Organization strategy and effectiveness in emerging markets

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The Center for Effective Organizations (CEO) brings over 30 years of experience in helping companies build more effective organizations. We have a team of world-renowned researchers and consultants working on subjects ranging from organization design to human resource management to leadership development to sustainability. CEO distinguishes itself from other applied research centers and consulting organizations by partnering with organizations to rigorously assess the relevant and strategic issues facing them, applying proven interventions guided by that assessment, and evaluating the effectiveness of the engagement.

Background

There has been a great deal of research and consulting work on how companies adapt to operating across international boundaries. A separate line of research and consulting addresses how organizations can operate with multiple, potentially competing objectives (ambidexterity; efficiency and flexibility; global integration and local responsiveness; etc.). These two research and practice streams intersect whenever an organization wants to grow and/or lead in a foreign market that is large relative to its existing base of operations.

In a previous generation, these issues came into play when multinational companies (MNCs) from mature markets established significant market positions in Europe and vice versa. Today, the biggest targets for expansion are the large emerging markets, including Brazil, China, India, Indonesia, Turkey, Mexico, etc., that are characterized by very large population and rapidly growing middle classes. Yet the challenges of succeeding in today’s large emerging markets are fundamentally different than the challenges faced by companies that previously expanded across developed economies.

The previous chapters of MNCs’ expansion abroad were written when the domestic growth rates in the foreign economies were slower than today’s rapid rates, and when the scale and complexity of operation were less than today. Many of today’s large emerging markets have a much greater scale than either America or Europe had a generation ago, and have much more poorly developed economic infrastructures, including transportation systems, financial systems, regulatory environments, and education systems. We do not know whether the organizational and talent strategies used for cross-national success by yesterday’s MNCs will work for attaining market leadership in today’s large emerging markets.

Purpose and Details of the Project

Today’s large emerging markets offer unique challenges and opportunities to both multinational and domestic companies, and are characterized by:

- Large scale of domestic economic activity
- Growing middle classes that are large in absolute size (numbers) but small relative to the overall population
- Domestic companies which are successful locally. These companies typically focus on domestic consumers using price points well below the break-even point needed for success in mature markets
- Foreign-based multinational companies that often struggle to break into the market and serve the majority of domestic consumers profitably

In this environment, both domestic companies and multinationals face the following challenges:
• Should the company build in-country operations with a domestic-only focus, global focus, or both? What are the structure, process and talent implications of choosing one over the other?
  o In many cases the base of operations in the emerging market were established as part of a low cost global strategy. The transition to a mixed global and domestic strategy poses challenges in terms of organization design, work design, and talent sourcing, development, management, and retention.

• How can organization structures be built that effectively and flexibly serve the market in its current state of development, and also position the company for success as the economy and middle class grow rapidly? Do you target the middle class as it exists today, or as it is likely to exist in 5-10 years time? What are the consequences of making the wrong bet?
  o The business-to-business relationships and go-to-market systems needed for success today often look quite different than the existing structures in mature economies.
  o In most industries, we can forecast fairly accurately what organizational forms will exist after the emerging markets have finished the transition to mature market status. There are a wide variety of organizational forms already in existence across the developed world; many, if not most, of those will be prevalent in the emerging markets in that future state. The challenge lies in figuring out which form(s) will be optimal, and the transition path from current state to future state that enables both market leadership and profitability.

• In the presence of underdeveloped education and training systems, what is the best talent strategy? Modern organizational forms and processes require advanced skills for many jobs that are most typically found in post-high school educated populations. The large emerging markets are turning out large numbers of university graduates, but there are fundamental differences with the talent pools in the developed world:
  o College education is a much more elite pursuit in the developing world, which creates different expectations for the kinds of work and remuneration college graduates seek.
  o Even though the college educated workforce is a smaller percentage of the population, there may be relatively high rates of underemployment of college graduates due to a lack of jobs requiring college level skills, and to a gap between the quality of education and the market demands for skills.
  o The types of work experience offered by domestic companies in the local labor market create a “thin” market for people with the skills needed to succeed in modern, complex, large organizations. This diminishes the ability of MNCs (and their domestic competitors that seek to emulate them) to follow standard “buy versus build” formulas for recruiting, developing and retaining key talent. This issue applies to both high school educated and college educated workers.

These issues are particularly acute for the large emerging markets. In contrast, countries that recently made the transition from developing to developed (for example, South Korea and Singapore), operated almost exclusively with an export-oriented development strategy. The existence in the large emerging markets of large and growing middle classes increases the options for companies in those markets, at the same time that the complexity and consequences of making the wrong decision are amplified.

Organizations that participate in this action research work stream will benefit from feedback and actionable solutions on how to improve their operations and effectiveness in the areas of organization and work design, leadership effectiveness, and employee attraction, retention, motivation and productivity.
Work to Date

- **China-specific work:** For the initial phase of the action research agenda, Dr. Alec Levenson spent three years traveling to China to collect data and conduct pilot projects. The China-specific work includes a project on sales force effectiveness with a large multinational in 2010, and a project with Sinopec on merger integration in 2012.

- **India, Indonesia and Brazil:** In 2011-12, Dr. Levenson expanded the focus to include Brazil, India and Indonesia. The Indonesia-specific work includes a project with Gunung Sewu on role design and business unit structure for a large part of their operations.

- **Global work:** In 2011-12 Dr. Levenson co-led a global study of intergenerational management differences for a leading professional services firm in 18 countries, including China, India, Brazil, South Africa, Mexico, Russia and Poland, as well as leading industrialized countries. The rich data enabled the most comprehensive analysis ever of the similarities and differences of the new generation of Millennial workers across the globe.

Previous global work includes:

- Evaluating the global decision making structure of a pharmaceuticals company.
- Assessing talent strategy weaknesses for an MNC’s emerging markets business strategy.
- Identifying the factors that enable and inhibit the success of a strategy to minimize costs by distributing software development work worldwide.

About the Principal Investigator

**Dr. Alec Levenson** is Senior Research Scientist at the Center for Effective Organizations, Marshall School of Business, University of Southern California. His research and consulting work with companies optimizes job and organization performance and HR systems through the application of organization design, job design and human capital analytics.

Dr. Levenson’s work with companies combines the best elements of scientific research and practical, actionable knowledge that companies can use to improve performance. He draws from the disciplines of economics, strategy, organization behavior, and industrial-organizational psychology to tackle complex talent and organizational challenges that defy easy solutions. His recommendations focus on the actions organizations must take to make lasting improvements in critical areas. He has trained numerous Human Resource professionals in the application of human capital analytics, representing a broad range of Fortune 500 and Global 500 companies.

Dr. Levenson received his Ph.D. in economics in 1994 from Princeton University, focusing on development and labor economics. He earned his B.A. from the University of Wisconsin-Madison, double majoring in Chinese and economics, and spending the summer of 1987 living and traveling in China. Prior to that, he studied Spanish for eight years. His Ph.D. dissertation research on Taiwan included a month living and working in the country, and provided insights into the evolving consumer economy and indigenous informal financial intermediation groups (rotating savings and credit associations), which are found in developing economies around the world and served as a model for the Grameen Bank. To this date, Dr. Levenson’s research on the rotating savings and credit associations remains the most comprehensive national-level analysis of the critical role these indigenous financial institutions play in economic development.
Before joining USC, Dr. Levenson worked at the Milken Institute, focusing on labor economics and the economic impacts of public policies designed to foster human capital development in support of economic growth. Since joining USC and the Center for Effective Organizations in 1999, he has focused his action research agenda on working with companies to analyze the role of human capital in organizational success, and the work design and organization design challenges to strategic and financial success. He has worked with companies worldwide, including in Asia, Europe and Latin America. Projects of note include:

- **Intergenerational Management Challenges** for a leading professional services firm in 18 countries across both developed and emerging markets
- **Talent Management Optimization** for a multinational company’s China operations
- **Decision Making Optimization** for a global pharmaceuticals company
- **Productivity of Globally Distributed Software Development** for a Fortune 200 technology company (funded by Sloan Foundation)
- **Customer Teams Optimization** for a global consumer products company
- **How Companies Achieve Success in Times of Adversity** for Booz · Allen & Hamilton
- **ROI of Globally Distributed Teams** (funded by National Science Foundation)
- **High Performance Teams** for a leading professional services firm
- **Human Capital Value** for PricewaterhouseCoopers
- **Maximizing Route Sales Effectiveness** for PepsiCo/Frito-Lay

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