Are you captivated by the challenges of globalization? If so, The Transnational Corporation: Developing the DNA of a Global Player was written for you. This ambitious study will show you the success formulas of 27 European and Québec executives. It will take you to the heart of winning companies, one gene at a time!

Using numerous actual cases and drawing parallels with the DNA of living organisms, this study provides practical answers to five fundamental questions:

- What are the qualities of a leader who succeeds in the international arena?
- How can you make a transnational corporation more competitive?
- Which genes are the source of foreign direct investment and how can they be combined to enhance business performance?
- What are the main activities and functions of a head office?
- How can senior management cope with the diverging forces of centralization and decentralization?

Once you’ve read this study, it will be up to you to apply the advice that is most relevant to your company; no one else will do it for you. We hope it will provide inspiration and motivate you to begin, or to continue, your conquest of markets beyond our borders.
“The Caisse is here to serve you – not just in your Québec operations but also in your endeavours to expand internationally.”

Normand Provost
New concrete support for Québec companies intent on global expansion

The Caisse de dépôt et placement du Québec is a leading investor in Québec and a staunch supporter of top-performing companies in their international expansion projects. We believe that by helping these companies become increasingly global we can contribute most effectively to Québec’s economic growth. In short, we are convinced these companies can achieve success on the world stage.

In the spirit of supporting companies involved in this type of initiative, we commissioned this study to identify the key elements of international success. We’re convinced that entrepreneurs are in the best position to advise other entrepreneurs; this document therefore recounts the experience of about 30 corporate leaders and offers up their specific courses of action.

We are very proud of this study, which builds on many other practical initiatives introduced by the Caisse since 2009. For example, we have entered into key partnerships with major international institutions, including AXA Private Equity and HSBC Bank Canada, to forge strategic alliances and provide access to financing for international projects. To help Québec entrepreneurs address the challenges of market globalization, we have also launched the Dialogues conferences, whose objective is to share advice and best practices. Held in various regions of Québec and based on real situations, these conferences provide motivation and content that can be applied to companies’ daily reality. Additionally, video clips and a webinar are available on the Caisse’s website.

Simply put, the Caisse is here to serve you – not just in your Québec operations but also in your endeavours to expand internationally. We offer this study as another tool for your kit. I hope you find it thought-provoking and worthy of discussion with your colleagues and peers. Above all, I hope it inspires you to take strategic action with a view to international expansion.

In conclusion, I offer my sincere thanks to the partners who helped us obtain interviews with some of the entrepreneurs, as well as to Dominic Deneault, who agreed to take up the challenges posed by such a study.
Are you captivated by the challenges of globalization? If so, *THE TRANSNATIONAL CORPORATION: Developing the DNA of a Global Player* was written for you. This ambitious study will show you the success formulas of 27 European and Québec executives. It will take you to the heart of winning companies, one gene at a time!

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**METHODOLOGY**

Two characteristics set this study apart.

First, it is based on a series of discussions held between May and August 2011 with 27 leaders from Europe and Québec – executives who generously shared the formulas for their victories and the lessons derived from their failures. This study gives you inside access to a vast bank of unique experiences.

You may be wondering why it focuses on European and Québec companies exclusively. The West is still producing global leaders in all sectors of the economy, and we would do well to take inspiration from these executives, who are open to telling their stories and sharing the lessons they have learned. Moreover, the management methods and corporate cultures of Asian companies are incompatible with our Western frame of reference. No one doubts that their journeys are full of enthralling stories, but they’re too far from our reality for us to derive suitable lessons from them.

Second, we offer you a wide range of businesses. They come in different sizes and from a variety of sectors (see our list on pages 6 and 7): small businesses and large corporations; publicly traded and privately owned companies; renowned companies and obscure companies you may have never heard of. You’ll discover Groupe Piriou, which restored the Calypso, Jacques-Yves Cousteau’s storied ship, as well as Forensic Technology, which holds 95% of the market for ballistics identification, the science that uses a spent bullet or a cartridge casing to trace a firearm used to commit a crime – the same ballistics identification system introduced to the greater public by the U.S. television series *CSI: Crime Scene Investigation*.

This study is the outcome of structured, thorough research. It is the synthesis of a series of interviews with 27 executives and a modicum of theoretical concepts, which are presented essentially to give structure to the numerous case studies and to place them in context. The genes of these international champions were decoded from about 40 hours of conversation.
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<tr>
<th>Company name</th>
<th>Description</th>
<th>Name of officer consulted*</th>
<th>2010 revenues (no. of countries)</th>
<th>% of revenues outside country of origin</th>
<th>no. of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRP</td>
<td>Manufacturer of recreational vehicles</td>
<td>José Boisjoli</td>
<td>CA$2 B (105 countries)</td>
<td>36% (outside America)</td>
<td>5,500 employees</td>
</tr>
<tr>
<td>Camoplast Solideal</td>
<td>Provider of services and high-performance products for off-road vehicles</td>
<td>Pierre Marcouiller</td>
<td>CA$900 M (75 countries)</td>
<td>92%</td>
<td>8,000 employees</td>
</tr>
<tr>
<td>Dollarama</td>
<td>Chain of dollar stores</td>
<td>Stéphane Gonthier</td>
<td>CA$1.4 B (1 country)</td>
<td>0%</td>
<td>13,500 employees</td>
</tr>
<tr>
<td>EXFO</td>
<td>Provider of test solutions for telecommunications network operators</td>
<td>Étienne Gagnon</td>
<td>US$203 M (100+ countries)</td>
<td>45% (outside America)</td>
<td>1,600 employees</td>
</tr>
<tr>
<td>Fordia</td>
<td>Manufacturer of diamond tools and distributor of equipment for the mineral exploration and geotechnical industries</td>
<td>Luc Paquet</td>
<td>CA$110 M (31 countries)</td>
<td>60%</td>
<td>240 employees</td>
</tr>
<tr>
<td>Forensic Technology</td>
<td>Developer of ballistics identification and firearm recognition systems</td>
<td>Robert Walsh</td>
<td>CA$55 M (60 countries)</td>
<td>98%</td>
<td>222 employees</td>
</tr>
<tr>
<td>ALDO Group</td>
<td>Designer and retailer of shoes and accessories</td>
<td>Aldo Bensadoun</td>
<td>CA$1.9 B (65 countries)</td>
<td>70%</td>
<td>12,000 employees</td>
</tr>
<tr>
<td>Héroux-Devtek</td>
<td>Manufacturer of landing gear systems and airframe structural components</td>
<td>Gilles Labbé</td>
<td>CA$320 M (2 countries)</td>
<td>70%</td>
<td>1,550 employees</td>
</tr>
<tr>
<td>iBwave</td>
<td>Developer of software for wireless in-building networks</td>
<td>Mario Bouchard</td>
<td>CA$12 M (70 countries)</td>
<td>95%</td>
<td>62 employees</td>
</tr>
<tr>
<td>BSA Food Ingredients</td>
<td>Supplier of food ingredients (spices and blends)</td>
<td>Marcel Baril</td>
<td>CA$38 M (2 countries)</td>
<td>3%</td>
<td>135 employees</td>
</tr>
<tr>
<td>iWeb</td>
<td>Provider of web hosting and IT infrastructure services</td>
<td>Éric Chouinard</td>
<td>US$29 M (150 countries)</td>
<td>60%</td>
<td>170 employees</td>
</tr>
<tr>
<td>SNC-Lavalin</td>
<td>Provider of engineering, procurement and construction services, as well as project management and financing</td>
<td>Ronald Denom and Zouheir Chebi</td>
<td>CA$6.3 B (100+ countries)</td>
<td>46%</td>
<td>24,000 employees</td>
</tr>
</tbody>
</table>

* The great majority of the officers consulted hold the position of president and/or chief executive officer; a few are general managers, vice-presidents or board members.
## Europe

<table>
<thead>
<tr>
<th>Company name</th>
<th>Description</th>
<th>Head office</th>
<th>Name of officer consulted*</th>
<th>2010 revenues (no. of countries)</th>
<th>% of revenues outside country of origin</th>
<th>no. of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSA ABLOY (HID Global)</td>
<td>Door-opening solutions manufacturer</td>
<td>Sweden</td>
<td>Denis Hébert</td>
<td>€3 B (120+ countries)</td>
<td>95%</td>
<td>30,000 employees</td>
</tr>
<tr>
<td>Brenntag</td>
<td>Distributor of industrial and specialty chemicals</td>
<td>Germany</td>
<td>Stefan Zuschke (BC Partners)</td>
<td>€7.6 B (70+ countries)</td>
<td>92%</td>
<td>12,000 employees</td>
</tr>
<tr>
<td>Grohe</td>
<td>Manufacturer of kitchen and bathroom faucets</td>
<td>Germany</td>
<td>Stefan Zuschke (BC Partners)</td>
<td>€980 M (130 countries)</td>
<td>80%</td>
<td>5,400 employees</td>
</tr>
<tr>
<td>Hugo Boss</td>
<td>Designer, manufacturer and retailer of high-end and luxury apparel and accessories</td>
<td>Germany</td>
<td>Claus-Dietrich Lahrs</td>
<td>€1.7 B (124 countries)</td>
<td>85%</td>
<td>9,944 employees</td>
</tr>
<tr>
<td>Iglo Group</td>
<td>Manufacturer of frozen foods (vegetables, chicken, etc.)</td>
<td>England</td>
<td>Martin Glenn</td>
<td>€1.1 B (11+ countries)</td>
<td>68%</td>
<td>2,504 employees</td>
</tr>
<tr>
<td>Competence Call Center</td>
<td>Call centre operator</td>
<td>Austria</td>
<td>Thomas Kloibhofer</td>
<td>€54 M (7 countries)</td>
<td>90%</td>
<td>3,000 employees</td>
</tr>
<tr>
<td>SFINC</td>
<td>Producer of spices, functional ingredients, neutraceuticals and coatings</td>
<td>Belgium</td>
<td>Christian De Wolf</td>
<td>€70 M (6 countries)</td>
<td>20% (outside Benelux)</td>
<td>200 employees</td>
</tr>
<tr>
<td>Aixam Mega</td>
<td>Manufacturer of microcars</td>
<td>France</td>
<td>Philippe Colançon</td>
<td>€110M (12 countries)</td>
<td>45%</td>
<td>220 employees</td>
</tr>
<tr>
<td>DIANA</td>
<td>Developer of natural functional solutions for the agri-food and pet food industries</td>
<td>France</td>
<td>Olivier Caix</td>
<td>€368 M (20 countries)</td>
<td>80%</td>
<td>1,400 employees</td>
</tr>
<tr>
<td>Keolis Group</td>
<td>Operator of all types of passenger transport (bus, car, subway, tram, trolley, train, etc.)</td>
<td>France</td>
<td>Arnaud Van Troeyen</td>
<td>€4.1 B (12 countries)</td>
<td>46%</td>
<td>47,200 employees</td>
</tr>
<tr>
<td>Piriou Group</td>
<td>Fishing vessel manufacturer and repair specialist</td>
<td>France</td>
<td>Pascal Piriou</td>
<td>€150 M (5 countries)</td>
<td>70%</td>
<td>1,000 employees</td>
</tr>
<tr>
<td>TLD Group</td>
<td>Manufacturer of airport ground support equipment</td>
<td>France</td>
<td>Jean-Marie Fulconis</td>
<td>€170 M (119 countries)</td>
<td>93%</td>
<td>900 employees</td>
</tr>
<tr>
<td>Mersen</td>
<td>Manufacturer of systems, advanced materials and electrical components for industrial applications</td>
<td>France</td>
<td>Thomas Farkas</td>
<td>€741 M (100+ countries)</td>
<td>89%</td>
<td>7,000 employees</td>
</tr>
<tr>
<td>Novacap EU</td>
<td>Developer and manufacturer of mineral and organic chemicals</td>
<td>France</td>
<td>Pierre Luzeau</td>
<td>€612 M (Europe)</td>
<td>60%</td>
<td>860 employees</td>
</tr>
<tr>
<td>Diplomatic Oleodinamica</td>
<td>Manufacturer of hydraulic control valves</td>
<td>Italy</td>
<td>Roberto Maddaloni</td>
<td>€45 M (20+ countries)</td>
<td>60%</td>
<td>125 employees</td>
</tr>
</tbody>
</table>
THE THREE PHASES OF GLOBALIZATION

The Thirty Glorious Years refers to the period of economic growth enjoyed by most of the current members of the Organisation for Economic Co-operation and Development (OECD) from the end of the Second World War until the first oil shock. These years saw sweeping social and economic change characterized by:

- the reconstruction of countries devastated by war and the creation of major international institutions;
- demographic growth, known as the baby boom, in North America and in parts of Europe;
- falling unemployment in most countries; and
- growth of industrial output and trade flows.

Moreover, the General Agreement on Tariffs and Trade (GATT), which was eventually replaced by the World Trade Organization (WTO), involved eight rounds of negotiation that lowered tariffs on exported goods from an average of 40% in 1947 to only 5% in 1995.

At the outset, the rise in international trade took place despite strong East-West bipolarization resulting from the threat of nuclear war. Relations between the United States and the Soviet Union reached their nadir early in the 1960s. To avoid a confrontation, the two blocs began a dialogue toward peaceful coexistence. The first phase of globalization ended with a period of détente in the midst of the Cold War.

What did globalization mean at that time? It referred to local and regional phenomena that were tending to become worldwide. In addition to a change of scale, globalization had the neutral meaning of “internationalization,” in other words greater export flows between national companies.
Phase 2: Multinationalization of Corporations

Large businesses cast off their national anchors mainly during the conservative revolution of the 1980s. During this stage, globalization was characterized by a departure from the concept of internationalization and a shift to foreign direct investment (FDI). The new logic of integration, universalization and deterritorialization superseded the traditional logic of the import-export style of openness.

In his 1981 inaugural address, U.S. President Ronald Reagan neatly summed up his political doctrine: "...government is not the solution to our problem. Government is the problem." During that decade he applied three central tenets of economic liberalism: deregulation, privatization and competition, particularly in the banking and transportation sectors. This trend to the elimination of regulatory constraints began to unfold first in the United Kingdom, during Margaret Thatcher’s mandates from 1979 to 1990, and in the United States, during the Reagan years from 1981 to 1989; it then spread to several other developed countries.

The concept of globalization began to take on a more economic flavour, with impetus from Theodore Levitt’s article “The Globalization of Markets,” published in the Harvard Business Review in 1983. In essence, Levitt said the well-managed company had to extend its operations beyond its national borders to achieve economies of scale by offering global brands and standardized products geared to ever more homogeneous needs. Globalization became synonymous with universality, standardization and integration. His advice sparked a huge passing fad; today, however, the concept that global businesses lead to a single uniform world is seen as a myth. In reality, regardless of what Levitt believed, globalization causes convergence but not necessarily standardization; it does not reduce differences nor does it eliminate disparities.

This strictly economic view of globalization, which denies the existence and diversity of other spheres of life, is the source of much tension. It has given rise to the anti-globalization protest movement, later referred to as alter-globalization, as well as the publication in 1987 of the Brundtland Report on sustainable development, which broadened the discussion by addressing environmental, social, cultural, political and economic sustainability.

Phase 3: Globalization of Economies

In the geopolitical arena, the 1990s saw the fall of the Berlin Wall and the collapse of the Soviet Union. These events accelerated the decline of Communist ideology and promoted economic openness through free trade policies. In 1992, China embraced international trade and foreign investment. A large number of emerging markets began to experience rapid growth. In short, the shifting balance of power led to the emergence of globalization.

Generally speaking, the concept of globalization goes beyond geography by including temporal aspects (immediacy and velocity) and organizational aspects (see box 1 on page 12 for a more detailed explanation).

The globalization of business, as conceived by Levitt, appears to be a myth, given the unrealistic levels of integration and universalization that it assumes, but the globalization of financial markets is very real. By 1989, in the wake of the Washington Consensus, endorsed by the International Monetary Fund and the World Bank, globalization had three dimensions: geographic (capital was flowing easily from one country to another), temporal (transactions were taking place in real time, around the clock) and organizational (the markets – money market, stock market, bond market, currency market, etc. – were decompartmentalized). The two key concepts were disintermediation and decompartmentalization.

As the world becomes more finance-centric, we have scarcely begun to appreciate the power of alter-globalist activists, who never miss an opportunity to attack the globalization dragon. Without being against globalization, they believe another world is possible, as their name suggests. Admittedly, the 2008 banking and financial crisis has discredited certain ideologies; the deficiencies of capitalism have resurfaced and regulation is no longer quite so taboo. And the world is slowly regaining its awareness of the drawbacks of an unsustainable, unequal wealth creation.
The Three Phases of Globalization

Globalization is a historical process involving the expansion and alignment of interdependent relationships between fields of human activity (economic, social, cultural, environmental and political) across the globe. It is a geographically uneven process that develops over time. It affects both those involved in the process and those peripheral to it.

**PHASE 1**
INTERNATIONALIZATION OF TRADE
1945 TO 1979

**PHASE 2**
MULTINATIONALIZATION OF CORPORATIONS
1980 TO 1989

**PHASE 3**
GLOBALIZATION OF ECONOMIES
1990 TO THE PRESENT

---

**GROWTH IN EXPORT FLOWS**
1947: Signing of the GATT (leading to the WTO in 1995)

**POSTWAR RECONSTRUCTION AND CREATION OF MAJOR INTERNATIONAL INSTITUTIONS**
1944: Creation of the International Monetary Fund (IMF)
1945: Creation of the United Nations
1945: Creation of the World Bank
1971: Creation of the World Economic Forum in Davos

**CONSENSUS ON THE CONCEPT OF SUSTAINABLE DEVELOPMENT**
1987: Brundtland Report on sustainable development

**DEREGULATION AND NEOLIBERALISM**
1980-1990: Conservative revolution in the United Kingdom and the United States

**OIL SHOCKS**
1973: First oil shock
1979: Second oil shock

**PERIOD OF DÉTENTE DURING THE COLD WAR (1963-1975)**
1968: Nuclear Non-Proliferation Treaty
1972: SALT I Agreement (limitations on nuclear weapons)
1975: Helsinki Conference (co-operation between the Communist bloc and the West)

---

**Figure 1**

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**REFERENCES**

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**THE TRANSNATIONAL CORPORATION: Developing the DNA of a Global Player**

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PHASE 3
GLOBALIZATION OF ECONOMIES

1990 TO THE PRESENT

FINANCIAL CRISES
2001: Bursting of the Internet bubble
2008: Global banking and financial crisis (acute phase)

INFORMATION TECHNOLOGY AND COMMUNICATIONS REVOLUTION
1995: Netscape democratizes the Web (first commercial browser)
1999: Nokia launches the Mobile 3210 (2nd best seller of all time, after the 1100, launched in 2003)

RISE OF EMERGING MARKETS
1992: China’s reforms to create a socialist market economy
1999: Establishment of the G20
2001: China joins the WTO

EMERGENCE OF ALTER-GLOBALIZATION
1992: Rio Earth Summit
1993: Creation of Transparency International, an anti-corruption NGO
1997: Kyoto Protocol
1997: World Water Forum in Marrakech
1999: Battle of Seattle (cancellation of the WTO meeting)

PROLIFERATION OF FREE-TRADE AGREEMENTS
1992: Maastricht Treaty (Europe)
1994: NAFTA (North America)
1995: Creation of the WTO (GATT changes its name and mission)

FAILURE OF PLANNED ECONOMIES (AND END OF THE COLD WAR)
1989: Fall of the Berlin Wall
1991: Fall of the Soviet Union
Globalization: An Evolving Concept

Box 1

In addition to its geographical component, two other components need to be included to define "globalization" more fully.

The temporal component

Two sectors have been particularly affected by innovation in recent years: 1) information technology; and 2) transportation. First, as a result of the Internet revolution, even an SME can do business with almost any country, transfer capital or communicate information to the whole world, 24 hours a day. IT and communication costs were reduced a thousand-fold between 1970 and 2000. The following scenario provides a clearer illustration: if the price of cars had decreased at the same pace, you would now be able to buy a car for only five dollars. Second, port and airport infrastructure have significantly improved, while the transport capacity of freighters, container vessels, giant cargo aircraft and long-haul aircraft has exploded. As a result, delivery times have improved.

The organizational component

Society as a whole is affected by globalization – private enterprise and government alike. The entire world is wide-open to entrepreneurs who are willing to fragment the activities in their value chains. As for public administrators, they are grappling with an identity crisis and must invent new forms of governance. The nation state has five spheres of activity: global, supranational (or continental), national, regional and local. It is constantly torn between local and global challenges. The nation state is often too large to act effectively at the local level, but is also sometimes powerless to act in the global arena. As a result, it routinely finds itself short-circuited downstream by multinationals and transnational organizations that assume its powers (such as the WTO and the IMF), and upstream by NGOs and other organizations that take up local issues and get directly involved with the support of local communities.
DNA IS THE KEY TO COMPETITIVENESS, UNIQUENESS AND MUTATION

A study of the origin of words often reveals metaphors. The globalization of business is no exception. A metaphor is a figure of speech that implicitly establishes similarities between two realities. It is commonly used in all spheres, by business people and poets alike. Animals, sports, object, music – all can become sources of metaphors as we go about our daily lives.

Metaphoric images come up quite naturally in daily language. Our conversations with 27 European and Québec executives are a case in point. Which image did they use most frequently? That of DNA or genetics. Unprompted, 10 executives used genetics-inspired images to describe their companies’ globalization process. And why is that? Like a magnifying glass, this metaphor zeroes in on three realities whose mysteries were revealed by the executives.

First, like a living organism, each business has a “genetic” base. This base explains its origin and the source of its competitiveness: why does it survive and how does it set itself apart in the marketplace? Second, as Charles Darwin asserted, the species that survive are not necessarily the strongest, but those that manage to adapt: what then are the mutations, small and large, that are responsible for the ability of some businesses to create wealth, even when confronted with crisis, upheaval and constraint? Third, each living being has a genetic code that, not unlike fingerprints, makes it unique. This reality suggests there is no universal manual of best business practices. This diversity is a source of inspiration for those who strive to set themselves apart, rather than looking for success through imitation.

This biological metaphor will help you discover 27 European and Québec companies that have immersed themselves in the complex process of globalization. For some of these executives, the adventure is relatively new. For others, it began with the founding of their companies. In other words, globalization is part and parcel of their genetic makeup.

But before we start to decode the DNA of their businesses, we must decode the genes of the individuals who lead them, for no business can scale the summit without the contribution of a critical mass of leaders who are open to the world.

"10 executives used genetics-inspired images to describe their companies’ globalization process."
The globalization game is being played on a field less than 15 centimetres wide, namely the grey matter between your ears. Globalization is a state of mind. To decode the genes of world-class leaders, we had the tremendous privilege of speaking with Olivier Caix (France), José Boisjoli (Québec), Claus-Dietrich Lahrs (Germany), Thomas Kloibhofer (Austria), Martin Glenn (England) and many others.

Take a look at table 1 on page 15. It describes the 10 qualities of a leader who enjoys international success. What is a leader? A leader is someone who inspires people to succeed, encourages them to espouse a cause and motivates them to voluntarily pay a high price to achieve excellence. A leader chooses success that he himself has defined, rather than seeking power based on authority, domination or coercion.

Half of the qualities listed are referred to as "core" in that they are not strictly exclusive to success in the international arena. These are the pillars on which the other qualities are often based. As for the other qualities, they allow leaders to cross cultural and linguistic barriers that would otherwise prevent them from developing productive relationships and signing international deals. Let’s explore these qualities in greater detail with concrete examples.

Five Core Qualities

Humility
For executives, humility means knowing how to surround themselves with people who are stronger and more competent than they are, knowing how to look for a diversity of ideas. In the case of Marcel Baril, Chief Executive Officer of BSA Food Ingredients, importing spices from the company’s facilities in India leaves no room for improvisation. He has been visiting his suppliers regularly for 15 years and relies on a competent staff, including an accountant and a lawyer, who are all natives of the region. Baril is an excellent listener and never makes decisions on the spot. "I always take 24 hours to make up my mind. I consult the people around me because a very Western vision of the world is rarely conducive to sound decision making in India."

Even with the support of a competent team, your biggest mistake would be to believe that you’re not error-prone. As evidence, here are two confessions that underscore the importance of humility.

"The globalization game is being played on a field less than 15 centimetres wide, namely the grey matter between your ears."
"A very Western vision of the world is rarely conducive to sound decision making in India."

Marcel Baril, BSA
At a trade show in the Middle East, Mario Bouchard, President and Chief Executive Officer of iBwave, held out his hand to a Muslim fundamentalist – something that is just not done. “My reflex was to shake her hand. It was just automatic,” he said. “For a few seconds, that faux pas completely threw me off. ”

The senior management of Bombardier Recreational Products (BRP) held a three-day meeting for all the company’s leaders from around the world. To create connections between the teams, they planned a session of the war game called paintball, with the group divided into three teams. And the glitch? Not a single German took part. “Germans never play war games,” confessed José Boisjoli, BRP’s President and Chief Executive Officer.

Consistency

A leader’s behaviour must always reflect the message he conveys; he must lead by example. And his message has to be understood uniformly by all members of the business. When Camoplast acquired Solideal, a Luxembourg company that manufactures and distributes tires, wheels and rubber tracks, Pierre Marcouiller wasn’t expecting entrepreneurship, one of Camoplast’s values, to cause problems. At Solideal, this value was interpreted as follows: “If I’m profitable, let me manage my kingdom and don’t bother me.” Rather than debating the meaning of the word, the senior management team decided to adapt the vocabulary. Entrepreneurship became empowerment, whose meaning has been endorsed by all personnel; their credo has become “I have to question my way of doing things every day.” In this way, the message that Marcouiller wants to convey reflects the behaviours he tries to encourage.

Self-sacrifice

A leader must willingly put the interests of the group ahead of his personal interests. Negative examples of this value are numerous. Imagine an executive (also a shareholder) who massively relocates production, without the least compunction, with the sole objective of maximizing short-term earnings. Behaviour of this kind is a far cry from selflessness.

Executives with international operations work long hours, travel constantly and have difficulty achieving a work-life balance. A case in point is Thomas Kloibhofer, Co-Chief Executive Officer of Competence Call Center. He must travel a great deal at personal sacrifice, even making a business trip just after being present at the birth of his second daughter. Even though executives make this choice knowingly, it’s never easy to reconcile the imperatives of globalization with family life. According to Mario Bouchard, of iBwave, many people want to do business in the international arena but not at the expense of their work-life balance. “That just doesn’t cut it. You have to be ready to get on a plane every two weeks. You have to establish and nurture your relationships.”

Courage

Claus-Dietrich Lahrs, Chief Executive Officer of Hugo Boss, believes courage is a leader’s main quality. He recalled an executive he had recently dismissed because he was unable to make tough decisions or take a stand in crucial situations. “And yet when we hired him, he seemed like the perfect candidate,” Lahrs recounted. “He had international experience, he spoke several languages, he was stuffed with degrees. A dream employee!” But he was missing a key piece of the puzzle: the intestinal fortitude for decisions and the courage of his convictions.

Leaders cannot always be right; inevitably they will make mistakes. In business, you can’t let that paralyze you. Courage, or intestinal fortitude, is doubly sought-after on the international scene. As Pierre Marcouiller, of Camoplast Solideal, explained, “You can’t rely on your intuition, your instinct and your eyes to make the right decision. In Asia, for example, I have no discernment capability, I have no safety net. When a local leader proposes a solution, is it based on personal bias? A cultural trait? Is he telling me the truth?” Marcouiller sometimes makes decisions without knowing whether the locals have pulled a fast one on him. Even so, he prefers to act quickly and make corrections on the fly, instead of waiting until it’s too late to make a move.

“You can’t rely on your intuition, your instinct and your eyes to make the right decision. In Asia, for example, I have no discernment capability, I have no safety net.”

Pierre Marcouiller, Camoplast Solideal
Did you know what Nelson Mandela, former President of South Africa, said about the courage it took to fight apartheid in the name of freedom and justice? “I learned that courage was not the absence of fear, but the triumph over it.” Fear inhabits us all. We can only control and conquer it. According to Aristotle, “Courage is a mean with regard to fear and confidence.” Fear should never be extinguished, because it is precisely when we no longer feel it most that we dare to act.

**Communication**

No one will be surprised to find communication on this list. Every great leader knows not only how to convey his message but also how to decode the non-verbal signals and emotions of the people around him. His antennae are highly tuned.

The ability to communicate is “more important than any other at ASSAABLOY,” according to Denis Hébert, President of HID Global, an independent division of ASSA ABLOY. He believes a leader must possess an excellent ability to synthesize; he has to reduce all his messages to their simplest expression, because they must survive the filter of many linguistic and cultural barriers.

Obviously, quality communication is not a one-way street; information has to circulate in both directions. Seven executives said, however, that a lack of transparency was their main challenge. As Pascal Piriou, of Groupe Piriou, put it: “My most dreaded personal enemy is the unspoken – the unexpressed doubt, the undeclared disagreement. I have to get my people to talk about subjects that make them angry or uncomfortable.”

Olivier Caix, of DIANA Ingredients, agrees: “When people speak to a company president, their impulse is to tell him what he wants to hear. People constantly lie to him because they don’t want to be the bearers of bad news. If that’s the way it is in the West, imagine how powerless I am in emerging markets! Before a foreign business executive will tell me about a problem, there’s a whole song and dance to get through.”

In the face of cultural differences, hierarchy, distance, survival reflexes and white lies, the response time allowed an executive melts away like snow in the sun. Ask yourself what you would do if you could see that information wasn’t reaching you in sufficient quality or quantity. Would you yourself go to the information? That would be a wise response. And it’s the main reason for the many trips that company presidents and CEOs must take. They need to perceive and define reality with their own eyes.

With the first five qualities, our panel of 27 executives proposed leadership lessons of great simplicity. Simple though these lessons look, they are often the most difficult to apply. But their message is so powerful that we would be ill-advised to disregard them: a leader needs humility, consistency, self-sacrifice, courage and communication skills.

Some will find the bar extremely high, believing that for an individual to develop these five qualities is a feat in itself. So be it. But these qualities are not enough for someone who aspires to be an outstanding, world-class leader; a person with such aspirations needs more. Let’s take a look at why.
The issues created by multiculturalism can be complex and costly. To increase your chances of success, it is therefore in your interests to properly define the qualities required of a leader. DIANA Ingredients, for example, has operations in 20 countries on five continents and 1,400 employees representing 24 nationalities. As for Groupe Piriou, a shipbuilding and ship repair specialist, it has to cope with the imperatives of 12 different nationalities, and that’s only on its 40-member expatriate team in Port Harcourt, Nigeria. With a staff of 160, this shipyard builds and repairs all types of vessels with a length of up to 100 metres. Managing such a complex organization is no walk in the park.

In brief, here are the four multicultural qualities:
- open-mindedness (curiosity);
- cultural awareness;
- introspection; and
- adaptability.

You have to apply these qualities jointly to decode cultures and quickly develop affinities with the world around you.

When the senior management of ASSA ABLOY, in Sweden, looked for a new president for their HID Global division in the United States, they wanted someone open-minded, flexible and respectful of their management style. They choose Québécois Denis Hébert, rather than an American: “The candidates HID Global had already interviewed seemed to have an imperialistic attitude,” Hébert recounted. “They wanted to impose their vision of the world, which was a turnoff for the Swedes.”

When recruited by ASSA ABLOY, Hébert was with Honeywell, a client of HID Global. He studied at the University of Hong Kong before working for Sears in Canada and the United States. He then moved to Honeywell for a 17-year stint, first in Montréal, then in Toronto and ultimately as President of Honeywell France. When he left that company for ASSA ABLOY, Hébert was overseeing the integration of Westinghouse in San Jose, in the heart of Silicon Valley. How did he manage to land the job? “I quickly developed affinities with the Swedes,” he explained. “Québécois are a minority. And our lack of a colonialist past opens many doors for us. Listening to others and adapting to different cultures come naturally to me.”

And since then? In 2002, HID Global had $90 million of revenues, 80% from North America. In 2011, as result of multiple acquisitions and organic growth initiatives overseen by Hébert, the division’s revenues were $700 million, with 65% earned outside the United States. The group is present in China and India and has 450 employees in Malaysia. Hébert still heads up his division but now he is also Executive Vice-President of ASSA ABLOY.

Open-mindedness

As Hébert’s example shows, these qualities not only give you excellent career prospects, but they also enable you to act on many opportunities. As you now know, the first quality, open-mindedness, is curiosity transformed into an impulse or a desire. Open-mindedness is like a magnet that draws you to new challenges and experiences.

Christian De Wolf is an exceptional man. He’s a 48-year-old Belgian whose sense of curiosity and background are both uncommon. His education: he is a veterinarian specializing in horses, a meat technologist and the holder of a master of business administration and a master’s degree in exporting. His hobbies: flying planes, sailing yachts and, on Sundays, studying for his helicopter pilot’s licence. He speaks six languages (Flemish, French, English, German, Italian and Spanish), and also understands Hungarian, although he does not speak it. With a veterinarian for a mother and an entrepreneur for a father, De Wolf is an apple that did not fall far from the tree; he is a serial entrepreneur. While studying to become a veterinarian, he became involved in the sale of animal feed. He used the profits to pay for his flying lessons and flight time. He sold the company on graduation. While he was studying to get his MBA and to become a technologist at the same time, he turned around a robotics company, which he sold six years later. Under his direction, his uncle’s abattoir saw its revenues go from €17 million to €170 million; he later sold it to a farmers’ co-operative. Finally, to keep boredom at arm’s length, he also started up a prepackaged protein company (whose earnings reached €10 million in five years), founded a transport company (with a 40-truck fleet) and started up a Mercedes garage with a cousin.

Late in 2004, feeling a bit lacklustre despite his many projects, Christian De Wolf set himself the challenge of discovering a passion in a promising sector: he studied macroeconomic statistics and market prospects for three weeks before settling on a promising niche in the food sector. To penetrate the market, he acquired two companies with the intention of merging them: “I acquired Rejo, a spice specialist, and Pellicula, a producer of neutraceuticals and
functional ingredients,” he explained. “I bought them the same day, December 24, 2004. It was my Christmas present to myself!” The newly merged entity became Spices, Functional Ingredients, Neutraceuticals and Coatings (SFINC) and is home to experts in taste and functional ingredients, two areas of expertise that rarely coexist.

Ask yourself the following questions: like Christian De Wolf, do I have a passion for discovering new things, for taking up new challenges? Am I naturally curious? Do the members of my senior management team demonstrate a high degree of open-mindedness?

Introspection and Cultural Awareness

Introspection and cultural awareness are complementary qualities that go together; but, like a mirror and a window, each has a different function.

Introspection is the mirror in which we observe, examine and scrutinize ourselves. Cultural awareness is the window through which we observe and take in the world around us. By looking through this window, we learn how to recognize and respect cultural and individual differences. Which creates a paradox: the more we travel and the more we are confronted with the differences embodied by other people, the more we confirm and affirm who we are. To summarize, the more we observe others through our window on the world, the clearer our self-image in the mirror becomes. In the universe of contrasts, our personality affirms itself.

Dany Laferrière, a Québec writer of Haitian origin, concluded his novel L’Énigme du retour in the same vein: “You can’t take root if you haven’t been uprooted. You don’t know where you come from if you have never left home.” That is the case of Pascal Piriou, who oversees a company founded in the 1960s in Concarneau, France. It now has revenues of €150 million, with operations in Poland, Vietnam, Nigeria and Mauritius. After many years, Piriou “ended up being able to look at France through the eyes of a foreigner.” He sees France’s strengths but increasingly has difficulty sharing some of its dominant traits: self-pity and a limited appetite for effort – attitudes that contrast with those of citizens in countries less prosperous than his. Even so, Piriou needs a home port to return to. “I’m fighting to see that Concarneau can survive in a globalized economy, because I need a place to come back to, a place where I can recharge my batteries. I come back home in high spirits; there’s so much energy in Asia that I bring suitcases full of it to boost the morale of my troops in France.”

Adaptability

Like Piriou, all leaders who travel the world do not take root only at their point of origin; they extend their roots as they discover new places and develop new relationships. Introspection and awareness are qualities that nourish them and help them adapt. They enable leaders to adjust to differences and to build long-term relationships. Let’s see how it’s done.

“I’m fighting to see that Concarneau can survive in a globalized economy, because I need a place to come back to, a place where I can recharge my batteries. I come back home in high spirits; there’s so much energy in Asia that I bring suitcases full of it to boost the morale of my troops in France.”

Pascal Piriou, Groupe Piriou
Adaptability: Decoding People through the Filter of Their Culture

Ronald Denom, President of SNC-Lavalin International, is cautious about sweeping generalizations. “Within any country, there’s a range of behaviours,” he explains. “Over the years, attitudes change. You have to be on the lookout for stereotypes that are frozen in time.” How do you apply this advice to avoid stereotypes and fallacies?

First, you have to familiarize yourselves with habits and customs. That’s obvious, you might think. Absorbing new standards of behaviour is the easiest stage, although it’s not without pitfalls. Like the tip of an iceberg, these rules are the most visible and most easily observable. The exercise becomes more complicated when it comes to decoding the submerged portion of the iceberg: the meanings, values and beliefs that characterize cultures and shape behaviours. According to Olivier Caix, of DIANA, “It takes decades to learn how to decode the Japanese. It’s a tremendous challenge. I have friends who’ve lived in Japan for 20 years and still don’t understand how they operate!”

To increase your chances of success, you must learn how to decode people through the filter of their culture. This filter consists of several dimensions, and once you know them in depth they’ll enable you to avoid stereotyping (table 2, pages 22 and 23). In your opinion, what do a francophone in Québec City, an anglophone in Toronto and a Canadian of Chinese extraction living in Vancouver have in common? Can you draw up a profile of a “nice Canadian”? These examples show that no list of generic attributes can substitute for judgment and awareness. “Assess, don’t assume!” urges James Sebenius, a professor at the Harvard Business School. This is a golden rule that requires the four multicultural qualities. Let’s take a look at daily experiences, considering habits and customs – in other words, etiquette and protocol – and then the first four dimensions of cultural differences, which are often more important.

Habits and Customs

It took Mario Bouchard two years to secure iBwave’s breakthrough on the Japanese market. “Success depends on patience,” he said. “You have to develop their trust and understand their habits, customs and ways of doing business. If you go too fast, you’ll never be able to work with them.”

To understand their culture, Bouchard did his homework. He read history books and sought advice from various people, such as his agent, consultants and Canadian Embassy staff. He takes an interest in his future partners and in this way ensures he can ask them intelligent questions. The attention he devotes to a myriad of details testifies to the importance he places on his foreign partners. And his efforts don’t go unnoticed. In Japan, a potential client will ask himself: has he come to see me just because he wants to sign a deal or does he want to build a long-term relationship?

In Québec, Bouchard couldn’t care less about his status as a company president, but in Japan it is vitally important. “My title defines how I greet people, when I speak, whom I speak to, where I sit…. I don’t want to breach etiquette, diminish the importance of my Japanese contacts or cause them to lose face.” If Bouchard is accompanied by a vice-president and his agent, he sits in the middle of the table between his two subordinates. His Japanese counterpart sits opposite him. The Japanese who occupy a lower position in the hierarchy sit at either end of the table and speak first. If one of them asks a question that Bouchard wants to answer, he doesn’t look at him, because his answer is intended for his counterpart sitting opposite. In the West, such an attitude would be perceived as insulting and condescending, but in Japan it is the norm.

To maintain relationships, Bouchard does what any businessman would do: he invites his clients to have a drink or to share a meal with him. The key nuance lies in the number of guests he invites. In the West, if Bouchard wants to emphasize an individual’s importance, he singles him out with an invitation. The message to be decoded is simple: only the most important person is invited. But, in Japan, Bouchard invites the entire team. “The most important person will be entitled to superior treatment and all the members of the team will witness it.” This detail is insignificant in the eyes of Westerners – apart from the fact that it’s Bouchard who picks up the tab! But his Japanese counterparts appreciate it.

Dimensions of Culture

Now let’s take a look at the first two dimensions of culture (table 2, pages 22 and 23) using the experience of Camoplast Solideal. When Pierre Marcouiller was acquiring facilities in Sri Lanka and South Korea, he realized he would have to rethink some of his business practices.

Let’s start with the social unit. At Camoplast, bonuses have always included two components: 1) an individual bonus based on achievement of three personal objectives; and 2) a bonus based on the team’s performance. But this approach flies in the face of South Korea’s dominant culture. In contrast to Westerners, who are individually equal and maintain their identity while playing different roles, Koreans meld into a team and do not seek an individual identity.
South Korea is partial to the nuclear concept in which all are bound together, unified and linked, but with unequal status. Marcouiller realized that maintaining his original bonus plan would destroy the organization’s social fabric. “We discussed it among ourselves because we wanted to respect this fundamental difference. Equality is a highly useful value in North America and Europe but it’s destructive in Asia. We also eliminated the individual bonuses and kept only the team bonuses.”

In social relationships, decisions also follow a strict hierarchy in South Korea. If Marcouiller imposes his veto on his general manager, the instruction will be received as final and without appeal. It’s quite the opposite with his general managers in Québec. If he decides against their suggestions, but they are convinced their position is well founded, they’ll build a stronger case to defend their position more effectively, which is exactly what Marcouiller expects of them: “I make my decisions on the basis of the information I receive. If the information changes, my decisions may change too.”

Does Marcouiller change radically in South Korea? Of course not. He adapts. The rule is clear: all executives working in South Korea know they must not insert themselves into business meetings. Such meetings must take place in the absence of senior management. The process of analyzing a matter is separate from the final decision, because if a superior is in the room and expresses reservations during a discussion, he will channel the discussion or even put an end to it. South Koreans argue among themselves and build their case before presenting their conclusions to their superior, who then makes the final decision.

The instrumentality of relationships is another deeper dimension of culture. When an agent introduces Mario Bouchard to a potential customer in the Middle East, where iBwave has become the industry standard, he never speaks to him about his products. Instead, he smokes shisha in the evening, on a terrace where they get to know each other by talking about their lives, their families and their converging visions of the world. If they develop affinities, Bouchard will finally be able to discuss his company and the benefits of his software for wireless in-building networks. This approach contrasts sharply with that taken in the United States, where his software enjoys the same reputation as the industry standard. As Bouchard explained, “My potential customers in the United States don’t even want to meet me. They prefer to receive information by e-mail. The approach is very deal-focused.”

In 2010, Mersen bought a 60% stake in Yantai, a Chinese manufacturer of graphite used in photovoltaic panels. Thomas Farkas, Vice-President of Corporate Strategy and Development, believes the deal was the result of daily efforts to build a trust-based relationship with Yantai senior management. “In China, contracts are drawn up as if they have no value. The real commitment is moral, and you have to ensure it’s made in front of a circle of common business contacts who serve as witnesses.” Mersen agrees to do a deal only if its leaders have been admitted into such a network of trust. This concept is called guanxi, which refers to a network of trusted people seeking a common interest, usually through the exchange of advice, favours or gifts. “The word of a Chinese has no value unless you have a guanxi relationship with him.”

And now let’s go to the fourth aspect of culture: the nature of interactions. In 1998, Oliver Caix, of DIANA Ingredients, finally understood a fundamental distinction between the French and the Americans. At the start of his long stint in the United States, he thought he had a good grasp of Americans. “How wrong I was!” he said. “I discovered things I had never seen before. On my business trips I had encountered only the tip of the iceberg.” One of the surprises was the speed with which Americans reach a consensus. “In France, we have interminable discussions. We look for conflict and disagreement. We want to enrich the discussion. But it’s not like that in the United States.” Denis Hébert concurs. Before leaving HID Global, he was President of Honeywell France. “We had lots of discussions that went around in circles and endless meetings where we made no decisions. It was incredible!”

1 Shisha, the tobacco smoked with a hookah, consists of 25% tobacco mixed with molasses and fruit to infuse it with flavour. Public health advocates take note: a single hookah session is the equivalent of smoking 100 cigarettes.
### Key Dimensions for Decoding a Culture*

**Table 2**

<table>
<thead>
<tr>
<th>The tip of the iceberg</th>
<th>Customs and traditions – generally accepted rules of conduct</th>
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<tbody>
<tr>
<td><strong>Greetings</strong></td>
<td>How are greetings customarily given?</td>
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<tr>
<td><strong>Degree of formality</strong></td>
<td>How formal is the dress code? Is there a certain decorum or protocol with which to comply? Are there other formalities that need to be adhered to?</td>
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<tr>
<td><strong>Personal space</strong></td>
<td>What is the acceptable distance between two people? Do people shake hands or hug?</td>
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<tr>
<td><strong>Emotions</strong></td>
<td>Should emotions be shown or should people appear emotionally neutral?</td>
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<tr>
<td><strong>Gestures</strong></td>
<td>Are certain gestures perceived as vulgar or rude?</td>
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<tr>
<td><strong>Dining etiquette</strong></td>
<td>What are good table manners?</td>
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<tr>
<td><strong>Gifts</strong></td>
<td>Is it usual to exchange gifts? Are certain things prohibited?</td>
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The hidden part of the iceberg

**Cultural aspects** – all the collective meanings, values and beliefs that characterize a group of individuals (on an ethnic basis) and that guide their behaviours.

<table>
<thead>
<tr>
<th>Social unit</th>
<th>Individualism versus collectivism</th>
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<tbody>
<tr>
<td>An individualistic culture recognizes that the individual places his own interests and the interests of his family first. The individual seeks freedom, uniqueness and self-fulfillment.</td>
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<tr>
<td>A collective culture recognizes that the individual belongs to a group that protects his interests and to which he owes permanent loyalty. The individual blends into the collective (on a community basis) and does not claim an individual identity.</td>
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<tr>
<th>Social relations (status, power)</th>
<th>Egalitarian versus hierarchical</th>
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<tr>
<td>An egalitarian culture is based on values such as social justice (equal opportunity, rights and conditions) and equity (fair appreciation of what is owed to each person). Social status depends on individual success (principle of meritocracy).</td>
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<tr>
<td>A hierarchical culture grants social status to an individual according to the group he belongs to (social class, heredity, etc.). Subordinates accept this unequal distribution of power and consider it normal; they obey their boss who, in return, has a duty of benevolence toward them.</td>
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<tr>
<th>Instrumentality of relations</th>
<th>Transactional versus relational</th>
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<tr>
<td>A transactional culture considers relationships instrumental insofar as individuals place priority on effectiveness in achieving objectives. Individuals act according to their interests and value relationships as a function of their current or future usefulness.</td>
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<tr>
<td>In a relational culture, individuals take a deep interest in others, and in the development of trust and affinities, before turning their attention to business matters.</td>
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<th>Nature of interactions/communications</th>
<th>Expressing your opinion versus maintaining harmony</th>
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<tr>
<td>In some cultures, ideas are expressed directly, at the risk of triggering a debate. The clash of ideas is perceived as beneficial and stimulating. Transparency, opinions and authenticity are promoted.</td>
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<tr>
<td>Other cultures aim to maintain harmonious relationships to prevent anyone from being offended or publicly losing face. Candour and excessively direct communication are considered signs of immaturity, naïveté or arrogance. A sense of honour takes precedence.</td>
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<th>Tolerance for ambiguity</th>
<th>Risk aversion versus risk appetite</th>
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<td>This dimension expresses an individual’s degree of tolerance for the uncertainty of future events. If his aversion to risk is significant, he will feel threatened by unstructured, vague or unpredictable situations. His ability to make a decision therefore requires a substantial quantity of information.</td>
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<th>Temporal perspective</th>
<th>Monochronic versus polychronic</th>
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<tr>
<td>The individual from a monochronic culture has an inflexible and linear relationship to time; being punctual and keeping appointments are important. The individual performs one task at a time.</td>
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<tr>
<td>The individual who comes from a polychronic culture maintains a flexible and fluid relationship to time and deadlines. His day is generally full of interruptions and his schedule is easily affected by unforeseen events. The individual undertakes many tasks at once.</td>
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* Table inspired by the ideas and writings of Geert Hofstede, Shalom Schwartz, Edward Hall and James Sebenius.
Myriam Pairault, President of the French Chamber of Commerce in Canada, is probably the person who best summed up the strengths of France and North America, especially Québec: “Quebecers do business in a very North American way and it’s often a shock to the system for the French, who are lulled by our common language. Having worked in both systems, I must say I generally prefer North American efficiency and pragmatism. But sometimes it would be in our interest to follow the example of the Latin countries, where they mull things over a little more before acting.”

France has a debating culture, whereas North America has a consensus-building culture. But reconciling that difference is easy in comparison with interactions in Asian countries, where preservation of harmony is sacrosanct. Philippe Colançon, President and Chief Executive Officer of Aixam Mega, the first European builder of microcars (a.k.a. vehicles without permits), says it’s easy to misinterpret the signals you receive. “It’s said that in Asia there are three kinds of yes. There’s the one that means no, the one that means maybe and the one that means yes. Their objective is to never offend you.” Colançon is lucky to have had advice from a Japanese living in France when he was involved in negotiations to obtain his exclusive licence. The happy outcome is that all Aixam Mega’s microcars have long been equipped with the best Kubota engine, manufactured in Japan.

Fordia’s Co-President, Luc Paquet, recounted an anecdote involving a Japanese distributor. He was in a conference room with the distributor’s sales team and all his products spread out on the table. Ten Japanese engineers were also present. Paquet realized something was amiss. “There I was, helpless in the face of their collective beating around the bush: they were very polite, those Japanese! But they had a problem and they didn’t want to tell me what it was.” After much discussion, one of them finally coughed up: “You don’t paint the crown of your drill bits, but your competitors do. The quality of your products is excellent, but we would like painted crowns.”

Paquet explained that, as a general rule, Fordia intentionally leaves the crowns unpainted to show its customers that its parts are defect-free, but that in the future he would be pleased to supply them with painted crowns. Paquet left the conference room in a state of astonishment. “Ten engineers and the sales team for a daub of paint... They staged the whole performance so I wouldn’t lose face.” On the way back to his hotel, Paquet mused that resolving the same matter in the United States would have taken less than 30 seconds and would probably have been done by e-mail. A direct question would have received an equally direct answer.

To conclude, you must also pay attention to the last two dimensions of culture, namely tolerance for uncertainty and the role of time. For example, in certain countries you may wonder why you can’t get a meeting to start on time. It’s because the locals have a polychronic attitude toward time: in other words, they have a flexible relationship with time and deadlines.

“France has a debating culture, whereas North America has a consensus-building culture. But reconciling that difference is easy in comparison with interactions in Asian countries, where preservation of harmony is sacrosanct.”
We sometimes pile a heavy load on the back of “culture” and attribute many negatives to it. How do you explain the failure of your latest acquisition? You can always cite incompatible cultures. Why did the launch of the new product fail? It always comes down to cultural differences. Is cultural incompatibility the big wild card that explains all the pitfalls of international trade?

Once cultural differences have been tamed, a leader must take his strategic thought process one step further and become more sensitive to decision-making mechanisms: he must enter the wonderful world of governance. Would you believe that the diversity of international governance is just as broad as cultural diversity? That is indeed the case, so you might as well get used to it!

What is governance? It’s a complex, structuring process that allocates powers and responsibilities among stakeholders – senior managers, board members, employees, governments, etc. – to improve decision making.

The second type, **collaborative governance**, is effected through an interdependent partnership between stakeholders (owners, officers, employees and governments), with each party making a unique contribution and employing valuable resources to ensure collective success, in a context of extended motivations. The objective is not to maximize earnings, but to generate an optimal return calibrated as a function of the level of risk assumed. The partners maintain an egalitarian relationship, are interdependent and prefer to make their adjudication decisions by means of negotiated solutions.

Germany is a classic example of collaborative governance, with its MitbestG, or Co-determination Act, passed in 1976. It provides that supervisory boards must comprise equal numbers of shareholder representatives and employee representatives (whether elected or union representatives) (see box 2, page 26). Moreover, in several Asian countries, including China, companies are obliged to submit certain major decisions to government representatives for approval. You must be aware that, in certain regions of the world, governance is not a privilege reserved for shareholders.

To illustrate this fact, let’s look at the case of Grohe, Europe’s largest manufacturer of kitchen and bathroom faucets and fittings, taking note of the role played by the basic premises of German governance when the company’s share ownership changed substantially in 2004.

In 1999, BC Partners and two investment funds acquired 75% of Grohe. Stefan Zuschke, a Partner at BC Partners, recounted the adventure: “At the outset, Grohe was getting 60% of its earnings in Germany. In 2004, Grohe became a global brand, obtaining 75% of its earnings from exports. It’s a leader in Japan and the United States.”

Even though the company had excellent profit margins, it was under mounting pressure. In response, Grohe adopted a global manufacturing strategy designed to create specialized manufacturing sites and to lower its operating costs. In 2003, the company closed three plants, in Iserlohn, Haldensleben and Berlin, and concentrated its manufacturing at three other sites, in Hemer, Lahr and Porta Westfalica. In 2004, some operations were also relocated to Mississauga, Canada, to reduce the company’s exposure to currency fluctuations. Lastly, Grohe’s management and supervisory board planned to move some of the German production to its facilities in Thailand. But no decision had officially been made because the subject was sensitive and a source of tension.

"Would you believe that the diversity of international governance is just as broad as cultural diversity? That is indeed the case, so you might as well get used to it!"
Pros and Cons of German Co-determination

Box 2

The legal form favoured by Germany’s co-determination system is the Aktiengesellschaft (corporation, or AG) in which the members of the supervisory board elect senior management and oversee their decisions. This governance model is at the centre of a debate that has been going on for decades. There are two opposing schools of thought.

The one holds that corporate co-determination is a violation of the ownership rights of shareholders, who are better qualified to make decisions. Co-determination is criticized for giving excessive power to labour unions, in addition to being weighed down by an inefficient structure.

The other school of thought argues that each individual concerned by a decision is entitled to get involved, that democracy doesn’t stop at the company door. Co-determination is even seen as a source of competitive advantages. Hugo Boss President Claus-Dietrich Lahrs agrees: “Germany’s tremendous success since the end of the Second World War in manufacturing innovation and quality is in large part due to co-determination. Our employees have greater access to information and they take part in discussion and decision making, so they’re often much more competent, creative and committed than in other countries.”
In June 2004, BC Partners and its partners sold their stake in Grohe to two other funds, Texas Pacific Group and Credit Suisse First Boston. But, a few months before the deal closed, the two investors hired consultants and a new CEO to develop a strategy that would slash the company’s expenses. They intended to squeeze even more juice out of the lemon.

On April 4, 2004, the consultants submitted their recommendations to Grohe’s supervisory board: they recommended outsourcing 3,000 of the 4,300 jobs in Germany to Poland, China and Thailand. In other words, they proposed to give pink slips to 70% of the company’s German-based workforce.

How do you think the six union representatives on the supervisory board reacted when they learned about the strategy proposed by the consultants, who had been given their mandate by two shareholders that did not yet officially own the company? Surprise, anger? What else would you expect?

The German media pounced on the story and thus was born the “Grohe affair,” which attracted the attention of the entire nation. The Anglo-Saxon investors were accused of destroying the industrial fabric of Germany’s Mittelstand companies. Grohe’s employees went on strike and staged violent demonstrations. Even Franz Müntefering, Vice-Chancellor and Federal Minister of Labour in Angela Merkel’s grand coalition of 2005, publicly compared the investors to “a swarm of locusts.”

Stefan Zuschke’s take on the outcome was as follows: “Grohe’s earnings have been stagnant since this controversy, and the outsourcing of jobs has tarnished its brand. The proof: Grohe is no longer synonymous with German manufacturing quality and its domestic sales fell from €215 million in 2003 to €196 million in 2010.”

In this story, it is not relevant to assess the value of the initial recommendation. In governance, the who (who exercises governance?) and the how (by which process?) take precedence over the what (which decision?). What is the point of assessing the value of a strategy if the individuals who lead the company won’t want to ratify it and apply it? In 2004, Texas Pacific Group and Credit Suisse First Boston took the typically Anglo-Saxon approach of fiduciary governance, even though Germany has a Co-determination Act, MitbestG, and a tradition of collaborative governance.

Equipped with this lesson, will you try to demonstrate your abilities as a world-class conciliator in the same way as these two Anglo-Saxon investors? We trust you won’t. In the case of Grohe, the key would have been to present several strategic options to the supervisory board and to negotiate a viable solution that respected its governance traditions.

“Our employees have greater access to information and they take part in discussion and decision making, so they’re often much more competent, creative and committed than in other countries.”

Claus-Dietrich Lahrs, Hugo Boss

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2 Franz Müntefering was born in Neheim-Hüsten, a city near Hemer, where Grohe’s head office is located.
The DNA of a transnational corporation (TNC) can be shown as an illustration or an equation (figure 2). As depicted, a TNC comprises national entities, in other words subsidiaries and divisions in various countries, as well as a global entity, the central head office. But when a transnational corporation becomes highly complex, its main head office tends to multiply – or clone itself – to form regional head offices.

ASSA ABLOY, the world leader in locks and door-opening solutions, has three regional head offices:

1. the EMEA division, based in London, oversees its operations in Europe, the Middle East and Africa, with ABLOY, ASSA, TESA and Vachette among the leading companies;
2. the Americas division, whose head office is in New Haven, Connecticut, oversees the companies in North and South America, including Corbin Russwin, Curries, Emteck, Medeco, Phillips and SARGENT; and
3. the Asia-Pacific division, based in Hong Kong, oversees the companies in Australia, New Zealand, China and the rest of Asia, of which the largest are ASSA ABLOY Australia, ASSA ABLOY New Zealand, Guli Security Products and Wangli.

The head office carries out all the company’s co-ordination and integration activities. In this way senior management can ensure that the whole (the company) is always greater than the sum of its parts (the national entities). Olivier Caix, of DIANA Ingredients, believes it is crucial that a TNC be a firmly cohesive whole. “Otherwise the risk is that you’ll wake up one morning and realize the group is nothing more than a collection of national small businesses.” Just as the twisted double helix serves as a reinforcing structure for the strands of DNA, the head office serves as the backbone for a transnational corporation.

The next sections will address the following five questions:

- What are the three factors that explain the origin and competitiveness of national subsidiaries?
- What are the four reasons that a business makes foreign direct investment (FDI) through its national subsidiaries? In other words, what are the four genes of a national subsidiary and how can these genes be paired?
- What are the main activities of a head office?
- What are the five functions of a head office?
- And, finally, how can senior management at head office cope with the contradictory pressures pushing it to centralize or to decentralize its operations?

"Otherwise the risk is that you’ll wake up one morning and realize the group is nothing more than a collection of national small businesses.”

Olivier Caix, DIANA

DNA stands for deoxyribonucleic acid, a molecule that is of vital importance because it carries the genetic information of living creatures. In diagram form, DNA consists of two long strands twisted into a double helix and joined by bonds that give it the look of a spiral ladder.
Decoding the DNA of the Transnational Corporation

Figure 2

The DNA of the transnational corporation can also be represented by a simple equation.

<table>
<thead>
<tr>
<th>Transnational corporation</th>
<th>DNA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TNC = national subsidiaries + head office</strong></td>
<td><strong>DNA = strands + double helix</strong></td>
</tr>
<tr>
<td>· National subsidiaries*: Subsidiaries (or divisions) explain the history of a company through its expansion into each country.</td>
<td>· Strands (genes): The sequencing of strands enables genes, the genome of living beings, to be identified.</td>
</tr>
<tr>
<td>· Head office: The global activities performed by the head office ensure that the whole is larger than the sum of the parts (national entities); the head office forms the spine.</td>
<td>· Double helix: The double helix is a sugar-phosphate structure around which all the strands are wrapped</td>
</tr>
</tbody>
</table>

* The term “multinational” is used here to denote the sum of all the national subsidiaries of a company, excluding the global activities performed by its head office. In other words, the equation could be modified in the following manner: Transnational = Multinational + Global (head office).
EXPLAINING THE ORIGIN AND COMPETITIVENESS OF NATIONAL ENTITIES

Why do multinationals exist? It’s an existential question if there ever was one. We must answer it to decode the DNA of companies that succeed globally. Like a living organism, the multinational has a genetic profile that serves as the foundation of its competitiveness and explains how it survives competition from local businesses in its various geographic markets.

In the 1980s, an academic called John Dunning identified three factors that explain the existence of multinationals and the growth of their FDI. These factors, known as ownership, localization and internalization (OLI), show that, to survive in the global arena, a company must:

- develop competitive advantages (through possession of key resources, or ownership);
- derive comparative advantages from its various locations (localization); and
- take advantage of internal control over certain operating activities (internalization).

Without these three advantages, a multinational cannot survive; it will constantly be supplanted by more nimble local businesses better adapted to the environment.

A company enjoys a competitive advantage in its markets when it can deploy and transfer its resources in order to supersede local businesses. How do we define a resource? It is a tangible or intangible element controlled by a multinational (ownership), which causes its customers to perceive distinctive added value. Resources can take various forms:

- Financial, such as access to capital;
- Physical, such as equipment and technology;
- Legal, including patents and trademarks;
- Human, such as employees’ expertise and creativity;
- Organizational, such as processes, systems, competencies and corporate culture;
- Informational, including data on customers and competitors; and
- Relational, such as relationships with partners and suppliers.

"Like a living organism, the multinational has a genetic profile that serves as the foundation of its competitiveness"
For example, what are the competitive advantages of Hugo Boss? According to Claus-Dietrich Lahrs, “For clothing to be elegant and long-wearing, alterations and adjustments require the touch of a master. Fortunately for us, our competitors decided to outsource such expertise. It was a serious mistake. You don’t become a tailor or a dressmaker overnight: it’s a talent that has to be refined over time.” It’s a trade that is disappearing but one that Hugo Boss would like to preserve, despite its limited appeal for young people, who see the fashion industry gradually move from one dominated by a demand for tailor-made to one driven by a demand for ready-to-wear apparel.

But that is definitely not its only advantage. Hugo Boss is the one company in its niche that can combine creativity – it invests €50 million a year in the development of prototypes and products – with an efficient, sophisticated industrial infrastructure that comprises five production sites in Germany, Poland, Italy, Turkey and the United States, as well as a network of 300 qualified suppliers. In addition, the Hugo Boss brand enjoys wide recognition. In 2011, the company is celebrating the 30th anniversary of its partnership with the McLaren Mercedes F1 Racing Team. Drivers Ayrton Senna, Alain Prost and Niki Lauda all wore Hugo Boss and burnished the brand’s reputation by winning championships. Today, Lewis Hamilton, Jenson Button and the other members of the 135-strong team wear Hugo Boss and proudly promote the brand name.

A company can also use its location to set itself apart. The **comparative advantages of location** determine the attractiveness of each country: they include skilled, low-cost manpower, a nearby pool of quality suppliers, leading-edge infrastructure, ultracompetitive tax rates and investment incentives. A company that relocates some of its operations can overcome trade barriers, such as high transportation costs, protectionist measures and quotas, or enhance its market adaptation by gaining proximity to customers and better knowledge of local competitors. In short, all these potential comparative advantages have a direct impact on a company’s location decisions.

Héroux-Devtek supplies landing gear systems and airframe structural components to customers in the commercial and military aerospace sector. The company has facilities in Greater Montréal (Longueuil, Dorval, Laval and Saint-Hubert), Kitchener, Toronto and Arlington, Texas, as well as in Springfield, Cleveland and Cincinnati, Ohio. In 2011, Héroux-Devtek announced an initial $20-million investment for the construction of a leading-edge aerostructure components plant in Mexico’s Querétaro region.

Why did it choose that region? Because Héroux-Devtek will be able to derive comparative advantages from it. The plant will be close to several world-class original equipment manufacturers (OEMs) that already have facilities in the Querétaro Aerospace Park. The Querétaro region, 220 kilometres north of Mexico City, has a large aerospace industrial cluster with more than 50 international companies, including Bombardier Aerospace, Eurocopter, Safran Group, Aernnova, Meggitt, GE, ITR and KUO. Querétaro is also the demographic centre of Mexico, with a young population of more than 45 million within a radius of 350 kilometres. The Mexican aerospace industry is expected to grow significantly in the decades to come.

Finally, the **advantages of internalization** define the company’s boundaries. Using Ronald Coase’s transaction cost theory, published in 1937, we can distinguish a company’s boundaries from the market’s. The principle is simple: the company substitutes for the market as soon as its internal transaction costs are lower than the market’s transaction costs. In this way, a multinational internalizes the most costly activities and creates an internal market connecting the parent company and the foreign subsidiaries in order to reduce the cost of market imperfections.

To gain a clearer understanding, let’s look at two counterexamples. How can the senior management of a large, diversified company that has become too complex try to improve its competitiveness? Often, it will redraw its boundaries by restructuring, refocusing and even selling some operations.
The French company Groupe Novacap EU was created in 2003 when Bain Capital completed a carve-out of Rhodia’s mineral and organic chemicals operations. Seven years later, Rhodia continued to redraw its boundaries by selling its salicylic and acetaminophen operations to Novacap EU. By divesting itself of its basic chemical operations, Rhodia was able to focus on specialty chemicals, its core business. Novacap EU, for its part, has seen its revenues constantly rise as it has remained resilient throughout the latest financial crisis. Before being merged with Solvay, a Belgian company that is very active in specialty chemicals, Rhodia decided to spin off its basic chemical operations to Novacap EU, deeming this area to be in need of special attention because it is capital-intensive but has slender profit margins.

Now let’s look at our second counterexample. To return to growth and improve its profit margins, Unilever has pruned its portfolio in recent years, reducing its roster of brands from 1,600 to 400. This exercise involved the creation of Iglo Group, a company that serves as an umbrella for Unilever’s frozen food products and includes three brands that are well known to Europeans: Birds Eye, Iglo and Fantus. Martin Glenn, President and Chief Executive Officer of Iglo Group, summed up the restructuring: “In the preceding three years, Unilever’s frozen food sales were falling 4% a year and they weren’t profitable enough. Now, within Iglo Group, sales are stable and EBITDA is up 8% since the end of 2010, mainly because of aggressive cost cutting and an exclusive focus on our markets.”

In short, John Dunning’s OLI approach holds that the raison d’être of multinationals, and of their FDI, is to achieve competitive advantages, comparative advantages and internalization that offset the market’s imperfections; these are their three ways of supplanting local businesses. Without such compensatory advantages, the multinational would be a giant with feet of clay, unable to overcome the barriers, additional costs and challenges facing it. The existence of Novacap EU and Iglo Group are the result of Rhodia’s and Unilever’s need to restructure and redefine their boundaries so as to recover their competitive edge.

“*The raison d’être of multinationals, and of their FDI, is to achieve competitive advantages, comparative advantages and internalization that offset the market’s imperfections.*”

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3 The acronym EBITDA stands for Earnings before Interest, Tax, Depreciation and Amortization
In your opinion, why does a transnational corporation make FDI through its many national subsidiaries? The answer to this question enables us to detect the presence of four genes that are specific to it and to discover, in the following section, how they can be paired to enhance the competitiveness of the national subsidiaries a TNC operates in various countries (figure 3).

Detecting the Four Genes

The main challenge faced by each national entity is to make a positive contribution to the corporation as a whole so that it can grow by creating wealth. Thus four reasons, which are mutually non-exclusive, lead the company to set up operations in a foreign country. These reasons reveal the company’s history and allow us to detect its “genetic profile”:
• **The market gene:** The presence of this gene in a country means that the business sets up operations there to penetrate new markets for its products and services;

• **The efficiency gene:** This gene enables the national entity to become established in a specific place to take advantage of low-cost, skilled manpower or to improve its competitiveness by restructuring its value chain, especially supply and logistics;

• **The resource gene:** This gene provides access to natural resources, such as energy, metals, minerals and other raw materials; and

• **The innovation gene:** This gene enables the TNC to draw on the talent available abroad, such as outstanding R&D teams, innovations and technologies that will enable it to set itself apart from the competition.

First, let’s study each gene by looking at specific examples. We will then explain how TNCs pair the genes to improve their competitiveness.

**The Market Gene**

The conquest of new markets is often the first goal that comes to mind when we think of globalization. And in fact the market gene is the most common and the most widespread. Why? Because companies make extensive use of it to:

- Provide extensive support to their customers;
- Tune their antennae to new trends; and
- Achieve economies of scale to earn a profit on capital-intensive facilities or substantial R&D investments.

Brenntag, a subsidiary of the BC Partners private equity fund, is an industrial and specialty chemicals distributor based in Mülheim an der Ruhr, Germany. In 2010, the company had global sales of €7.6 billion, while serving 160,000 customers from 400 locations in 70 countries. Why is Brenntag the global leader? Because it provides extensive support to its customers, which are multinationals in varied sectors of the economy, including food, agri-food, cosmetics, pharmaceuticals, oil and gas. Its many global customers look to it for optimized inventory management of a wide range of competitively priced chemicals as well as personalized product mixing and repackaging services. Brenntag is therefore propelled forward by its customers and has no choice but to grow at the same speed as they do.

Wanting to **tune their antennae** to emerging trends, regardless of their origin, is another good reason for TNCs to develop the market gene. The Keolis Group is the only operator that is present throughout the personal mobility chain, operating all modes of transport: bus, car, subway, tramway, train, car sharing, shuttle and so on. Keolis is making the most of its presence in the Scandinavian countries to get a firm grip on green technologies. Since 2010, City Trafik, the company’s Danish subsidiary, has been testing six hybrid Volvo buses that use an electric engine to travel at speeds of up to 20 kilometres an hour, after which the diesel engine takes over. The buses make less noise, use less fuel and therefore cause less pollution. These promising tests enabled the Keolis Group to offer emerging solutions to local communities in France, Belgium and Sweden as early as 2011. According to Arnaud Van Troeyen, Executive Vice-President at Keolis, “Scandinavian countries are on the leading edge of clean transportation and green technologies. If you have a presence in these countries, you’ll acquire invaluable expertise that will be useful in many other markets.”

Now let’s turn to the third reason for adopting the market gene. EXFO is one of the largest providers of test and service assurance solutions for telecom network operators. It launched 20 new products in 2010 and 26 during fiscal 2009. Its gross R&D expenses totalled $44.6 million in 2010 and $33.6 million in 2009, or 22% and 21.9% of revenues, respectively. As Étienne Gagnon, Vice-President, Wireline Division and Corporate Marketing, pointed out, “There’s no national market that justifies such high product-development costs. It was a question of survival, especially in the late 1980s, when fibre optics was in its infancy.”

“Confucius taught the Chinese that copying isn’t stealing. And so far they have embraced that concept!”

Luc Paquet, Fordia
To be competitive, EXFO has to sell its products to customers in 100 countries through a direct sales and partnership network. It could not earn a profit on its substantial R&D efforts and manufacturing facilities without a global footprint to ensure economies of scale.

The Efficiency Gene

Despite the complexity of the globalization phenomenon, there is still a strong temptation to reduce it to sales and export activities. But this is a reductive vision of the world because the efficiency gene can be detected easily in a company that wants to:

- Reduce its manufacturing costs; and
- Source inputs from emerging markets to sharpen its competitive edge.

In 2011, Fordia decided to build its second plant in China to reduce its manufacturing costs. The new plant spreads the company’s risks in the event of an untoward incident or a natural disaster. It also enables Fordia to operate specialized sites based on two main product families. Fordia has kept most of its expertise in Montréal, namely the patents and proprietary know-how needed to manufacture diamond drilling tools that are technology-intensive but require only a small manpower component. But it has transferred to China the manufacture of all simple products requiring a great deal of manual effort. The Chinese plant accounts for 25% of Fordia’s output, in addition to offering proximity to mould manufacturers and suppliers of raw materials, such as steel, carbon and tungsten. According to Fordia Co-President Luc Paquet, “This approach is ideal because it allows us to cut costs while protecting our intellectual property. Confucius taught the Chinese that copying isn’t stealing. And so far they have embraced that concept!”

Dollarama sells its products only in Canada, but is a world-class importer just the same. Its 100 importers work hard to find the best sources of supply for 667 stores offering more than 4,300 stock-keeping units (SKUs). Dollarama needs a full understanding of its cost structure, an area that is often neglected by retailers, who concentrate solely on operating their businesses. Dollarama makes every effort to determine the most efficient port facilities, the critical mass necessary to consolidate purchasing and minimize transportation costs, the best ways to reduce fees and taxes, etc. “Every cent counts for us,” explained Stéphane Gonthier, Dollarama’s Chief Operating Officer. “We source most of our goods in China, but we’ve been continually stepping up our purchases in India, Indonesia, Thailand and Turkey.” Dollarama constantly adjusts its product range to offer its customers the best value and the largest selection, as well as to maintain or improve its gross margins. And its policy of pricing goods at $0.69, $1.00, $1.25, $1.50 or $2.00 gives it the flexibility to adapt to fluctuating costs by adjusting the quantity or selling price of certain items.

The Resource Gene

For a number of years, we have been seeing a race to secure resources around the world, especially in the food and natural resource sectors. The scarcer the resource, the stronger the urge to buy, buy, buy!

Are you familiar with rare earths? They’re the natural minerals numbered from 57 to 71 in the periodic table of chemical elements. They play a vital role in the manufacture of satellites, wind turbines, high-performance magnets and nanotechnologies. China, which controls 97% of the planet’s rare earths, has been gradually cutting back on its exports since 2006. Even though China has less than one-third of the world’s reserves of rare earth minerals, it has a virtual monopoly over production; there are very few active mines elsewhere in the world because it is difficult to find deposits in concentrations that justify extraction.

In September 2010, China suspended its rare earth exports to Japan, which consumes 20% of the world’s output of these resources. Needless to say, the decision accentuated the tensions between the two countries. Moreover, the United States is threatening to file an official complaint with the WTO if Beijing continues to restrict its exports.

Stefan Zuschke, a Partner at BC Partners, explained that Brenntag is involved in one of the few sectors, namely the distribution of chemicals, where access to raw materials is more important than the quality of customer relations.

“For a number of years, we have been seeing a race to secure resources around the world, especially in the food and natural resource sectors.”
“The main key to success is to obtain exclusive supply and distribution agreements with chemical manufacturers. Once you’ve signed the agreements, it’s fairly easy to sell the products on the market.” In 2008, Brenntag acquired two Turkish distribution companies, Aromaster and Trend Giga, which have exclusive, preferential agreements with Givaudan to distribute natural products. Givaudan can be found, among other places, in Madagascar, which accounts for almost 80% of the world’s output of vanilla, an essential ingredient for perfumes and aromas. If you’re looking for vanilla, now you know where to go!

**The Innovation Gene**

The innovation gene enables a company not only to obtain complementary technology or valuable knowledge, but also to accelerate its mastery of technology. For illustration purposes, let’s look at three practical examples.

First, the international development of DIANA Ingredients is driven mainly by customer needs. Even so, in an unusual departure, the company recently acquired a U.S. company located in Oregon with unique expertise in plant cell culture. This know-how will enhance its understanding of biological behaviours and sensory and nutritional properties, in addition to rounding out the wide range of technological processes that DIANA has already mastered: extraction, hydrolysis, enzyme treatment, fermentation, heat treatment, reverse osmosis and so on.

Second, shortly after Enron went bankrupt in 2001, SNC-Lavalin announced it would acquire one of its subsidiaries, National Energy Production Corporation (NEPCO), based in Bothell, Washington. According to Zouheir Chebl, Senior Vice-President of SNC-Lavalin International, “We were looking for unique construction and management expertise for gas-fired power plants.” SNC-Lavalin already had an international reputation in hydroelectric and nuclear energy generation. NEPCO’s experience and expertise, combined with SNC-Lavalin’s, has made the firm a global leader in the energy sector. With this deal, SNC-Lavalin took on NEPCO’s 1,500 employees, including the senior management team; a few months later, it obtained a US$900 million contract to build eight gas-fired plants in the United States with a combined installed capacity estimated at 8,700 megawatts.

Third, EXFO is one of the world’s largest suppliers of wireline telecom network tests. In March 2010, EXFO acquired NetHawk, a Finnish wireless network test company, which is an expert in 3G and 4G/LTE protocol analysis. The acquisition made EXFO a major wireless communication test company with expertise it can offer to its entire clientele.

To summarize, developing these four genes within your company can enable you to conquer new markets, enhance your efficiency, access resources directly and expand your knowledge base.
**Six Pairing Strategies**

We have just presented each gene separately. Now let’s explore the various strategies for pairing them. For about 20 years, various transnational companies have been developing complex strategies for the location of their operations. When the time is ripe, they can combine certain genes, substituting one or another, from one country to another. These mutations in their “global genetic profile” can be divided into six pairing strategies (figure 3, page 33).

This section summarizes the main reasons for a company to combine two genes. Obviously, the genes can be confined within the borders of a country or a much larger region, such as the euro zone. The size of the area depends on the intensity of the trade barriers. In other words, the greater the obstacles (protectionist measures, tariffs, etc.), the more the confinement area is restricted – in the worst-case scenario to a country or even a state or a province.

Here are concrete examples corresponding to the first four pairing strategies. These are the ones used most often by the 27 executives interviewed.

**The Market-Efficiency Pairing**

To penetrate the U.S. market, Duplomatic Oleodinamica, an Italian manufacturer of hydraulic valves, acquired the hydraulic components division of Continental Machines, a Minneapolis company. The deal was financed by AXA Private Equity, which had taken a stake in Duplomatic in 2008.

Duplomatic Oleodinamica CEO Roberto Maddalon explained his strategy of using a market-efficiency pairing: “As a result of this acquisition, Duplomatic entered the U.S. market through a very well-known brand and a solid distribution network. Duplomatic will manufacture its products in the United States to eliminate transportation costs.” The objective of the integration strategy is to add Duplomatic’s product catalogue to Continental’s and launch joint sales initiatives aimed at maximizing potential synergies.

Which new markets has Maddalon now set his sights on? Nothing less than Brazil and India. But to penetrate those markets Duplomatic will have to produce locally. “Both countries are very protectionist,” he explained. “Our valves would be subject to a 35% customs duty if we exported them from Italy. But if we manufacture them in Brazil and India, the markets will be open.”

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4 In addition to pairing strategies, genetic threesomes and foursomes are also quite frequent. In such cases, the logic and the reasons listed hereunder are more numerous but remain the same.
Duplomatic Oleodinamica isn’t the only company that has to combine market development with an overhaul of its value chain in order to improve its efficiency. Groupe Piriou had to open a new shipbuilding and repair site in Nigeria to get around a protectionist measure.

Many countries have adopted cabotage legislation to protect maritime activity in their territorial waters. To operate a ship in their territorial waters, you must meet four criteria: 1) the ship must have been built in the country; 2) the crew must come from the country; 3) the ship must fly the flag of the country; and 4) the ship must be operated by a company that is majority-owned by the citizens of the country. Nigeria adopted such a law in 2005 to stimulate job creation. Pascal Piriou pointed out that “Groupe Piriou has the only shipyard in Nigeria, after investing $25 million. The market is booming!” In 2011, Groupe Piriou employed 160 people in the country.

The decision to pair the market gene with the efficiency gene sometimes has nothing to do with trade barriers. Often the reason is strictly economic. As a supplier to several OEMs, Camoplast Solideal has to deliver rubber tracks for agricultural tractors directly to assembly lines. But tracks aren’t suitable for container transport; shipping them costs a fortune. To overcome this disadvantage, Camoplast Solideal has manufacturing plants near its most important customers in the United States, Canada, South Korea and Europe. In addition to reducing its transportation costs, Camoplast Solideal also enjoys a natural foreign exchange hedge, since it incurs operating costs and makes sales in the same currency.

But caution is in order if your company manufactures products in an emerging country, such as China, and then exports all the output to Western countries. If that is the case, why not develop the Asian market too? According to a number of executives, there are two threats hovering over your facilities in such countries: 1) the end of cheap oil; and 2) inflation. Obviously, you can delay the inevitable by moving your plants to a neighbouring country, but rampant inflation will still be a threat, especially in areas with strong economic growth. China’s inflation rate is so high that the government is trying all sorts of ways to control it. For instance, in May 2011, the Chinese authorities slapped a $310,000 fine on Unilever because one of its executives said publicly that the company planned to raise its shampoo price. The announcement triggered panic buying by shoppers who were determined to stock up.

"... if your company manufactures products in an emerging country, such as China, and then exports all the output to Western countries. If that is the case, why not develop the Asian market too?"
The Market-Innovation Pairing

Mersen offers adapted solutions for industrial equipment, engines and advanced applications subject to extreme environments. All these micro-series applications – 200 to 300 are in progress at any time – are developed on a customized basis and require that Mersen’s technical and marketing teams travel to the clients’ manufacturing sites to ascertain their needs. With a worldwide network ensuring proximity, Mersen designs innovative solutions to address its clients’ specific needs. For example, when Mersen’s developers propose a high-end graphite, the material has to have the right properties for the intended use.

The same principle applies to BSA, SFINC and DIANA Ingredients, which all operate in the agri-food sector. These companies have established a joint strategy of partnering with their customers. Why? Beyond customers’ specific needs, each country has its own profile of tastes and food habits. Christian De Wolf, of SFINC, explained that taste is a local characteristic. Let’s take the simple example of potato chips. They come in different shapes and flavours. In Belgium, a salty taste is the most popular, but you can also find chips with the flavour of paprika, bolognese sauce, barbecue, pickles or cheese. Potato chips are just as popular elsewhere in the world. In Austria, garlic-flavoured chips are a big hit. In Vancouver, chips with the tang of wasabi are sold. In China, some manufacturers offer cucumber-flavoured chips. And, in India and Pakistan, yellow or green plantain and tapioca are definitely the most popular flavours.

Christian De Wolf says the production of functional food additives and neutraceuticals tends to be universal, but the development of spices, aromatic mixtures and sauces is decidedly local. He believes the functional aspect has to be dissociated from the taste of food. In short, a market-innovation pairing is undoubtedly a winning combination for anyone who wants to succeed in the world of flavours.
The Efficiency-Innovation Pairing

TNCs that derive their competitive edge from careful, innovative management of one or more global manufacturing platforms brilliantly combine manufacturing with R&D and design. In this regard, let’s go back to one of the competitive advantages of Hugo Boss. You’ll recall that Claus-Dietrich Lahrs pointed out that his company was the only one in its niche to combine innovation with an efficient industrial infrastructure.

Hugo Boss completely reorganized its development and production to accelerate its product-development cycles. The German group has reduced the time between product design and delivery from 50 to 38 weeks. This recipe has boosted its profits, to the delight of Permira, the British fund that acquired, in 2007, Hugo Boss and its parent company, Italy’s Valentino Fashion Group. “Permira set us an EBITDA\(^5\) objective of 20% in 2015 but we had already reached it by 2010,” Lahrs said. Now, Hugo Boss can adapt to sales fluctuations, competition and consumer habits. The company has gone from two to four collections a year and can rapidly stock its stores with merchandise based on the latest trends.

This compressed development cycle is the result of meticulous work upstream from its production facilities. Hugo Boss has reduced its suppliers around the world from 1,300 to 300. The company has also scaled down the scope of its collections, reducing the number of items offered each season by one-half. Lastly, Hugo Boss’s suppliers work with it, within a network, on the design of new collections. In brief, accelerated product development has become possible through excellent control over design and production, as well as greater co-operation among the actors in the value chain.

José Boisjoli, of BRP, and Philippe Colançon, of Aixam Mega, take inspiration from the “German model,” especially the approach adopted by Porsche. According to Boisjoli, “R&D has to take place in proximity to manufacturing. Otherwise, the manufactured products are of lesser quality and too expensive. At BRP, two sites form the heart of the company. Onto our manufacturing facilities, we’ve grafted Regionales Innovation Centrum (RIC), which develops eco-efficient powertrain technologies in Gunskirchen, Austria. In Valcourt, Québec, we also have the Center Design & Innovation Laurent Beaudoin (CDI), which designs all the recreational vehicles. I have to preserve the links between these assets.”

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\(^5\) The acronym EBITDA stands for Earnings before Interest, Tax, Depreciation and Amortization
At BRP, R&D and production are concentrated geographically and are overseen by only one Vice-President, whereas the design function reports to the CEO. Companies that thrive are headed up by leaders who are passionate about their products. Boisjoli got his first snowmobile at age 10 and his first motocross at age 12. Obviously, that’s no guarantee of success; but the chances of success increase greatly when designers interact directly with a CEO who is passionate about his company’s products.

For example, when BRP did a complete review of the ergonomics of its snowmobiles, the exercise involved difficult choices that only a CEO can make. At the end of the review, the company had a 13% gain in market share – in a mature market, where the main competitors’ shares had fluctuated by only 1% or 2% for 15 years. “Ask the Germans why they’re so successful in the automotive industry while the Americans are struggling,” Boisjoli said. “You’ll see that they’ve combined their R&D and manufacturing operations and they don’t have financiers heading up their companies. Their CEOs are passionate about design and products.”

BRP and Aixam Mega, Europe’s leading manufacturer of micro cars, have many genes in common. Aixam President Philippe Colançon has more than 30 years of experience in the business and adores cars. In 2000, he was Aixam’s Technical Director, a responsibility he still assumes fully. At that time, Aixam had introduced advanced modular design techniques that enabled it to launch new vehicles in less than two years, from a single scalable platform. When you look at Aixam’s City, Crossline and GTO models, the first thing you notice is that the three cars come from the same platform. This approach has made Aixam Mega the micro-car leader with 42% of the market.

“Ask the Germans why they’re so successful in the automotive industry while the Americans are struggling. You’ll see that they’ve combined their R&D and manufacturing operations and they don’t have financiers heading up their companies. Their CEOs are passionate about design and products.”

José Boisjoli, BRP
Resource-Innovation Pairing

A company takes advantage of innovation, technology or development teams in proximity to its resources to:

- Reduce its dependence on resources, through substitution or optimization; and
- Develop new resource extraction or processing techniques.

The Resource-Innovation Pairing

A company can also upgrade its processes, develop substitute technologies or take advantage of targeted R&D efforts in proximity to its resources. Why? We can never repeat the answer enough. Many companies are affected by a general trend that is especially pronounced in the food and energy sectors: resources are becoming scarce and their prices are rising amid greater volatility.

DIANA Ingredients is actively looking for alternatives that will protect it from the effects of resource scarcity. To mitigate the impact of rising raw material prices, it is developing breakthrough technologies, such as hydrolysis, to upgrade by-products obtained from its inputs. In May 2011, DIANA created a joint venture with the AquaChile group, which operates tilapia fish farms in Costa Rica and sells most of its output on the U.S. market. The joint venture enables DIANA to recover fish by-products (bones and heads) and use its extraction technologies to develop easily digestible nutritional solutions for the aquaculture and pet food markets. In this way, DIANA offers its customers the same benefits by upgrading less useful products that are generally regarded as waste.

To summarize, pairing the resource gene with the innovation gene is probably one of the best ways to protect yourself against the scissors effect: being caught between spiralling costs and potentially stagnant selling prices. Winning companies decrease their exposure to resource costs. In this area, the key to success is undoubtedly innovation.
The Last Two Pairing Strategies

The last two pairing strategies, which are used far less frequently by the executives consulted, will be brought home to you in the form of a modern saga: the export of roundwood from Russia. With substantial timber reserves, Russia provides a quarter of the world’s unprocessed wood, supplying large markets such as Sweden and Finland. Over the past five years, Russia has significantly raised its roundwood export tax. The chronology of its directives on this export barrier is as follows:

- In June 2006, the Russian government raised the roundwood export tax from €2.5 to €4 a cubic metre (6.5%). It also reduced customs duties on imported lumber processing equipment.
- In July 2007, the tax was raised to €10 a cubic metre (20%).
- In April 2008, it went up to €15 a cubic metre (25%).
- Since 2009, the Russian government, which wanted to raise the tax to more than €50 a cubic metre (80%), has declared a moratorium on increases, year after year, at the request of the European Union.

The Russian government imposed high export taxes on timber to assist the development of its national processing industry. During a government meeting in March 2006, President Vladimir Putin ensured that stringent measures were adopted to promote Russia’s wood processing sector. The European roundwood purchasers believe, however, that these increases are seriously impeding negotiations between Russia and the European Union regarding Moscow’s membership in the WTO, which the Russians have been hoping for since 2008.

In such a scenario, how could a foreign company respond, if importing roundwood from another country is ruled out? It can take advantage of at least two pairing strategies:

Market-resource pairing

If it has distinctive expertise, the foreign company can form a partnership with a Russian company that owns woodlands in order to sell roundwood on the local market with a more efficient distribution and retail network. Such pairing presents a major challenge because Russia’s logistical infrastructure leaves much to be desired.
Efficiency-resource pairing

A company moves its value chain (production or procurement) closer to its resources to:

• Avoid regulation, protectionist measures, customs duties and tariffs;
• Convert resources into semi-finished or finished products to reduce its costs; and
• Use local procurement teams to control quality more effectively.

Efficiency-resource pairing

A foreign company could also set up operations in Russia, engaging in primary, secondary and tertiary production to convert roundwood into value-added products for the domestic or foreign markets. In October 2007, the U.S. group International Paper, the leading paper manufacturer, formed a 50-50 joint venture with Russia’s Ilim Holding. The joint venture operates three paper mills and produces 2.3 million metric tons of pulp, paper and paperboard a year. Its strategy is to focus on value-added products.

“It’s essential to ensure sound management of head office activities so the company as a whole is always greater than the sum of its parts.”

Aldo Bensadoun, Groupe ALDO
KEY HEAD OFFICE ACTIVITIES

So far we’ve focused almost exclusively on the why. Above all, why does a multinational exist? The answer to this question has shed light on the three advantages of the ownership, localization and internalization (OLI) approach. Next, why does a national entity set up operations in a new country? This question has enabled us to detect the presence of four genes. Lastly, under which conditions can these genes be combined? We’ve familiarized ourselves with the six pairing strategies.

By decoding the DNA of national entities, we’ve examined the origin, uniqueness, mutations and competitiveness of divisions and subsidiaries on the local scene.

Now let’s try to decode the activities and functions of head office, the beating heart of any corporation that is a global player. By “global,” we mean the concept described by Theodore Levitt in the early 1980s: an entity whose primary mission is to unite, unify, standardize, integrate, mutualize and even universalize.

Now let’s look at table 3 on page 46 to consider the how. This table divides the main activities of a TNC into four separate categories:

- strategic activities;
- financial activities;
- support activities; and
- operating activities.

The first three types of activity are overseen mainly by senior management at head office. As for the operating activities, depending on market pressures, they are the exclusive responsibility of national subsidiaries (divisions) or the partial responsibility of head office. As Aldo Bensadoun of the ALDO Group aptly summed up the situation, “It’s essential to ensure sound management of head office activities so the company as a whole is always greater than the sum of its parts.”

That brings us to a description of several head office activities that are grafted onto the DNA’s double helix (figure 4, page 47). We will pay particular attention to five strategic activities:

- Global expansion strategy;
- Management and governance;
- International leadership management;
- Knowledge management; and
- Sustainable development strategy.
### Classification of a Transnational Corporation’s Main Activities

<table>
<thead>
<tr>
<th>Strategic activities</th>
<th>Support activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Global expansion strategy (integrated into corporate strategy and development)</td>
<td>• Human resources management</td>
</tr>
<tr>
<td>• Management and governance</td>
<td>• Information technology</td>
</tr>
<tr>
<td>• International leadership management*</td>
<td>• Real estate management</td>
</tr>
<tr>
<td>• Knowledge management</td>
<td>• Legal services</td>
</tr>
<tr>
<td>• Sustainable development strategy</td>
<td></td>
</tr>
<tr>
<td>• Government relations management</td>
<td></td>
</tr>
<tr>
<td>• Risk management</td>
<td></td>
</tr>
<tr>
<td>• Investor relations management</td>
<td></td>
</tr>
<tr>
<td>• Communications</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial activities</th>
<th>Operating activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Finance</td>
<td>• Management of demand and customer relations</td>
</tr>
<tr>
<td>• Accounting</td>
<td>• Product development (R&amp;D and design)</td>
</tr>
<tr>
<td>• Accreditation and certification</td>
<td>• Commercialization (sales and marketing)</td>
</tr>
<tr>
<td>• Internal control</td>
<td>• Order execution</td>
</tr>
<tr>
<td>• Taxation (general and international)</td>
<td>• Supplier-relations management</td>
</tr>
<tr>
<td></td>
<td>• Product-flow management (supply, manufacturing and logistics)</td>
</tr>
<tr>
<td></td>
<td>• Customer service</td>
</tr>
<tr>
<td></td>
<td>• Reverse logistics (returns management)</td>
</tr>
</tbody>
</table>

* Leadership management can also be classified among support activities, under human resources management. For many CEOs, however, leadership is so important that we have listed it under strategic activities.
Five Strategic Activities Performed by Head Office (a Global Entity)

Figure 4
Global Expansion Strategy

According to Louis Hébert, a Professor at HEC Montréal, planning for a global expansion strategy must answer three fundamental questions:

- **Countries**: Where do you want to set up operations, as a function of the risk-return profile?
- **Entry mode**: Which means will you use to enter the countries?
- **Speed**: How fast will your global expansion be?

### Target Countries

The whole world is open to you but your company’s resources are limited, so you’ll need to prepare a **risk-return profile of countries** to select the most appealing candidates. It’s impossible to approve an expansion into a new country unless you assess its potential return and expected advantages, keeping the OLI approach in mind. To evaluate the return, you must estimate as accurately as possible the size of the market and its consequences for your cost structure. This depends on the selected mode of entry, a point we will discuss a little later.

If the financial return on an expansion project is still uncertain, does it offer advantages just the same? Can you obtain **competitive and comparative advantages** that justify the economic uncertainty? Sometimes you have to be prescient and resist the implacable logic of accounting. In the international arena, the concept of doubt is fundamental. Many executives try to disregard it, concentrating only on what they can quantify. But your analysis must also weigh the intangibles.

This brings us to the concept of **risk**, defined as an undesirable situation likely to expose your stakeholders to negative consequences resulting from one or more unforeseeable events.

Risk is often associated with danger, uncertainty and incidents of varying degrees of seriousness. To make sound decisions, you must evaluate risks. But the very concept of risk is complex, and assessing it is a highly sensitive matter.

The risks of global expansion have to be qualified. To do so, you must explore two aspects:

1. the sources of uncertainty; and
2. the degree of exposure to negative consequences.

These two aspects define the stakeholders’ vulnerability and the seriousness of the undesirable situation. Neither aspect is easy to qualify.

According to Kent D. Miller, a Professor at the University of Michigan, the **uncertainties of globalization** are many and are associated with three types of risk: country risk, industry risk and business risk (table 4, page 50). For illustration purposes, let’s take the example of three country risks.

For security reasons, SNC-Lavalin recently evacuated 4,000 employees from Libya at a cost of $5 million. The money was of little importance to SNC-Lavalin President Pierre Duhaime in comparison with the lives of his employees. As for Robert Walsh, President of Forensic Technology, his concern is the heavy debt burdens of the many governments that are his clients. Today this is a very high risk.

Inevitably, corruption is also a concern. According to Transparency International, a non-governmental organization that promotes business integrity around the world, corruption is defined as abuse of power for personal enrichment. Far from being marginal, corruption is a basic problem for businesses – in emerging markets and industrialized countries alike. No sector or industry is immune, even though some are more affected than others.

In 2010, Transparency International published a ranking of 178 countries, called the Corruption Perceptions Index (CPI). Here are the scores for the public sectors of some of the countries, from the cleanest to the most corrupt public sectors: Denmark (1), Sweden (4), Canada (6), Germany (15), United Kingdom (20), United States (22), France (25), Italy (67), Brazil (69), China (78), India (87), Mexico (98), Algeria (105), Russia (154), Iran (175) and Afghanistan (178). Doing business in a country where corruption is ubiquitous calls for constant vigilance.

Now let’s look at the second aspect of risk. We have determined a total of eight facets of **exposure to danger**, which can be divided into two separate groups: facets of professional exposure and facets of personal exposure. When we assess risk, we often neglect the personal aspect. This is a mistake, because it can affect the risk tolerance of the entire company.
Five facets of this exposure personally affect every member of a company. Each risk-oriented decision creates exposure to one of them and raises the following questions:

1. **Monetary/financial**: Will the decision have a negative impact on my compensation or, worse still, on my investments in the company (which may be synonymous with a pension fund)?
2. **Personal/career**: Will the decision hinder my career or professional advancement as an executive or an entrepreneur? How will it affect my family?
3. **Social**: Will the decision have a negative impact on my reputation in the business community? The world is small and the circle of influential decision makers is fairly limited, so I must be concerned about my image.
4. **Psychological**: Would I be able to look myself in the mirror in the event of a failure? Could I get through such a setback with peace of mind? Would I be able to forgive myself?
5. **Physical**: Will the decision adversely affect my mental health or physical integrity?

There are also three facets to the company’s exposure to risky decisions:

1. **Financial**: Will the decision compromise the company’s ability to create value? Will it destroy value?
2. **Performance**: Will the decision contribute to competitive and comparative advantages? Will these actions be perceived positively by customers?
3. **Temporal**: Will the decision cause our executives to take their eyes off the ball? Will it be a time waster? Could we do something more productive with our valuable time?

For many Canadian companies that export only to the United States, the surge of the Canadian dollar has seriously undermined their competitiveness; their exposure to Canadian-U.S. exchange rate fluctuations is simply too great. And yet, other transnational companies, such as BRP and Camoplast Solideal, which are also present in the United States have not had this problem. Why not? For two reasons: 1) they have never put all their eggs in one basket; and 2) they have adopted wise efficiency-market pairing strategies.

Jean-Marie Fulconis, President and Chief Executive Officer of TLD Group, says that manufacturing and selling on several continents gives him natural currency hedging. The basket of currencies that he holds significantly reduces risks. To what degree is exposure to the fluctuations of several currencies a form of protection? “Today we deal in seven main currencies,” explained Pierre Marcouiller of Camoplast Solideal. “If one of them nosedives, we can quickly make it up on the others. Before, the fluctuations in the Canadian and U.S. dollars were constantly on our minds. The situation was a bit nightmarish! Now the impact is pretty negligible.”

Let’s sum up the concept of target country. To make an enlightened decision, you must first determine the potential return, the expected advantages and the uncertainties associated with the country of interest. This work is arduous because the sources of information are varied and complex. Then you must qualify the dangers to which you may be exposed through the prism of the eight facets of such exposure, bearing in mind that the personal and professional facets cannot be separated.

**Entry Modes**

Now let’s look at the second aspect of a global expansion strategy: the entry modes (table 5, page 51). Each of these four modes presents pros and cons. Selection of an entry mode for a given country depends on a risk-return tradeoff. The lower the return and the higher the perceived risk, the more the company will adopt an entry mode that minimizes the use of its resources and offers the opportunity to reverse direction. But if the market potential is very high and the risks seem to be controllable, the company will get involved
## Sources of Uncertainty Faced by Transnational Corporations

**Table 4**

<table>
<thead>
<tr>
<th>Country</th>
<th>Industry</th>
<th>Business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Political uncertainty:</strong></td>
<td><strong>Uncertainty upstream from the value chain:</strong></td>
<td><strong>Operating uncertainty:</strong></td>
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<tr>
<td>Wars</td>
<td>Variable quality</td>
<td>Shortage of qualified labour</td>
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<tr>
<td>Revolutions</td>
<td>Supply interruptions</td>
<td>Strikes and demonstrations</td>
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<tr>
<td>Coups d’état</td>
<td>etc.</td>
<td>Occupational health and safety</td>
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<tr>
<td>Kidnapping</td>
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<td>Shortages of resources or energy</td>
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<td>Government instability</td>
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<td>Supply interruptions</td>
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<tr>
<td>etc.</td>
<td></td>
<td>Restrictions on imports of parts or machinery</td>
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<td></td>
<td></td>
<td>etc.</td>
</tr>
<tr>
<td><strong>Uncertainty related to government policy:</strong></td>
<td><strong>Uncertainty related to products/services:</strong></td>
<td><strong>Environmental uncertainty:</strong></td>
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<tr>
<td>Tax and monetary reforms</td>
<td>Changing customer needs</td>
<td>Claims and lawsuits</td>
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<tr>
<td>Trade restrictions</td>
<td>Presence of substitute products</td>
<td>Non-compliant discharges and emissions of toxic substances</td>
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<tr>
<td>Price setting</td>
<td>Shortage of qualified labour (service)</td>
<td>Chemical, viral or bacteriological contamination</td>
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<td>Nationalization or privatization</td>
<td>etc.</td>
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<tr>
<td>Corruption</td>
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<td>New regulations</td>
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<tr>
<td>Protectionism (tariffs, quotas)</td>
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<tr>
<td>Barriers to repatriation of profits</td>
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<tr>
<td>Breakdown in the provision of public services</td>
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<tr>
<td>Legal system (defence of rights, protection of intellectual property)</td>
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<tr>
<td>Inaction by regulatory authorities</td>
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<td>Indebtedness and management of government expenditure</td>
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<tr>
<td><strong>Macroeconomic uncertainty:</strong></td>
<td><strong>Competition-related uncertainty:</strong></td>
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<tr>
<td>Inflation</td>
<td>Rivalry between existing competitors</td>
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<td>Currency fluctuations</td>
<td>Arrival of new competitors</td>
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<tr>
<td>Interest rates</td>
<td>Presence of oligopolies and cartels</td>
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<td></td>
<td>Corruption</td>
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<td></td>
<td>Abuse of a dominant position</td>
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<td></td>
<td>Price-fixing agreements</td>
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<tr>
<td></td>
<td>Economic espionage</td>
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<td></td>
<td>Emerging technologies</td>
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<tr>
<td></td>
<td>Innovation (products)</td>
<td></td>
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<tr>
<td></td>
<td>Innovation (processes)</td>
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<tr>
<td><strong>Social uncertainty:</strong></td>
<td><strong>Partner-related uncertainty:</strong></td>
<td></td>
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<tr>
<td>Consumer boycotts</td>
<td>Breach of contract</td>
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<tr>
<td>Media attacks</td>
<td>Lies and deception</td>
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<tr>
<td>Riots</td>
<td>Lack of transparency</td>
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<tr>
<td>Demonstrations</td>
<td>Lack of integration or co-operation</td>
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<tr>
<td>Social change</td>
<td>Copyright infringement</td>
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<tr>
<td>Terrorist movements</td>
<td>Economic espionage (trade secrets)</td>
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<tr>
<td>Mafia, organized crime</td>
<td>etc.</td>
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<tr>
<td><strong>Natural uncertainties:</strong></td>
<td><strong>Collection-related uncertainty:</strong></td>
<td><strong>Behavioural uncertainty:</strong></td>
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<tr>
<td>Torrential rain</td>
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<td>Hurricanes</td>
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<td>Earthquakes</td>
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<tr>
<td>etc.</td>
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</tbody>
</table>

Source: Inspired by the work of Kent D. Miller, Professor at the University of Michigan
## Characteristics of the Main Modes of Entry into a Foreign Market

### Table 5

<table>
<thead>
<tr>
<th>Mode of entry</th>
<th>Exports</th>
<th>Franchise or licence agreement</th>
<th>Joint venture</th>
<th>Wholly owned subsidiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial factors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital needs</td>
<td>Low</td>
<td>Low</td>
<td>Average</td>
<td>High</td>
</tr>
<tr>
<td>Potential return on investment</td>
<td>Average</td>
<td>Low</td>
<td>Average</td>
<td>High</td>
</tr>
<tr>
<td>Risk</td>
<td>Low</td>
<td>Low</td>
<td>Average</td>
<td>High</td>
</tr>
<tr>
<td>Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Need for management</td>
<td>Low</td>
<td>Low</td>
<td>Average</td>
<td>High</td>
</tr>
<tr>
<td>Reversibility</td>
<td>Average</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Speed</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>Average</td>
</tr>
<tr>
<td>Control</td>
<td>High</td>
<td>Low</td>
<td>Average</td>
<td>High</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avoidance of customs and tariffs</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Market feedback</td>
<td>Low</td>
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Source: Louis Hébert, Professor at the École des Hautes Études Commerciales (HEC) in Montréal
directly, either through a joint venture or new subsidiary (the greenfield approach) or through an acquisition (the brownfield approach). In this scenario, degree of internalization (the last advantage according to the OLI approach), control and speed rapidly reach their peak (see box 3). Now let’s look at some concrete examples to see the combination potential of the various entry modes through three approaches that determine deployment speed.

**Deployment Speed**

Deployment speed is the third and last aspect of a global expansion strategy. For example, if your company has operations in China, when will you set your sights on Brazil, India or Russia? What will the sequence and speed of your deployment be? There are two approaches: sequential and simultaneous. Which should you take? It all depends on competitive pressures and senior management’s preferences.

A company that wants to reduce its risk exposure will take a **sequential approach**. It will concentrate on developing its domestic market before expanding into foreign markets. At the start of the globalization process, the company will restrict its operations to neighbouring markets at a short psychic distance. Such markets have characteristics similar to those of the domestic market. To reduce uncertainty, the company gradually gets involved in foreign markets as it builds experience (see box 4, page 54).

Ten years ago Keolis Group began a tiered approach to expansion. By consolidating its position in Europe, it acquired the means to tackle new markets, especially Australia, where it has operations in Melbourne. With help from a local partner, Downer EDI, Keolis operates Yarra Trams, the world’s largest tramway system, with 250 kilometres of track, 471 trains and 180 million passengers a year. This expansion of the Keolis Group in 2009 enabled it to contemplate new horizons.

Here is how Arnaud Van Troeyen, Executive Vice-President Strategy and Development, described Keolis Group’s sequential approach: “The key is to have a powerful home base before you go international, because you have to have solid roots and firmly established credibility. Then we looked at the countries in Europe where we could cope with the environment best, in other words those that are close to us and whose legal and political systems are similar. We also had a common currency. Once we had successfully penetrated those countries, we felt we were ready to look at more distant places.” In other words, France opened up Europe to them, then Europe served as a stepping stone to other major countries, such as Australia, which already provides 15% of the group’s international revenues and in turn offers a bridge to Asian markets. Keolis’s expertise in operating high-speed regional trains is of interest to the Chinese. From Australia, Keolis Group therefore has its eye on the Asian market.

As a complement to the sequential approach, the **simultaneous approach** is endorsed by those who believe that all modes of entry are viable in that they offer a range of options that can be used according to the circumstances, potential and risks of a given country or market.

The ALDO Group has franchise networks in 61 countries, but it operates its own stores in Canada, the United States, Great Britain and Ireland. The 600 franchises and the 1,000 corporate stores in the ALDO Group have revenues of $1.9 billion. Similarly, Hugo Boss uses several entry modes for its global development. In China, Hugo Boss has a 60% stake in a joint venture with Rainbow Group. “When I was in charge of brands at Christian Dior Couture and Louis Vuitton,” Claus-Dietrich Lahrs explained, “I gained a good understanding of Rainbow Group, which, among other things, distributes the Armani brand in China.” In addition to the joint venture, Hugo Boss operates its own network of 537 stores and has access to two distribution channels consisting of multibrand distributors and franchisees. Globally, the German company has revenues of €1.7 billion and employs 10,000 people in 124 countries.

There is, however, a third “species” of company for which the globalization process is neither sequential nor simultaneous. For such companies, globalization is neither chosen nor desired; it is vital. Without it, such companies would risk certain death. The benefits of the simultaneous or sequential approach should not be denigrated – quite on the contrary – but they have limitations that should be highlighted.
The context of born-global companies, such as Forensic Technology, iWeb, iBwave and EXFO, shows that the globalization process is not necessarily gradual; it can begin as soon as the company is founded. Such companies occupy a global market niche from inception. They start up their international operations early on and quickly generate a high volume of sales abroad. They position themselves on global markets without taking into account such considerations as psychic distance. Transnational companies that are born global have many common traits (see box 5, page 55).

International companies that are born global tend to operate in technology niches:

- EXFO is a major supplier of test solutions for telecom network operators. It is present in 100 countries and generates revenues of US$203 million.
- Forensic Technology has 95% of the global market for ballistics identification, the science that uses a fragment of a bullet or a cartridge casing to trace a firearm used to commit a crime. It obtains 98% of its revenues ($55 million) outside Canada (60 countries).
- iWeb provides web hosting and computer infrastructure services to 24,000 customers in 150 countries. iWeb obtains 60% of its income (US$29 million) abroad.
- iBwave is a developer of software for wireless in-building networks with revenues of $12 million. Its software is sold in 70 countries and has become the industry standard in United States and the Middle East. It was founded more than seven years ago and still has no competitors anywhere in the world.

None of these companies would have survived if they had been limited to Canada. Robert Walsh, President of Forensic Technology, is well placed to understand the proverb “No man is a prophet in his own country.” Canada was the 26th country to adopt its system, when the company was already dominant around the world. What do companies such as Forensic Technology and iBwave do to dominate their niche in this way? They take advantage of network effects (see box 6).

Acquisition of a Foreign Company that Becomes a Subsidiary: A Preferred Mode of Entry

Box 3

Acquisitions of foreign companies have been more frequent than ever in recent years. The number and total value of such transactions have reached new heights. According to The Brave New World of M&A, a study by the Boston Consulting Group, from 2003 to 2007 we witnessed the sixth wave of international acquisitions to take place since 1900. The trend is gathering speed. More transactions have taken place since 1990 than in the preceding 90 years. There has been a yearly average of 21,000 takeovers during that period.

Indeed, two-thirds of the 27 companies consulted for this study have made at least one acquisition in the past five years. Some of them, such as ASSA ABLOY, SNC-Lavalin and Brenntag, to name but a few, are seasoned purchasers. Consolidation in their sectors is based on two watchwords: control and speed. The companies they acquire are transformed into divisions or wholly owned subsidiaries.

Among the one-third of the companies that have favoured organic growth, more than half have been the target of takeover bids by private equity funds: Dollarama (Bain Capital), Piriou Group and Aixam Mega (AXA Private Equity), Grohe (BC Partners) and Hugo Boss (Permira).
Forensic Technology’s integrated ballistics identification system (IBIS) consists of highly sophisticated software that creates a 3-D image of a spent bullet and then compares it with samples in a gigantic database connected to its network of clients around the world. Forensic Technology is associated with more than 300 public-safety and police departments from New York City to Johannesburg. With assistance from Forensic, INTERPOL recently developed a platform to foster international sharing and comparison of ballistic data on a large scale.

It will link the member countries that use the IBIS system developed by Forensic Technology. The head of INTERPOL has pointed out that this platform will enable front-line officers to establish connections between various criminal acts – something that was previously impossible. How will an investigator be able to solve a crime if he’s not connected to Forensic Technology’s databanks and doesn’t use its patented imaging technology? Mission impossible! Forensic Technology has succeeded in internalizing these network effects, which enables it to sell IBIS systems around the world, even though they cost several hundred thousand dollars or even several million dollars.

Established by the Scandinavian school in the mid-1970s, the Uppsala* model explains the steps in a company’s globalization process. Initially, the company has neither exporting activity nor resources abroad. Eventually the company begins to export to psychologically close countries through independent agents or distributors. Next, it starts to export to psychologically distant countries and ultimately it establishes subsidiaries in such countries or develops a partnership with shared ownership rights (a joint venture).

The Uppsala model emphasizes the vital role of learning and trust as a company’s commitment to foreign operations increases. Faced with uncertainty and a lack of knowledge, a company therefore seeks to reduce the psychic distance. What is psychic distance? The sum of the factors that limit the flow of information between the company and its foreign markets. Several studies reduce psychic distance to the cultural dimension alone, which is simplistic. In 2001, Pankaj Ghemawat proposed CAGE, an analytical framework based on four types of distance:

- **Cultural** – discrepancy between the culture of two countries or nations (see table 2, pages 22-23);
- **Administrative** – discrepancy in terms of property rights, legal and institutional structures, governance, regulation and monetary management;
- **Geographic** – physical distance separating two countries (sometimes combined with the time difference); and
- **Economic** – discrepancy in economic wealth between two countries or differences in the quality and cost of natural, financial and human resources.

* The model bears the name of Sweden’s Uppsala University.
**Ten Common Characteristics of Born Global Corporations**

*Box 5*

Now that we have analyzed the route taken by Forensic Technology, iWeb, iBwave, EXFO and many others, here are the 10 most frequent characteristics of born global corporations:

1. The domestic market is never sufficient to ensure the company’s start-up, development and survival.
2. Most of the company’s customers are large foreign multinationals.
3. The company operates in a technology-based niche.
4. The company’s main competitive advantage is based on its distinctive expertise, patents, intellectual property or major R&D breakthroughs.
5. The company’s sale of products and services is not restricted by trade barriers.
6. The perceived value of its products and services is very high in relation to transportation or travel costs.
7. Its customers’ needs are relatively uniform throughout the world.
8. Fast distribution of products allows the company to benefit from the first-mover advantage or the network effect.
9. The company’s competitors (if any) are already international or are on the verge of becoming so.
10. Many of the company’s senior executives already have international experience.

In summary, a company does not need all 10 features to be defined as born global. The companies analyzed have five to eight of these features, however.

**What is the Network Effect?**

*Box 6*

By definition, the network effect has a social dimension: each person’s actions affect the value of a product or service to other people. For example, the greater the number of people who visit Facebook, the more popular the site becomes and the more likely it is to receive advertising revenues. The same logic applies to IT standards (operating systems, databases and office software); they become entrenched once enough users have adopted them.

Critical mass is essential to derive benefits from the network effect. When a company develops a solution that attains the status of a global standard, new users are required to adopt the solution chosen by the initial users. Furthermore, the opportunity cost is very high for anyone who rejects the dominant solution in favour of that of a competitor, a phenomenon known as the lock-in factor.

In summary, if you want to dominate a sector globally, make the most of the network effect!
Management and Governance

As we have shown, there is a wide range of viewpoints on international governance. So it is quite likely that a serial acquirer that does not try to standardize its decision-making process after several international acquisitions will soon feel as if it’s managing construction on the site of the Tower of Babel. To do otherwise is to court confusion and chaos.

How do you make decisions and move collectively toward the best solutions, if the employees of your various subsidiaries and divisions are all using their own techniques to analyze files, scrutinize issues and solve problems? Some will be highly intuitive and adopt a typically entrepreneurial approach to justify their decisions, whereas others will substantiate them with complex proofs and highly detailed reports. How will you make sense of the two extremes if you have to decide from among a multitude of proposals?

Our panel of senior managers proposes only one solution: a unified management and governance system. Obviously, such an approach will significantly reduce governance diversity but, for many, this is the price you must pay to oversee a global corporation.

But don’t think that a unified governance system eradicates all the particularities, laws and traditions that national governance entails. Far from it. The objective is not to write a manual of global procedures, or an encyclopedia of sorts, to standardize the entire business but rather to standardize decision making so that you can allocate the corporation’s most valuable resources: capital, time and the management team’s attention. For a transnational corporation to be competitive, all members of senior management, whether they are local or global, must learn to play as a team.

Do you know why Solideal’s senior management was convinced, in November 2010, that Camoplast should purchase their company? Camoplast has proven innovation and R&D management, and Solideal wanted to renew its commodity markets. Moreover, in addition to appreciating Camoplast’s values and culture, Solideal wanted to take advantage of its management system. According to Pierre Marcouiller, “Solideal was nothing but a federation of small businesses held together by the financial statements. To win, Solideal realized that it had to play as a team.” To do so, Solideal used a few solidly implemented processes.
Today, no matter where Camoplast Solideal’s employees are in the world, they use the Achieving Competitive Excellence (ACE) management system, borrowed some years ago from United Technologies, parent company of Pratt & Whitney and one of the major manufacturers of engines powering helicopters and aircraft. This system provides problem-solving and decision-making tools, inspired by Toyota’s continuous improvement process, not to mention tools for approving capital expenditures.

Before making a decision, Marcouiller always asks his senior managers whether they have prepared their “A3,” an expression that refers to a paper format. “The story, the analysis, the recommendation and the action plan have to be summarized in a single page. Otherwise I won’t even listen to them. It’s non-negotiable.”

When one company purchases another and converts the target into a subsidiary, sometimes the greatest challenge is to convince the employees reporting to the first level of managers, as well as the product development engineers, that they will no longer be able to go it alone. Occasionally the new allocation of powers will create an emotionally charged atmosphere and cause some employees to rethink their roles. Sooner or later, they will have to adapt or else they will leave, believing that the senior managers at head office do nothing but harass them and hinder their progress.

A unified management and governance system makes it possible to oversee strategic initiatives. This is an essential tool for earning a return on an investment. For example, EXFO invests about 22% of its revenues in R&D each year, so it’s only normal that it has a disciplined portfolio-analysis process and a specific product-development process. In making its many acquisitions, EXFO has not always had an easy time incorporating the contributions of the hundreds of engineers at its seven R&D centres around the world, in Québec City, Montréal, Toronto, Chelmsford, Massachusetts, Oulu, Finland, as well as Pune and Bhubaneswar, India. Despite this challenge, EXFO undoubtedly has one of the world’s most solid and proven stage-gate processes.

"A unified management and governance system makes it possible to oversee strategic initiatives. This is an essential tool for earning a return on an investment.”
A CEO doesn’t build a company; instead, he guides the people who build it. They must be able to achieve their full potential if the company is to progress. Developing and overseeing such a team of leaders requires consummate skill.

The most crucial question is to decide who should be assigned important roles in the international arena. Many of the executives interviewed have racked their brains trying to answer it. To summarize what they have learned, let’s play a little game: imagine you meet an international leadership expert. We’ll affectionately call him Mr. Know-It-All. He’s an advisor with the enviable strength of embodying all the experience gained by our panel of 27 top managers. What advice do you think he’d give you? Here’s a summary of the discussion you might have with him, starting with your first question:

— Mr. Know-It-All, should I use expatriates at my new subsidiaries? Isn’t that the best way to communicate our values, processes and know-how?

— I’ve used expatriates for many years and, in practice, when you analyze the advantages and disadvantages, this approach leaves a lot to be desired.

— I’m surprised. What do you suggest?

— I suggest you hire and develop local talent.

— Okay. And how do I go about finding this talent if I don’t know anything about the new country?

— You need to understand that a foreign CEO isn’t equipped to track down local talent. For example, if you’re looking for a true leader in Brazil, get a Brazilian to find that person for you. You should trust the best local headhunter to give you a preliminary list of qualified candidates. After you’ve assessed them, if one of them turns out to be the rare pearl you’re looking for, go ahead and hire him; don’t skimp on salary because this first leader will be an invaluable asset.

— Fine. But how do I go about developing the first leader?

— Invite him to spend a few months at head office so he can absorb your strategy, values and management system. Also see that he builds the network of relationships he’ll need. Then set some challenges for him. Start by asking him – on the basis of everything he has learned at head office – how he would adapt your business model to ensure the company can succeed in his country. Only after completing all these stages should he have the privilege of building his own team. One last point: never leave him alone for too long; talk to him and visit him regularly. He has to become an ambassador for your brand very quickly.
Even though this conversation is purely hypothetical, it distils into a short text several lessons whose fundamentals we should examine.

Let’s start with the approach that involves using expatriates for the first key foreign positions. As a rule, the two main advantages of using expatriates are: 1) effectiveness in conveying the company’s culture, knowledge and know-how; and 2) monitoring of the subsidiary’s operations and communications. But it also has three disadvantages: 1) complexity and a higher cost structure (salaries, transfer costs, tax considerations, etc.); 2) a lack of knowledge of the local culture and market; and 3) a greater risk of departures and resignations. Many expatriates leave their companies less than two years after being transferred outside their home country.

With such pros and cons, which way is the scale tipping? Until the year 2000, companies made extensive use of expatriates, for lack of high-quality local candidates who could assume such positions. But the situation changed in only a decade. According to a recent survey conducted in China, India, Brazil, the Middle East and Russia by the Association of Executive Search Consultants, only 12% of local senior managers are expatriates; 10 years earlier, the figure was 56%. A trend toward local talent has taken hold.

According to Zouheir Chebl, Senior Vice-President at SNC-Lavalin International, “Each time we appointed a Canadian to head things up in Belgium, it was a failure. We made the same mistake over and over, until we finally selected a Belgian. Since then, things have been going very well.”

Olivier Caix, of DIANA Ingredients, concurs. “Our impulse was to always put a French person in charge of our subsidiaries. The big problem is that such people lack insight: they aren’t representative of the local reality. Now we put an American in charge in the United States, an Argentine in Argentina, and so on. We had to internationalize our team by developing local talent that will enable the company to grow.”

What message would you send the employees of your foreign subsidiaries if most of the top management positions were held by expatriates? You’d be contributing to the perception that your company imposes a glass ceiling that prevents all local leaders from moving up. That would be a curious way of inspiring their loyalty. Ultimately, an ethnocentric approach is counterproductive.

Second, what lesson have the CEOs learned in spotting and hiring local talent? Quite simply they have recognized their incompetence, their inability to separate the wheat from the chaff. Please note that we aren’t referring to the hiring of technical talent, but rather the art of discovering rare pearls with the skills and aptitudes to lead a company’s foreign operations. These local leaders are at one and the same time the CEOs’ eyes, ears and mouth.

“We had a few resounding failures because we were careless,” confessed Jean-Marie Fulconis of the TLD Group. “We were trying to do too much with too little, and we didn’t have the right managerial resources... You have to invest time and money. Otherwise you’ll be living a life of pain! It’s a mistake I’m guilty of making.”

Robert Walsh, of Forensic Technology, had similar experiences. “We got into the habit of going into foreign countries ourselves to recruit... What a disaster! Not only did we choose the wrong people, we wasted valuable time; sometimes it takes a couple years to figure things out, because the people are so far away. Since these failures, we’ve been using world-class recruiters in England, Brazil and so on. And it works!”

Fulconis, Walsh and many others have discovered that cultural and linguistic differences are stumbling blocks to a proper assessment of talent in a foreign country. In this context, it should come as no surprise that buying a company outright is a popular way to go international, since it will come with a team of local leaders.
Finally, once you’ve found this indispensable local talent, what do you do? You have to develop it. As Claus-Dietrich Lahrs, of Hugo Boss, aptly put it, “They have to become ambassadors.” A large number of companies, including Keolis and Hugo Boss, first insist that new leaders do a stint at head office to decode the corporate culture, strategy and know-how. For example, whenever TLD Group opens a new site, it always has a scarcity of people who can be posted abroad. So the company does the opposite: it asks local leaders to undergo training at its head office and existing plants.

Second, the best way to develop leaders is to give them challenges – lots of challenges, it appears. In addition to overseeing the management of 1,600 shoe stores in 65 countries, Aldo Bensadoun, founder and Chief Executive Officer of the ALDO Group, recently set up two new groups: ALDO Product Services and ALDO Retail Services. The responsibilities of these two groups include offering product design and store management services to companies throughout the world. If you want to outsource the design of a new shoe collection or if you want assistance in negotiating leases, the ALDO Group is a partner that can help you. Its customers include The Bay, online retailer Zappos.com and, in the United States, JCPenney and Kohl’s, not to mention Nordstrom, the luxury department store chain.

Why deploy this talent outside the company? Because the ALDO Group’s already vibrant growth isn’t enough to satisfy the prodigious appetite of its talented creators and managers. Many of them are adamant about rising to new challenges. The bet that Bensadoun has made with these two new units is that, in addition to developing a new generation of leaders who can scout out global trends, he can maximize the economic benefits of their existing knowledge.

We cannot repeat it enough: a CEO doesn’t build a company; he develops the people who build it. With the lessons you’ve learned, does your chat with Mr. Know-It-All still seem like a mere game?

“Fulconis, Walsh and many others have discovered that cultural and linguistic differences are stumbling blocks to a proper assessment of talent in a foreign country.”
Knowledge Management

Do you know the best way to destroy a transnational corporation? It couldn’t be simpler. Just prohibit its employees from sharing its knowledge. Ultimately, that prohibition will destroy its competitive edge.

Winning companies create a “collective brain.” Every year, companies around the world generate masses of knowledge and know-how. What can you do to ensure everyone benefits? You must manage this knowledge.

Knowledge management involves a set of initiatives, techniques and tools that are used to identify, organize, store and distribute knowledge to the members of a company. In 1969, Michael Polanyi distinguished between two types of knowledge: explicit and tacit. Obviously, both types of knowledge coexist permanently at a company, and in practice it’s impossible to separate them so neatly.

Explicit knowledge is that which can be recorded in a written document, a computer system or the memory of a machine. Such knowledge is physically transferable, because it is tangible, taking the form of a document, a software program or a machine. It can also be sent from one individual to another, despite the distance separating them.

Tacit knowledge consists of knowledge that is deeply embedded in individuals and difficult to put into words. It includes innate competencies (gifts and talents), acquired skills (a golf swing), know-how (machining a complex part) and experience (adapting one’s management style to the context). Knowledge that cannot be shared is referred to as “sticky” because it adheres to people. This kind of knowledge and know-how has to be built up – albeit with difficulty – through experience, trial and error, buddy system training and close interpersonal relationships.

Which techniques and processes do companies use to manage their knowledge? As a rule, to transmit highly tacit knowledge, they bring it together in centres of excellence so as to maximize communication and sharing of information. Senior management regularly organizes events where employees gather to engage in face-to-face discussions and consolidate the relationships of trust that unite them. As for explicit knowledge, it is codified and generally conveyed with information technology. Companies also foster the creation of communities of practices. Finally, many implement a matrix structure, with transversal groups responsible for disseminating best practices.

“Winning companies create a collective brain.”

A centre of excellence may be an R&D centre, a department, a laboratory, etc. Camoplast Solideal has four centres of excellence. Two of them, in Québec and South Korea, concentrate on R&D for rubber tracks. The other two, in Sri Lanka and Belgium, are tire-development centres.

A centre of excellence brings together a group of professionals with world-class expertise within a structure that fosters the advancement of knowledge and the emergence of innovation. Its main characteristics are:

- A territorial anchor to concentrate expertise;
- A critical mass of high-calibre professionals or developers;
- A platform for frequent interaction and information sharing between professionals; and
- A high level of scientific or industrial connectivity, inside and outside the corporation.

SNC-Lavalin has many centres of excellence around the world – critical masses of engineers in the markets most likely to require their services. In Belgium, SNC-Lavalin has a phosphoric acid management centre. It develops its metallurgical expertise in Chile. Its know-how on cooling plants is concentrated in Abu Dhabi. In England, it has experts in the construction of deep-sea drilling platforms. And if you want to build a new tunnel, its Spanish engineers will lend you a hand. All these engineers are concentrated geographically to promote their development. They are then deployed globally as a function of the projects that require their knowledge.
Moreover, when a company relies on such far-flung expertise, its professionals sometimes form communities of practice, or learning groups based on common interests. The members collaborate on a purely voluntary basis, developing and sharing ideas and solutions.

Each SNC-Lavalin office has engineers involved in constructing roads, buildings and urban infrastructure. But being in distant places hasn’t prevented dozens of them from creating a community of practice to develop financial modelling tools and standard contracts for public-private partnerships. At SNC-Lavalin, if you wanted to create a community of practice for engineers with an interest in the design of eco-efficient buildings with LEED certification, you’d find several dozen such individuals among its 24,000 employees around the world.

At SFINC, a team of 47 R&D professionals continually visit clients to develop recipes in co-operation with them. SFINC has at least two experts for each specialty: meat, fish, vegetables, French fries, brines, sauces, spices, etc. Every Friday the R&D team returns to head office to discuss the issues and problems that arose during the week. During these meetings, the experts share solutions, tips and ideas. SFINC codifies all the solutions in a database, while keeping its clients’ recipes confidential. Its catalogue of solutions is enormous and carefully indexed. Moreover, “we all have to read scientific papers, summarize them and present any useful information we come across,” Christian De Wolf explained. “Even though I’m the President, I’m not exempt. I have to do my reading too.” To ensure the company’s competitiveness, these forums for the exchange of ideas and sharing of information are essential.

Finally, the companies consulted sometimes implement a matrix structure to share and transmit best practices. To improve its operational efficiency, ASSA ABLOY consolidated its manufacturing assets many years ago, gradually reducing the number of plants it operates from 64 to 26. The remaining facilities are becoming more integrated, but continue to be the full responsibility of the divisions. Even so, the Vice-President of Production oversees and shares best practices for lean manufacturing and value engineering with each plant to reduce the costs of existing products.

ASSA ABLOY’s divisions also do a great deal of sharing. HID Global has the most advanced intellectual property management processes (a global database, management of offensive and defensive patents, licences, etc.). Its processes are almost fully automated and overseen by only three professionals. To assist the group as a whole, Denis Hébert, of HID Global, transferred one of the employees to ASSA ABLOY’s head office for two years so that all the divisions could benefit from this expertise.

When it comes to knowledge management, don’t pin all your hopes on technology. It’s vital to disseminate explicit knowledge and information; but if your competitive edge depends on complex know-how and tacit knowledge, you must build proximity networks to foster trust, personal interaction, information sharing and meaningful discussion.

“When it comes to knowledge management, don’t pin all your hopes on technology.”
Many corporate executives are aware that running their companies goes beyond enriching shareholders. They are mindful of their responsibility for others – the lives of others. With this tremendous power come tremendous responsibilities.

Why do we talk about social responsibility and sustainable development these days? In large part because all actors in society are aware of the seriousness of the social and environmental issues and challenges, both local and global, with which they are confronted.

The development of social responsibility since the Second World War can be divided into four phases (table 6, page 64). At the outset, social responsibility took the form of philanthropy motivated initially by respect for morality. It was not based on any strategy, the administrator was the instigator and it was managed passively with no tracking or monitoring by third parties. Since 1990, the most forward-looking companies have been trying to derive competitive advantages from their sustainable development initiatives. They realize that voluntarily incorporating social and environmental concerns into their commercial operations leads to economic success.

According to Archie B. Carroll, one of the leaders of this movement, responsibility can be divided into four levels:

- **Economic responsibility**: providing products and services; providing employment; and creating wealth for shareholders;
- **Legal responsibility**: complying with laws and regulations; refraining from lobbying or interfering with development of public policy;
- **Ethical responsibility**: abiding by fundamental ethical principles to ensure integrity, honesty, health, safety and transparency; and
- **Philanthropic or discretionary responsibility**: behaving like a model citizen in all respects by going beyond regulations and ethical rules; making charitable donations and initiating projects that improve the outlook for communities; and giving back to society.

Aldo Bensadoun is convinced that a “company must go beyond its business interests.” Obviously, any company has to make a profit; otherwise it wouldn’t survive. But profit isn’t the ultimate goal; rather, it’s the result of sound daily management. The ALDO Group has distinguished itself since 1985 by actively supporting the fight against AIDS. In 2009, its design team created a reusable tote bag that was sold to support HIV education and prevention programs in South Africa. The ALDO Group gave 100% of the net proceeds from the sale of the bags to a YouthAIDS program. Over the years, the ALDO Group has donated millions of dollars to fund AIDS research and awareness.

A corporate leader can demonstrate social responsibility with a multitude of small daily gestures. Being concerned about worker health and safety comes first. In the words of Pascal Piriou, “I insist that we always go beyond local laws. We take the world’s most stringent standards and impose them everywhere. If safety boots and hardhats have to be worn in France, then they have to be worn everywhere. The safety of a worker in Vietnam or Nigeria is just as important to me as that of someone in France. It’s what lets me sleep soundly and look at myself in the mirror when I get up in the morning. There are boundaries I would never cross to increase profits.”

BSA Food Ingredients has had operations in India for about 15 years. Its CEO, Marcel Banil, was the first executive in the industrial park where his company is located to reduce the number of hours worked by employees: “I felt guilty having them work the standard 60-hour week. In addition to reducing their hours, I cut the workweek to five days. I was also the first to give profit-sharing bonuses. That had never been done before.” Small decisions like these, built up over several decades, make a world of difference.

The way a CEO invests, at home or abroad, shapes the world in which we live. Globalization of the economy is an invitation to globalization of responsibility.
# Growth of Social Responsibility at Transnational Corporations*

Table 6

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<td>All levels of management</td>
</tr>
<tr>
<td><strong>Degree of integration into daily activities</strong></td>
<td>Detached</td>
<td>Separate, but related</td>
<td>Partially integrated</td>
<td>Fully integrated</td>
</tr>
<tr>
<td><strong>Degree of initiative</strong></td>
<td>Passive</td>
<td>Responsive</td>
<td>Proactive</td>
<td>Integrated</td>
</tr>
<tr>
<td><strong>Project follow-up</strong></td>
<td>None</td>
<td>Low</td>
<td>Support and monitoring by NGOs</td>
<td>Incorporated into strategic objectives</td>
</tr>
</tbody>
</table>

* Taken from Bertrand Lamon, La citoyenneté globale et locale de l’entreprise transnationale, Geneva, Institut universitaire de hautes études internationales, 2001, p. 144.
THE FIVE FUNCTIONS OF A HEAD OFFICE

The leaders at head office must know how to deal with these five functions on a permanent basis. When should they insist on rigid compliance? When do they have to adopt a neutral stance in leading a discussion? When must they step in and offer advice? Simply put, deciding which hat to put on is an art in itself. They have to be past masters at adapting to changing circumstances.

You should also note that the more leaders are partial to the unification and consultancy hats, as opposed to the compliance hat, the greater the value that head office provides to the national subsidiaries and the divisions. If head office is a watchdog with sharp fangs, people will fear it and avoid it, instead of seeking it out for advice. As Keolis Group Executive Vice-President Arnaud Van Troeyen explained, “Relations can be difficult because some people at the subsidiaries have the impression that the headquarters is only there to police them or annoy them. Head office has to take up the challenge of making these relationships work.”

Compliance

A few years ago, Marcel Baril of BSA decided that the company’s new plant in India would obtain ISO 22000 certification, an international standard that defines the requirements of the food safety management system for all actors in the food chain, from the farm to the plate. The Indian leaders and employees were assisted by head office and a Swiss firm that specializes in this area.

It took three years of hard work for the Indians to familiarize themselves with the standard, document the processes, correct deficiencies and put a food safety management system in place. Today the plant is operational and all employees have received a certificate attesting to their success, of which they are all extremely proud.

"If head office is a watchdog with sharp fangs, people will fear it and avoid it, instead of seeking it out for advice.”
The leaders at head office are guardians of the laws, rules and standards that enable the company to preserve its image and reputation. Roberto Maddalon, President of Diplomatic Oleodinamica, requires that all his employees around the world, whether they live in China, Italy or any other country, comply with his directives on ethics and integrity. Employees who breach these rules automatically lose their jobs.

**Provision of services**

Reviewing the activities summarized in table 3, on page 46, we can easily see that a head office performs many services for its national subsidiaries and divisions, including a series of strategic, support and financial activities, not to mention some operating activities.

SFINC has a 47-strong team of R&D professionals who develop solutions for its clients. They’re constantly on the road, so head office places at their disposal accountants who establish the production cost, margin and price of the solutions they propose. In this way, the specialists can concentrate on providing quality advice and building client relationships.

**Support**

“Without being paternalistic, you have to give people the sense that they’re not alone, that there’s a group, a structure, colleagues who can assist them if they encounter difficulties,” says Olivier Caix of DIANA Ingredients. The company as a whole has to be a reassuring entity that engenders a feeling of safety and trust. If a problem arises, an individual should feel free to seek help from colleagues. Zouheir Chebl, Senior Vice-President of SNC-Lavalin International, recalls that Jacques Lamarre, the company’s former CEO, used to say, “If you have a problem, don’t be shy. We’re not here to penalize you; we’re here to help you. Let’s try to find a solution.” The people who get themselves into a jam aren’t the ones who encounter difficulties when carrying out a project; they’re the ones who wait too long to ask their colleagues for help.

Pascal Piriou, of Groupe Piriou, regularly travels to Nigeria to lend assistance to his troops. “I go there often to show that I’m not afraid of being there, that it’s safe. Like a general who goes to the front, I believe such gestures reassure my expatriates’ immediate families. I don’t leave them alone. I support them and reassure them.”

**Consultancy**

When HIG Global considers an acquisition, Denis Hébert frequently consults his colleagues at head office about the challenges of international tax laws. “The estimated financial return on a transaction can vanish if you don’t consider the tax impacts when you perform due diligence. So I always consult them,” Hébert explained.

At Keolis Group, even though major bids are co-ordinated by local teams, head office reviews their paperwork. Because the company takes part in many tender calls around the world, head office can make constructive recommendations to enhance the profitability of proposed investments and manage the risks.

The company has also set up the Keolis Institute, a training organization whose 2010 budget was €10 million. The Institute’s courses include intercultural management for executives who work in the international arena, to help them gain a better understanding of their associates’ culture and develop their own networks. The Keolis Institute also offers training in project management, bid preparation and other areas.

**Unification**

Olivier Caix of DIANA Ingredients asks himself several questions. What do we share? What is our common strength? What do we cultivate as common projects? He believes one must answer these questions to define the advantages of joining forces. DIANA has adopted a common mission for its group, Performance from nature, as well as a shared product line, a single business model and common values. These flow outward to each division, which must translate them into a business plan and a roadmap covering several large projects. According to Olivier Caix, the ability to “cultivate people’s common sense” is key.

Thomas Kloibhofer, Co-President of Competence Call Center, starts from the principle that a senior manager must constantly emphasize everything that brings people
together as opposed to that which divides them. “You can discuss cultural differences ad infinitum. But do you have a common will to win? Do you know how to convey your values and culture, how to remind people of the stories of your victories and heroes?” Kloibhofer cites the example of soccer teams whose players come from a dozen different nationalities. Ask yourself this question: do they spend their time trying to reconcile their cultural differences? Of course not. They go about practicing and, together, they learn how to win, how to become the best in the world at their discipline.

Kloibhofer believes that the main purpose of a head office is to tell the stories of its heroes, who are the ambassadors of the business; it is crucial to transmit the heritage and values they embody. For many years, Competence Call Center has been widely disseminating three stories:

- Thirteen years ago, the Chief Operating Officer wanted to show his teams the importance of dedication and customer service. He went to one of his call centres and spent more than 24 hours taking 1,000 consecutive calls, without a single break.
- The first award earned in the history of Competence Call Center was second place in the “business partner of the year” competition held by T-Mobile, a major cellular telephone operator. Was management satisfied with this recognition? Of course not! At Competence Call Center, they’re satisfied with first place and nothing else. Since that first “disappointment,” the company has dominated this category five times.
- In June 2009, Gregor Willenberg, a company employee, was named Best Contact Center Support Professional-IT at the World Contact Center Awards ceremony in Las Vegas. He’s regularly held up as a model employee.

In communicating these stories, Competence Call Center promotes a culture that values outstanding performance, determination and the desire to win, quite apart from cultural and individual differences.

“You can discuss cultural differences ad infinitum. But do you have a common will to win?”

Thomas Kloibhofer, Competence Call Center
The complexity of the transnational corporation involves forms of organization that go beyond the dilemma of centralization versus decentralization. In contrast to the us-versus-them approach, which pits executives at head office against those at the subsidiaries, the successful corporation is characterized above all by cooperative relationships. These relationships may give the subsidiaries considerable independence. They may also leave room for centralized decision making. How do you strike a balance between the control you exercise over national subsidiaries (or divisions) and the independence you grant them? It’s a question many senior management teams have grappled with.

In 1987, C.K. Prahalad and Yves Doz described two types of pressure that corporations must deal with. They believe a corporation is subject to global pressures that push it to integrate its operations, to make them interdependent by concentrating them in a single site, for example. Pressures pushing it toward integration of targeted activities include global competitors, homogenization of customer needs throughout the world and high levels of capital or R&D investment. But the corporation is also subject to local pressures, which drive it to make its activities more independent and flexible. It then bends to local pressures, such as compliance with the laws of a country or the need to adapt its products to the specific demands of each market.

In brief, the TNC tries at the same time to integrate some activities into the corporation as a whole and to adapt others to the particularities of its local environment. Such duality should never be perceived as an obstacle to the corporation’s cohesion but as an opportunity to reduce, if not eliminate, the friction between head office and the national subsidiaries, to ensure that the needs of the one are not met at the expense of the other. A successful TNC masters this duality, much like a pendulum that swings back and forth from the one extreme to the other. But be careful of simplistic advice and trendy slogans along the lines of “think global, act local” because the reality is far more complex.

Take a look at the analytical grid in table 7 on page 72. For each operating activity (table 3, page 46) and as a function of 10 different sources, it will enable you to determine which of these two pressures – global integration or local flexibility – is more likely to prevail. This is the first step to identifying the degree to which an activity should be centralized or decentralized.

Why does the analytical grid apply only to operating activities (table 3, page 46)? Simply because such activities are subject to external pressures. They are also the ones most likely to generate discussions of the tradeoff between global integration and local flexibility. The three other types of activity (strategic, financial and support) serve as a base for internal clients and are often quite centralized. Moreover, they are not in the least controversial.
To determine whether to centralize or decentralize an operating activity, you can analyze it using the 10 sources of pressure in table 7 on page 72. You can even build a scorecard. In this way, an operating activity should be decentralized if the 10 sources of pressure are pushing the TNC in the same direction (for example, toward local flexibility):

- The activity is subject to several trade barriers;
- The level of investment required is low;
- Customer needs are varied;
- Most of the customers are local SMEs;
- The psychic distance between your company and your customers is great (remember the CAGE acronym presented in box 4 on page 54);
- Senior managers have little knowledge of local sales and distribution networks;
- The main source of differentiation is personalization;
- Your main competitors – the most ferocious ones – are local SMEs;
- Quality information is hard to come by because the markets are opaque; and
- Information gathered in the field rapidly becomes obsolete.

A score of 100 represents extreme decentralization. In reality, however, the assessment rarely indicates either extreme: the 10 sources of pressure may be pushing you toward integration or toward flexibility. What should you do if the score for an activity falls between 30 and 70? You’ll have to examine the shades of grey and find the best way of decentralizing. That is the second step.

The three main types of decentralization – deconcentration, delegation and devolution – each have different characteristics.

**Deconcentration of Power**

Deconcentration, considered the weakest form of decentralization, allocates decision-making power geographically between employees at the central head office and those at the regional head offices (think of ASSA ABLOY’s regional head offices). In this way, a central head office may employ personnel (such as a financial controller and a human resources director) who work in different countries, regions, subsidiaries, divisions or plants. In other words, the geographic dispersion of an activity – or a power – is not always synonymous with pronounced decentralization. Instead, geographic dispersion enables senior managers at head office to have eyes and ears in the field.

**Delegation of Power**

Delegation of power is a more advanced form of decentralization. With delegation, the head office transfers the decision-making process to semi-independent units that are ultimately accountable to it. Head office delegates responsibilities when it creates national subsidiaries, divisions or special units responsible for carrying out projects. Generally speaking, such entities have a great deal of discretionary power to make decisions. Even so, they operate with constraints.

**Devolution of Power**

Devolution is a third type of decentralization. When head office decentralizes an activity, it transfers all decision-making powers and management authority to that unit. In a system that is decentralized by devolution, the leaders of the local units have specific and legally recognized geographic boundaries within which they exercise their authority. This is the strongest form of decentralization because authority is transferred fully to independent units.

To illustrate these concepts, let’s study what the TLD Group has done over the past 10 years. The following description of events shows how Jean-Marie Fulconis gradually changed the balance of power between head office and the divisions/business units to enable the TLD Group to become the global leader in aviation ground support equipment.

After working for the TLD Group for several years, Fulconis – dissatisfied with the path it had taken – left the company in 1997 only to return in 2001 as President. When he returned, TLD was in crisis. Let’s see why.

Originally, the TLD Group was the result of the merger of several companies (AET, Devtec, ACE Nordco and Cochran Lantis) that were never integrated. Fulconis took an objective look at TLD when he began its transformation. “We were just
a collection of companies running out of steam. We were losing customers and our product line was inadequate. Ten years ago we were third in the world.” All the companies acquired by the group continued to operate independently. Excluding the roles of the President and his two Directors (finance and legal), head office’s contribution was almost non-existent. In short, there had been a complete devolution of power; as we have just seen, that is the most pronounced form of decentralization.

The devolution of power was such that TLD was a prisoner of decision-making shackles that were poorly adapted to its reality. As evidence, the company was static despite the many global integration pressures affecting it (table 7, page 72):

- The investments required for product design are very high in relation to their commercial potential. TLD operates in a global, small-volume market;
- Its customers are airlines, airports, cargo airlines, ground handlers and military organizations. They expect a constant level of quality throughout the world;
- Its customers’ needs are fairly homogeneous, which enables TLD to define international standards. Because its products do not lend themselves to being shipped by container, TLD requires judicious efficiency-market pairings. Its assembly units are therefore geographically scattered;
- TLD’s customers are subject to strong cost pressures, so price is a determining factor in their decisions to purchase new equipment. TLD must offer an excellent quality-price ratio; and
- Several of the group’s plants source their inputs from common suppliers. TLD has to be able to manage them in a coherent way and speak to them with a single voice.

In 2001, TLD’s new President had no doubts: the company had to change. But how? “In 2002, we stopped using the traditional brands of the acquired companies and replaced them with a single brand: TLD,” Fulconis explained. “During that time, internally, we had timidly started up several specific missions. We didn’t want to hire people immediately at head office and impose a matrix structure, because that wouldn’t have gone over well.”

At that point Fulconis proposed that, in addition to their daily duties, all the executives assume transversal missions, such as writing a TLD manual to document key processes, define best practices and so on. Fulconis hoped they would quickly draw two conclusions: 1) that the missions were so difficult that head office had to hire full-time resources to be assigned to them; and 2) that the missions were essential to the group’s success, but not feasible if everyone didn’t co-operate with conviction. The executives gradually arrived at the conclusion that, to move forward, they had to learn how to play as a team. It was a vital transition. Various functions had to be mutualized; otherwise, success would have been impossible.

In 2003, TLD launched an ambitious industrial program called Regional Assembly Network Global Engineering Resources (RANGER) so that it could assemble, on several continents, products meeting international standards: ground power units in the United States, China and Argentina; belt loaders in Europe, China, Canada and Argentina; lavatory and water trucks in Europe, China and Canada, etc. At the same time, the role of head office gradually expanded beyond the financial and legal functions. TLD hired several people:

- The RANGER program’s Technical Director, who is responsible for the product development and continuous improvement program;
- An Information Technology Director, responsible for connecting all the acquired companies with a single integrated management system and a single technical database;
- A Chief Purchasing Officer, responsible for a procurement unit in China (for standard components), common processes used by the plants and integrated supplier management;
- A Customer Service Director, responsible for co-ordinating the parts department; and
- A Vice-President of Military Sales and Marketing.

These hires enable the company to develop all the processes and systems common to everyone at TLD. These are common transversal functions.

But that’s not all. TLD also overhauled its organizational structure. The TLD Group now has three regional divisions responsible for sales, distribution and customer service: 1) TLD America, with its headquarters in Windsor, Connecticut; 2) TLD EMEA (Europe, Middle East and Africa), based in Rungis, France; and 3) TLD Asia, whose headquarters is in Hong Kong. Three regional CEOs oversee about 30 sales and service offices around the world.

TLD also has six business units (each manufacturing facility being a unit) in Montlouis-sur-Loire and Saint-Lin (France), Shanghai and Wuxi (China), Sherbrooke (Québec) and Windsor (Connecticut). A General Manager heads up each of the six units.
How are the powers allocated between the Directors at head office, the three CEOs of the geographical divisions and the six General Managers of the business units? All-out devolution of powers has gradually been replaced by a matrix structure:

- **Centralization**: Financial and legal activities continue to be completely centralized at head office. In this area nothing has changed.
- **Deconcentration**: 1) Sales, distribution and customer service operations have been de-concentrated in three geographic divisions; 2) the Vice-President of Military Sales and the Customer Service Director manage the resources, but they are spread over three geographic divisions; 3) the Technical Director, the Information Technology Director and the Procurement Director also manage teams divided among the six business units (plants). All the executives at head office support the geographic divisions and the business units. Since their resources do not “belong to them,” they must demonstrate influence.
- **Delegation**: The six General Managers responsible for procurement, design and assembly from each business unit report directly to the three CEOs. The units are also accountable to the geographic divisions. For example, in concert with senior management at head office, the three regional CEOs regularly assess how well the six General Managers of the units (plants) collaborate.

By refocusing in this way, Fulconis succeeded in turning the company around by giving it a spine. Using the vocabulary of genetics, we would say that TLD Group’s DNA didn’t have a twisted double helix! But TLD has changed. By giving itself a solid framework, TLD has increased its revenues to €170 million, expanded its staff to 900 and developed the broadest and most reliable network in its industry.

Let’s sum up the two steps that enable us to resolve the dilemma of centralization versus decentralization. The first step involves determining, for each operating activity, which of the two pressures (global integration or local flexibility) is most likely to take precedence. Then you must look at the details and find the best way of decentralizing (deconcentration, delegation or devolution). You’ll have to revisit this matter regularly and repeat this two-step analysis because the sources of pressure will change constantly and so will your company.
### Analytical Grid to Evaluate the 10 Main Sources of Pressure*

**Table 7**

<table>
<thead>
<tr>
<th>Characteristics of operating activity (table 3, page 46)</th>
<th>Pressure of global integration</th>
<th>Continuum</th>
<th>Pressure of local flexibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intensity of trade barriers (quotas, protectionism, tariffs, work force’s low mobility)</td>
<td>Weak</td>
<td></td>
<td>Strong</td>
</tr>
<tr>
<td>Investment level required ($)</td>
<td>High ($)</td>
<td></td>
<td>Low ($)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Characteristics of market and competition</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer needs</td>
<td>Uniform</td>
<td></td>
<td>Varied</td>
</tr>
<tr>
<td>Prospective customers</td>
<td>Large global companies</td>
<td></td>
<td>Local SMEs</td>
</tr>
<tr>
<td>Psychic distance with respect to the customer</td>
<td>Weak</td>
<td></td>
<td>Strong</td>
</tr>
<tr>
<td>Degree of familiarity with the sales/distribution network</td>
<td>High</td>
<td></td>
<td>Low</td>
</tr>
<tr>
<td>Source of differentiation</td>
<td>Price</td>
<td></td>
<td>Personalization</td>
</tr>
<tr>
<td>Source of competitive intensity</td>
<td>Large global competitors</td>
<td></td>
<td>Local competition (SMEs)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of information</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree of visibility (ease of obtaining quality information)</td>
<td>Transparent (easy)</td>
<td></td>
<td>Opaque (difficult)</td>
</tr>
<tr>
<td>Information’s speed of obsolescence</td>
<td>Slow</td>
<td></td>
<td>Fast</td>
</tr>
</tbody>
</table>

* To assess each activity, this grid can be used as a score card with a scale ranging from 0 (high degree of global integration) to 100 (high degree of local flexibility).
In an era of economic globalization, many companies will have to develop the genes to succeed in the international arena. Very few will be able to ignore this reality. Entrepreneurs who are experiencing the effects of global competition but so far have made no move will have little choice: they must take their future in hand.

Some believe that foreign direct investment is detrimental to national economies and that domestic operations are hollowed out by externalization. But this narrow vision of the world is vigorously contradicted by the experience of the 27 business leaders interviewed for this study. Their companies alone generated combined global revenues of $43.7 billion in 2010. The avenues they have taken show that their domestic operations benefit from a direct foreign presence, especially through the multiplication of genes that enable them to conquer new markets, achieve efficiency gains, obtain direct access to resources and expand their knowledge base.

Globalization offers many opportunities and countless challenges – challenges that are within your reach, if you make enough effort and invest your resources in the right places, in other words, if you develop the DNA of a global player.
For more than 12 years, Dominic Deneault has been offering strategic advisory services to entrepreneurs and executives in many sectors.

He specializes in mandates involving strategic planning, market analysis, feasibility studies, market-entry strategies, economic development strategies and business plans.

He is the founder of his consulting firm TREBORA Conseil, which specializes in strategy and sustainable governance. He is also the author of Le Québec sur le podium: Comment les entreprises d’ici réussissent dans l’adversité, published by Editions Transcontinental.

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The Caisse is here to serve you – not just in your Québec operations but also in your endeavours to expand internationally.
Are you captivated by the challenges of globalization? If so, *The Transnational Corporation: Developing the DNA of a Global Player* was written for you. This ambitious study will show you the success formulas of 27 European and Québec executives. It will take you to the heart of winning companies, one gene at a time!

Using numerous actual cases and drawing parallels with the DNA of living organisms, this study provides practical answers to five fundamental questions:

- What are the qualities of a leader who succeeds in the international arena?
- How can you make a transnational corporation more competitive?
- Which genes are the source of foreign direct investment and how can they be combined to enhance business performance?
- What are the main activities and functions of a head office?
- How can senior management cope with the diverging forces of centralization and decentralization?

Once you’ve read this study, it will be up to you to apply the advice that is most relevant to your company; no one else will do it for you. We hope it will provide inspiration and motivate you to begin, or to continue, your conquest of markets beyond our borders.