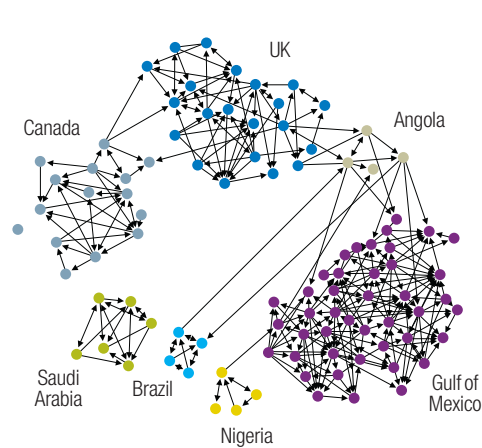
3 For more on this database, see <http://solutions.mckinsey.com/ohi>.

4 *McKinsey Quarterly*—“The role of networks in organizational change”; *WSJ* article—“Engineering firm charts ties.”

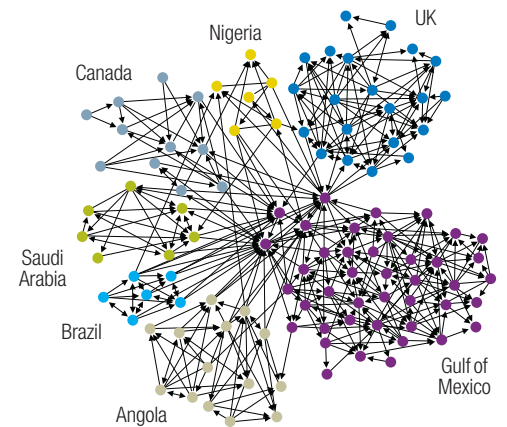
Exhibit 2

Social network analysis shows growth in linkages at a global oil and gas company

Networks BEFORE new linkages



Networks AFTER new linkages



or if the organization is overwhelmed with too many; and they cannot tell which ones add value. Three examples show how different organizations addressed these linkage challenges.

Example 1: Reducing costs by sharing best practices

Leaders of a global oil and gas company knew that operations personnel were not sharing best practices effectively; a quick review showed that the company had more than 30 distinct ways to operate the same rig. Managers also knew that field workers facing problems such as equipment breakages or uncertainty about the local terrain did not know how to get answers quickly and effectively. When the executive leading operations studied the linkages, she found three places where links were missing. First, field workers tended to contact only those technical experts with whom they had strong personal relationships; second, the experts did not reach out unasked to the field workers to share best practices; and third, field workers

facing similar problems in different geographies did not share best practices.

The oil company made improvements to the way information requests were processed and developed a thriving knowledge community, in part by designing a new knowledge portal. It also transferred a number of field workers among countries to establish new connections amongst colleagues and to build expertise on particular technical topics. Within a year, the new networks had blossomed (Exhibit 2). The adoption of new technologies boosted new-product revenue by 22 percent and talent productivity by 10 percent, and costs related to poor quality fell by two-thirds.

Example 2: Reducing bureaucracy and improving talent productivity

A global consumer company suffered from an overly inclusive culture, mired in linkages that slowed decision making and reduced employee productivity. A survey of pivotal decision making processes (such as strategic planning of new

product design) showed that nearly 45 percent of interactions added no value and 25 percent could be removed from each decision process. The company took action by “freeing up” specific individuals from decision making activities (e.g., some meetings and e-mail exchanges) and clarifying decisions roles and responsibilities. Then they rolled out newly streamlined global processes, starting with the most pivotal decisions. As a result, the company reduced SG&A by ~10 percent and improved talent productivity by ~80 percent. The company says it now makes more timely decisions and employee satisfaction has risen, as people appreciate getting out of meetings and e-mails that are not particularly relevant to them, and can dedicate the freed-up time to their real work.

Example 3: Boosting revenue through cross-selling in priority markets

A global financial services company, formed through acquisitions, had poor sales and customer “share of wallet” in several high-priority emerging markets. A review showed few linkages between product groups in these high-priority markets. It did a pilot test of a new, temporary group for the distribution of specific products from two main business units into these markets. Early success in improving cross-selling led to similar initiatives in a limited number of specific areas in which linkages would create value. These groups had their own charters, budget, support, and success metrics. The company further reinforced the new cross-selling priorities in its process to “onboard” new talent and in its training programs. The cross-sell rates between business units and geographic units improved in direct correlation to the number of linkages. The company developed a culture of better collaboration and innovation in these markets while also preserving accountability.

Getting better connected

Up to now we have discussed linkages in general terms. As companies think through their connections, more precision is needed. There are six kinds of linkages – connections between individuals – that companies use to extract more business value, such as dotted-line reporting or integrating roles, and five enablers, such as co-locating employees or job rotation, that facilitate or create these connections (Exhibit 3).

When faced with a lack of connection or collaboration, the standard reflex is to formalize linkages (e.g., adding new reporting lines or additional dimensions to the organization matrix). But these more formal linkages can be costly to operate; dual reporting lines will almost certainly double an executive’s administrative burden, to take only the most obvious example.

Better solutions can come from considering a wider range of linkage mechanisms. For example, some tasks and functions, such as coaching or mentoring, require strong, personal, trusting, and frequent interactions (such as via direct reporting lines). Other connections, such as those for sharing documents, can be weaker, more impersonal, and infrequent.

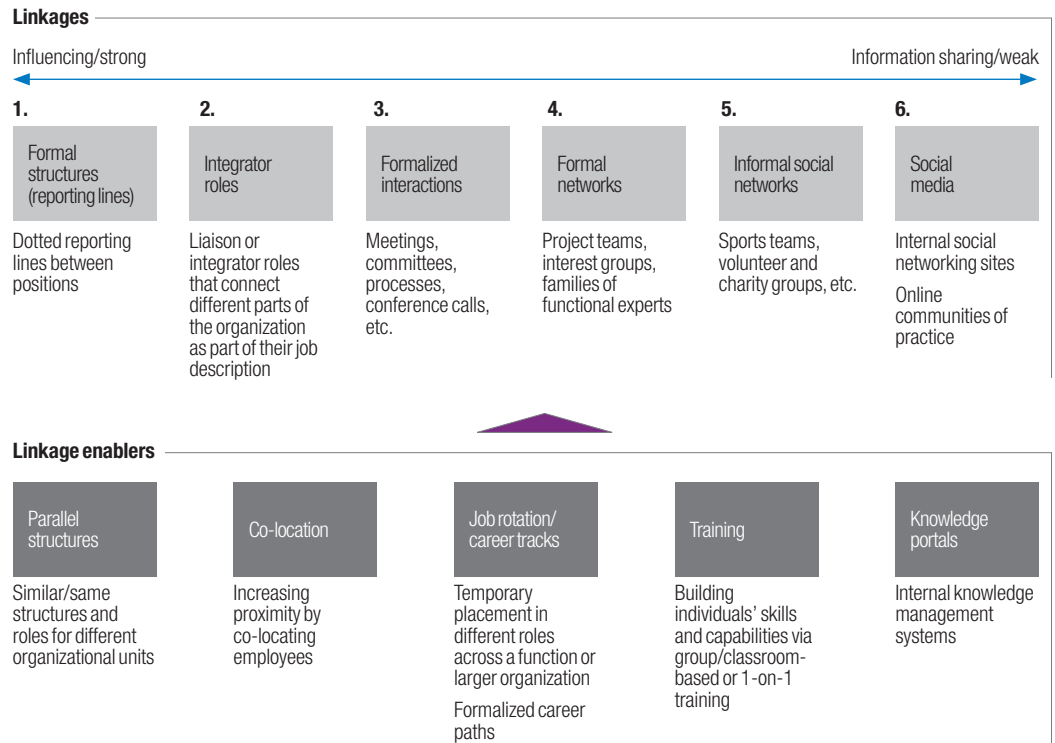
As the companies in the examples above demonstrated, a good first step in getting better connected is to understand whether a company has too few, too many, or the wrong type of linkages, where they are or where they are missing, and the problems arising as a result (such as missed opportunities, wasted time, or overburdened managers).

Once a company knows where it stands, its leaders can decide where to remove linkages, where to add them, and what kinds they need.



Exhibit 3

Linkages and enablers to connect the company



When there are too many linkages, structural changes such as clarifying decision rights and reporting lines will help (see “Structuring your organization to meet global aspirations” on page 29 for more on this).

If the challenge is too few linkages, as at the oil company, or linkages in the wrong places, the company will need to identify its knowledge seekers and the holders of that knowledge; it can then determine the best ways to connect them, whether through strong, collaborative, and trust-based personal connections or simpler information exchanges using e-mail or regular reports. In general, the purpose of the linkage should determine which mechanism to use.

The integrator role is one linkage that not many companies have yet explored. That’s too bad as it is perhaps the best way to build strong, personal links. An integrator role links specific teams together, often temporarily, until close working relationships have been established. For example, when researchers analyzed social networks and studied e-mails among teams involved in developing aerodynamic components for Formula 1 racing cars, they found that teams that designated a relationship manager to interact frequently with peers working on related products across geographies were 20 percent more productive than teams whose managers interacted less often.⁵

5 Jacomo Corbo and Gary Pisano, “The impact of information networks on productivity,” paper given at Circuits of Profit conference, Budapest, June 20, 2011.

One note of caution: companies that rely on informal links also need to ensure that the kinds of behaviors that support effective personal communication are built into performance evaluation criteria, leadership standards, and processes for measuring and developing employees' effectiveness.

To build less costly links, companies are using a number of technological tools, both as enablers to connect knowledge seekers with expert knowledge and, in the case of social media, as a

platform on which people build durable, personal links. For instance, IBM's internal Beehive Web site does both. It allows users to add personal content via "status update" and "about me" features; the site also includes "hive five" lists where staff can outline business ideas and invite comments from colleagues.⁶ This helps foster collaboration and can even help the company develop a new, global set of values. (See our interview with Michael Cannon-Brookes, IBM's Vice President for Business Development, China and India, on page 35 for more.)



Companies can get more value from their global footprints by using a range of linkages to tap ideas and knowledge trapped in silos. Companies that have the right linkages in

place can boost revenue, lower costs, make better decisions about resource and capital allocations, accelerate innovation, and improve talent productivity.

⁶ Joan M. DiMicco, David R. Millen, Werner Geyer, and Casey Dugan, "Research on the use of social software in the workplace," paper presented at CSCW workshop on social networking in organizations, San Diego, California, November 2008.

