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Global Tilt: Leading Your Business Through the Great Economic Power Shift

Ram Charan

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Summary by Lois Gilman

As world influence tilts away from the traditional Western powers and toward upcoming nations and companies in the South and East, having a keen understanding of the nuances of culture and government beyond your home base is critical. Business adviser Ram Charan brings this to life in his recent book, Global Tilt, which explores the implications of the shift and provides guidance for business leaders on how to succeed in the tilted world.

The following is a chapter-by-chapter synopsis that is designed to help you dive quickly into the content of the book. We hope that this will allow you to extract the greatest insights from it in the most efficient manner possible, and help you find the sections of the book that will be of most value to you.

About Ram Charan

Ram Charan is a world-renowned business adviser, author and speaker who has spent the past 35 years working with leading companies and CEOs around the world. Charan is known for cutting through the complexity of running a business in today's fast-changing environment to uncover the core business challenges and devise real-world solutions that are practical, relevant and highly actionable.

contents:

Ram Charan's *Global Tilt: Leading Your Business Through the Great Economic Power Shift* opens with the author's map of a "tilted" economic world and with his definition of the global tilt. In his tilted world, the 31st parallel is the demarcation line for the economic shift in business and economic power that separates the North and the South. The U.S., Western Europe and Japan are above the economic tilt, while Mexico, the Middle East, China, India, Brazil, sub-Saharan Africa, Indonesia and South Africa are below.

On the page facing the map, Charan offers his definition of the global tilt, then explores the facets of it in the chapters that follow. He defines the global tilt as:

1. The shift in business and economic power from countries of the North to those below the 31st parallel
2. The greatest change in business history
3. A call for leaders to abandon old mind-sets, rules of thumb and assumptions about the relationship between the two
4. The result of unstoppable forces, including the unleashed energies of the South, demographic shifts, the volatile global financial system and digitization
5. The opening of mega-opportunities for those who can handle complexity, speed, volatility and uncertainty
6. The spur to radical changes in strategic thinking, leadership and an organization's social system

“This book is both a guide and a tool kit to help you make a difference in your company,” writes Charan. “Its ultimate purpose is to show how you can share in the stupendous opportunities … For most business people the tilt will present the biggest challenge of their careers.” The book examines the “seemingly unstoppable forces of change that drive the tilt” and suggests how to understand “why they matter to your business.” And it looks at the new leaders of the South taking advantage of the trends.

“The second part of the book gives you practical advice for succeeding in the tilt. You’ll learn why old ways of thinking about strategy fall short in this environment, and why you may need to jettison your beliefs about core competencies so that you can consider making bolder moves, maybe even a big strategic bet. You’ll need to hone different leadership skills … You’ll discover why the shifts in power, resources and behavior should be in place within your organizations before a change in structure. Finally you will pick up pointers and ideas from several companies of the North that are meeting the challenges of the tilt.”

Charan thus divides the book into two parts: “Welcome to the Tilted World” (Chapters 1-3) and “How to Succeed in the Global Tilt” (Chapters 4-7). He concludes the book with a look at “Your Global Future.”

chapter one:

change you can’t ignore

The transfer of technology, managerial know-how and capital once flowed from West to East, but a shift has occurred. Now, wealth and jobs are moving from North to South. In the South there is energy, optimism and excitement in the air. The South is driving change; the North is afraid of it.

The new dynamics: Even companies that consider themselves domestic need to understand the ways global competition and economics will function in a tilted world:

- The world is in an inevitable transition to a more even distribution of opportunity and wealth.
- The global financial system is highly unstable.
- There is a war for jobs among countries.
- Many countries below the 31st parallel are creating their own rules of the road and executing their growth plans to win jobs and resources.
- Companies are competing against countries—not just other companies.
- Northern companies may be building their future competition in exchange for access to markets. For example, Boeing and Airbus were welcomed into China to build aircraft plants. In 2016, however, the Commercial Aircraft Corporation of China (COMAC) is expected to compete head-on with them when it releases a homegrown narrow-body plane.
- Political power, along with economic power, is shifting. The influence of the U.S. in the South is seen to be in decline.

A call to action for the North: Charan believes that there is a "narrow window of time in which to make a decisive tilt in your approach to running the business … Your leadership must start with a clear grasp of the global context … The answer lies in fundamental changes in how you think about strategy, as well as changes in power, resource allocation, and decision making, and in your personal development as a leader." He emphasizes that "taking advantage of the tilt's growth opportunities requires leaving your comfort zone and getting the timing and direction of those organizational shifts right."

In the changing global context, young companies in the South are capable of competing head-on with North-based giants. In the new global landscape:

- Singapore is a financial center for Southeast Asia.
- Taiwan is a dominant player in semiconductors.
- Brazil is successful in building regional jets while Vale has been meeting China's surging demand to become the world's largest producer of iron ore.
- China has pushed domestic competitors in autos to consolidate to achieve scale and is attempting to do so in rare earth minerals.
- South-based competitors have the capital they need for their rapid expansion and have price-earnings ratios much higher than their peers in the North.
- The South has its own economic ecosystem—which is only partly defined by its relationship with the North. These Southern countries have their own Southern economic orbits. Warns Charan: "Rolling all Southern countries into one lump designated as 'emerging markets' makes you vulnerable to being outmaneuvered by local competitors and savvy global players who have already occupied key spaces."

Dissecting the tilt: Leaders will need a new skill: "understanding and anticipating the global business context." They must detect trends that cut across both industries and countries, and challenge familiar economic and business principles. Leaders have to be on the lookout for pivotal single events. They must be geoeconomically and geopolitically literate—understanding, for example, trade patterns, the government's changing role in economic activity and the global financial system.

The difficult road to a more equal world: With the tilt comes a worldwide expansion of wealth and opportunity to millions who are being lifted out of poverty and into a burgeoning middle class. The gap between wealthy and poor nations is narrowing. There is the change in the purchasing power parity of people in their home countries as well as the increase in education—with technical education occurring in the home country rather than in the North. Parity is slowly happening in internal infrastructure, distribution channels, health care and capital markets. At the same time, trade imbalances are multiplying in size and number—but they are not North to South. In 2011, Germany and Japan had trade surpluses, while the U.S., Britain and India had hefty trade deficits.

"While pessimists may worry about trade and investment flows leading to a zero-sum game" Charan maintains that the result of "the pie expanding at an extraordinary rate" is "an epic opportunity to the people of the South—and no shortage of opportunities for the businesses of the North with the skill and gumption to pursue them."

chapter two:

what you need to know first

Regardless of your position, a solid grasp of the dynamics and rules that are causing the tilt is critical for planning and operating in the new global environment. In order to attain this understanding and operate effectively, executives must step back and take a larger view of their situation and the trends that are affecting it.

The forces of change: Stepping back requires moving to a higher plane to view what's going on and recognizing the important forces driving change:

- The global financial system
- Competition among countries playing by different rules
- The expanding footprints of digitization and mobile communications and the wave of innovation they unleash
- Changing demographics
- The pressure on resources and their prices

The global financial system—a financial system at risk: The global financial system is huge; has been growing with breathtaking speed; is so interconnected, complex and lacking in transparency that experienced experts struggle to understand it; and it is frighteningly unstable.

- Many players direct the flows of money, and these sources can combine through partnerships to create even bigger flows of money to fund investments of unprecedented scale so that a small competitor can become a global powerhouse.
- Mobile capital has driven the growth and fueled the tilt.
- The speed and efficiency with which money moves around the world is a marvel but volatility is its dark side.

The global financial system—why money is moving South: Money in the past decade flowed to the BRICs, but recently the CIVETS—Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa—became the hot new targets. Cross-border investment in financial assets is going South, and Southern stock exchanges have blossomed.

The global financial system—dangerous instability: The financial system is overseen by totally uncoordinated players, and several stakeholders outside the system also wield enormous influence. Control of the financial markets is also concentrated in a small number of extremely powerful firms.

The global financial system—thinking it through for yourself: Use "the insight and information the experts provide to form your own view of the total system, seeing patterns at the highest level and crystallizing what really matters."

Different countries/different rules—the state intervenes: Protectionism is commonplace, ranging from the minimalist role of the U.S. to Cuba's and North Korea's authoritarianism. Businesses may find themselves caught in the crossfire. Notes Charan: "If governments practicing state capitalism can execute, they have one notable advantage in the global marketplace: decisiveness."

Different countries/different rules—the challenge of Chinese capitalism: China is the paramount practitioner of state capitalism. It has the economic clout of a major trading partner yet relies on the competitive tactics of an upstart. It combines:

- Well-informed and pragmatic planning by world-class experts, including consultants from the North
- A political architecture that coordinates governmental bodies and holds them accountable
- An execution machine with rewards and punishments from the central level to the local
- A hybrid form of business enterprise that blends business and government

Charan doubts that China's version of state capitalism is a winner, but, "for you as a business leader, long-term success in the tilt means staying alert to the tactics countries use to bolster their own economies while building a business strong enough to win customers now and in the future."

Digitization will revolutionize your business: "Digitization is making opportunity more ubiquitous," maintains Charan, "allowing new forms of value creation and changing the composition of the global economy." The results of digitization will be:

- Business's ability to build products where customers are located, speeding the innovation cycle, redefining supply chain and distribution logistics, driving costs down and making a wider variety of goods available
- The ability to create an entire new global industry from scratch in just a few years
- Internet marketing rewriting established rules of selling
- Mobile technology enabling consumers to get information
- Social networking becoming a game changer
- The ability to compile and manipulate increasingly large data sets—big data—that reshape business activity

"The most dramatic change of all," observes Charan, "may be the power of digital technology to create structural changes in the composition of national economies." He cites the strides mobile communications networks are making in Africa as an example, where a lack of infrastructure had previously inhibited the spread of information and medical care.

Innovation unleashed: Charan predicts that the new world economy will see invention of a type and scale never seen before, much of which will occur at the local level. Observes Charan: "We are entering a new era of innovation, in which entrepreneurial individuals, or 'catalysts,' within big companies are using those companies' resources, scale and growing agility to develop solutions to global challenges in ways that few others can."

Changing demographics—billions of new consumers: Charan draws upon a 2011 report by Homi Kharas and Geoffrey Gertz of the Brookings Institution, which states that "by 2030, 5 billion people—nearly two thirds of the global population—could be middle class.'"

This new middle class will be:

- Increasingly urban; according to WHO, 53 percent of the world's population now lives in cities and that figure is expected to rise to 75 percent by 2050.
- Relatively youthful, as the average age in some of the largest countries of the South is considerably younger than in the North.

Jockeying for resources: The competition for resources—including not only natural ones, but also technology and talent—is likely to spread among nations. Vertical integration is being revived as a defense mechanism.

Sorting the ongoing challenges—the unstoppable trends: The major trends that seem unlikely to reverse are:

- The march toward economic parity of nations and the rise of the middle class
- Intensifying competition among countries for jobs and resources
- Continuing imbalances in trade and discrepancies in national growth rates
- A shortage of leadership talent and skills in high-growth countries
- Continual interconnectedness and disequilibrium in the global financial system

Charan urges that "if you accept the trends I've identified, consider the implications not only for your company and your industry but also for the policymakers whose actions will increasingly affect your plans." Leaders must evaluate their own situation and ask their teams to look at what is happening in the world, in theirs and other industries, and narrow the trends down to a handful that their group can agree on. Leaders need to avoid getting absorbed in the volatility of trends; Charan believes that what makes a leader exceptional is "the mental and psychological ability to cut through the gyrations" to keep focused on the big picture.

chapter three:

the new power of the south

Charan focuses on the South's tough competitor companies, the trailblazers who are positioning themselves to become global leaders in their industries. He examines their best practices and managerial tools—and their leadership psychology. These empire builders, raised in countries such as India, China, Brazil, South Africa and Malaysia, "are especially well equipped to seize big opportunities, not just because of where they live but also because of who they are—a potent mix of ambition, tenacity, and business savvy, often shaped by conditions of hardship and scarcity."

Southern characteristics: These Southern companies often seek the advice of investment bankers and consultants, many from the North, to identify opportunities and use partnerships, joint ventures and licensing deals to establish themselves in a market or industry and scale up. They move fast—and hire talent that fits their needs.

This chapter provides examples of Southern companies on their way to being No. 1 or No. 2 in the world. Charan also highlights that these new competitors:

- Are expert at learning new businesses
- Can buy their way into the big leagues
- Can win by encircling dominant players and aiming higher
- Can create innovative new business models

"Southern companies," writes Charan, "are using inventive strategies and business models … They're imagining a very different competitive landscape ten to twenty years out and figuring out how they can participate in it. They consider what areas are most attractive according to their growth potential and what it will take to win in them. They think big, and with each new success they build confidence to pursue the next great opportunity."

Here's a closer look at some of these Southern companies and the people shaping them.

Expert at learning new businesses: India's GMR Group: GMR is a prime example of what Charan calls "large-scale entrepreneurs" (LSEs). These companies build large businesses based on the opportunities they see rather than the core competencies they possess.

GMR Group, a $10 billion global company based in Bangalore and India's largest infrastructure company, owns more than 100 businesses either directly or through its holding companies. The founder, G.M. Rao, moved into infrastructure in 1995 when the Indian government opened bidding to the private sector to build a power-generation plant in Tamil Nadu. His company had never built a power plant but it bid—and won. To succeed Rao turned to a former classmate with the right expertise, and committed human energy and resources that would not provide the company a payback for at least five years. The successful experience eventually led GMR to build two more power plants, then move into highway construction by partnering with a Malaysian road-building entity. It later moved into airport construction, once again taking on operating partners to provide the expertise the company lacked. The company's focus was always on what it could do better than others. Observes Charan: "In each new area GMR ventures into, it takes command, learns fast, and executes well."

Buying its way into the big leagues: Hindalco Industries: As Northern companies have come under pressure to divest divisions not pulling their weight, ambitious Southern companies have acquired them, integrated them quickly, taken corrective action and used them to further their ambitions. Hindalco, an aluminum company that is part of Aditya Vikram Birla and Kumar Mangalam Birla's AV Birla Group (now India's third largest industrial company), has come to dominate the industry and was helped in part by its acquisition of Novelis, a division of Canadian company Alcan.

When Kumar Birla took over the Aditya Birla Group in 1995, it was one of India's largest, but its businesses weren't globally dominant. Birla decided to use the company's cash to fund aggressive expansion of its core commodities businesses, particularly aluminum, copper, cement and fertilizer. After Alcan spun off Novelis, the world's leading producer of rolled aluminum products and four times Hindalco's size, Kumar Birla made his move to aquire it. The action "turbo-boosted" Birla's status in the global aluminum market.

Encircling dominant players: AB InBev: This company's expansion illustrates how a Southern company can overtake a financially healthy, but complacent, No. 1 company in the North. Charan makes the analogy to Mao's strategy for winning in China: focusing first on the countryside, then encircling and conquering the cities.

The man behind the success is Carlos Brito, the empire builder who started with leadership of Brazilian brewer AmBev, expanding the company in South America. AmBev then sold itself to Belgian brewer Interbrew; the company was renamed InBev. Then it went out to acquire U.S. brewer AnheuserBusch to become AB InBev. Notes Charan: "Anheuser's managers didn't see the power that overseas competitors were amassing. They lost the vision, drive, and boldness that had built their business."

Winning by aiming higher: Haier Group: This Chinese company, led by CEO Zhang Ruimin, has grown to be the world's largest maker of white goods (large appliances). "Zhang built his brand by offering high quality, innovation, and impeccable service that could command a premium price," says Charan.

The now-$18 billion company began as a nearly bankrupt municipally owned refrigerator company in Qingdao. After Zhang took over in 1984 he focused on quality. And in the 1990s, with an up-to-date new plant, he expanded the company's range of products and began buying underperforming Chinese appliance makers and turning them around. By 2011, Haier had 61 trading companies, 24 manufacturing plants, 10 R&D centers, 21 industrial parks, and more than 70,00 employees.

Haier's strategies for going global have been:

- Differentiating itself by identifying customer-pleasing innovations and speeding them into production (e.g., in Korea, a refrigerator compartment for pickling Kimchi cabbage)
- Creating "smart" appliances

- Finding niche products (In the U.S., Haier has made compact refrigerators for offices and dorms, as well as wine coolers.)
- Organizing the company into self-managing teams, each focusing on a retailing customer or group

Creating innovative new business models: Bharti Airtel: In 2010, Indian entrepreneur Sunil Mittal, who had built his telecom company from scratch, paid $10.7 billion for Zain Africa. This propelled Bharti Airtel into fifth place among global telecoms; by November 2012, the company had become the No. 4 mobile phone operator.

From the beginning Bharti focused on consumers and was willing to operate in remote, marginal areas. "Learning and winning on the periphery would prepare him to win in the most densely populated, most potentially profitable circles." Key elements of Mittal's strategy include:

- Speed: Getting the network up first and then broadening the reach, rolling out new networks, new applications and new pricing strategies before the competition. Charan quotes Mittal: "'If you're caught between speed and perfection, always choose speed and perfection will follow.'"
- Staying close to the customers by using local managers: Rather than treating India as one uniform consumer landscape, Mittal recognized the variations in the country state to state.
- Outsourcing the entire delivery system to other companies: For example, farming out the IT systems to IBM and the network building to Ericsson and Nokia Siemens.

This "breakthrough" model "reduces the capital intensity of the business by an order of magnitude, allowing the company to expand faster." Its supplier partners, rather than the company itself, invest in and manage the infrastructure. When Bharti Airtel moved into Africa, Mittal sent Manoj Kohli, one of his top executives, into the territory to expand the much smaller acquisition and to instill in Zain's employees the company's point of view. Much like the regions of India, each country in Africa required a brand-new mind-set. As Kohli went to each of the 17 African countries and learned the local context, he had to devise a new way of building the business.

chapter four:

outside in and future back

It is estimated that the total world economy will be around $85 trillion in 10 years. To be competitive in the global economy, companies will need to adapt. The life of a strategy is getting shorter. New and creative models are emerging, while old ones are heading for the trash heap. Staying ahead of the game requires “fresh thinking, attention to innovation—your own and others’—and expanding your horizons.”

It’s time to unlearn old lessons—the core competencies business premise is a reliable guide to incremental growth, but “there is a flaw”: Charan believes that the core competencies premise, which Gary Hamel and C.K. Prahalad introduced, makes leaders internally focused and biased toward leveraging existing capabilities. “This internal orientation puts you at risk of missing serious threats to the core business, some of which might require new capabilities.” In the case of Kodak, the CEO George Fisher saw the opportunities provided by China—thus expanding Kodak’s core business—but failed to confront the bigger problem: the shift to digital photography. Kodak remained one among many players; the consequence: a bankruptcy filing in 2012 and the selling off of the great innovator’s patents.

Contrast this with General Electric, which sold its core plastics business to SABIC (Saudi Basic Industries Corporation) for some $11 billion after GE’s leaders realized that plastics’ core competencies would no longer be differentiated and would face stiff competition. Says Charan: “Astute leaders who have the discipline and courage to shed a core competency that is becoming obsolete or marginal can make the transition successfully and even profitably.”

Looking "outside in": "The tilt creates an imperative for all leaders, from frontline managers to the CEO, to look at the business from the 'outside in,' that is, through the lens of a leader sitting elsewhere and looking at the global changes uncontaminated by your underlying assumptions and rules of thumb." This fresh look helps you detect not only threats but also opportunities.

Your changed viewpoint—"future back": "You must extend your time horizon as you assess the world and imagine what the competitive landscape will be some twenty years out. Then jump back to consider its implications for the present." With this fresh look, equally important as "outside in," you must:

- Think about the size and characteristics of markets from the picture frame of the future. Where would you want to be?
- Work backward to what you must do now to get there.
- Think about the capabilities you'll have to build to take you from where you are to where you'd like to be.
- Consider what great capabilities your company has that won't really count much in the future.

Using this wider lens, "future back is the exact opposite of focusing on the core capabilities you have now and seeking ways to extend them into new areas—usually adjacent markets, such as a brand that can be used in another segment of the company's current customer base."

Get ready for strategic bets that are game changers and entail considerable risk: "Strategic bets are big, bold moves that have the potential to shake up the company, the industry and sometimes other industries. Their purpose is to put the company on a new growth trajectory or take it off a downward path—or both."

Dow Chemical CEO Andrew Liveris took just this step when he acquired special chemicals company Rohm and Haas in 2008 in an all-cash deal for some $18 billion. Notes Charan: "The deal was in fact transformational; it set up a combined Dow-Rohm & Haas enterprise for better performance than either company might have expected alone and put the company on a growth track rather than a downward slide. Today specialty chemicals make up about two-thirds of Dow's revenue, up from 50% before the merger and Liveris says he is aiming to tilt the mix toward 80%." His move positioned the company for the new game just beginning to take shape and away from Dow's old game.

Leaders need to be prepared to make strategic bets:

- To mark off territory for a future gain
- To shed tired assets and move on
- Because the risk of not making a strategic bet can marginalize a business, meaning its value will decline and its fate could fall into the hands of a hostile acquirer, competitor or government

Fight the short-term beast: Wall Street thinks short-term, but other parts of the world think longer-term. IBM, Johnson & Johnson and Amazon.com build long-term into their budgets and all companies must. Use your own judgement, urges Charan. "Know where the business needs to be and what must be done to get there—and deliver both the message and the results with discipline."

Change your psychology: Many people have an outdated frame of reference—believing that the South will take a long time to catch up. Not so—some Southern companies have revenues high enough to be in the Fortune 50. China has strengths in automobiles, aircraft and pharmaceuticals; Brazil in regional jets; India in back-office automation, business processing and genetics. Chinese telecom equipment maker Huawei Technologies, for example, was rated in 2010 the fifth most innovative company in the world.

The reality for Charan is: "The growing number of businesses that outcompete the North with managerial prowess and technological sophistication. They have highly trained, entrepreneurial leaders who use outside experts to help them build fundamental business capabilities and processes."

The "outside in" and "future back" prescriptions: "Choose a central idea you want to pursue or a direction you want to move in, then work out the details and specifics to develop a full-fledged strategy that is unique to your company. Be sure to know what capabilities you need to build and what risks you're taking and how you'll manage them. Remember, it is ultimately leaders, not businesses, that compete. You'll need clear thinking and a willingness to stick your neck out to find the right path and the right pace."

"Then the universal business rule applies: You have to execute. No execution, no results." Execution, from Charan's point of view, means equipping people for transition:

- Changing their mind-sets
- Getting them to align with the new state you want to be in
- Understanding the social tools you need to do these things

chapter five:

mastering multiple contexts—leadership in a tilted world

The tilt has raised the bar on leadership and will require leaders to understand the many strategic and cultural contexts that frame business in different regions and countries. Says Charan, "The contexts include all the variables unique to each country, everything from how the government operates and who's who in the informal social networks to how distribution systems work and what gives local competitors an edge." Whether you are a manager moving into a broader opportunity in the South, a headquarters leader managing a business line, or the CEO, the basics—what Charan calls the "soft skills"—need to be focused on and practiced.

Rapidly mastering the local context—drilling to the specifics:

- Be a good listener and value local people. Often the most crucial part is understanding how decisions get made and how information flows among various participants.
- Avoid the trap of mixing largely in social networks of your own kind.
- Connect with people who can interpret information knowledgably and provide accurate qualitative judgment.
- Build a social network by finding mentors or creating an advisory group of people who can educate you about the decision-making by local authorities.

Creating a tangible vision that is communicable:

- Shape your vision with the participation of your key people so that you are building commitment and buy-in among them.

- Have clear milestones; lofty visions will be seen as hallucinations. Manoj Kohli of Bharti Airtel, for example, brought together the top 100 leaders during the company's first week after its takeover of Zain. They created the vision that "Bharti will be the most loved brand in the daily lives of African people by 2015."
- Have a clear, measurable vision linked to business priorities that helps execution by pointing employees and partners in the same direction.

Challenging your rules of thumb: Learning new rules, modifying old rules and killing others requires resilience and psychological flexibility.

Building your team—be a "global integrator": Build trust among people from different cultures and disciplines. Notes Charan: "A global integrator works with people individually and collectively, tapping their knowledge and expertise in searching out the right solutions and getting each of them to modify their view to get to the common end point."

Mobilizing your social organization:

- Ensure that communication—top down and bottom up—is filter-free
- Simplify decision-making and accountability.
- Get to know the natural talent, experiences and judgments of key players as well and rapidly as you can, and put them in the right places.
- Build credibility and trust by doing what you say, sharing both good and bad news, explaining clearly the rationale for your decisions.
- Resolve any tension with headquarters.

Establishing integrity is a huge positive for your success: Integrity, according to Charan, goes "beyond ethics and morality to include delivering what you commit to, saying what you mean, and being skillful when communicating with people in your social networks so you don't make promises you can't keep."

chapter six:

shifting power, resources, and behavior: the organization in a tilted world

When your goal is to have a fast, adaptable organization capable of dancing to the tilted world's new tempo, strategy is a key component. To formulate a strategy, leaders often think that their first step should be revamping the organizational structure. Charan believes that a more effective alternative is to focus first on changing the organization's social system.

Organizational shifts: Says Charan, "The guts of the social system are how its people and groups interact and make decisions—how information gets shared among whom, how tradeoffs get made and by whom, and whether behavior in those interactions create energy or drain it."

Three organizational shifts are necessary to take advantage of the tilt:

- Power: what decisions will be made, by whom, with what input, and where in the organization
- Resources: leaders, experts, funding
- Behavior: attitudes, habits, rules of thumb

By making shifts in the social system, leaders will see what type of organizational structure they need because they can judge what skills and expertise—and therefore who—should be in decision-making roles and where the roadblocks are. "My belief," asserts Charan, "is that driving the tilt in your organization's social system to achieve a better balance between the North and the South will lead you to the right organizational structure. It will likely be unique to your situation. The process of answering the questions this chapter poses will tell you what actions you need to take now."

Is your talent pool in the South strong and deep enough?

- Whomever is sent from headquarters must have the skills, personality and mind-set to compete against locals who may think big, be aggressive, be highly entrepreneurial, are accustomed to living on low margins, and are well-connected to high-level people in the country.
- When sending in top corporate performers, make sure that these individuals understand that performing well in the job can put them into the succession pool, providing their stay is long-term.
- When hiring a local leader who knows the local context, hire someone of high-enough caliber; a common mistake companies make is to aim too low. Leaders recruited in the South should be compensated at the levels that approach those in the North, have proper titles, and understand that their career trajectory is upward.
- Leaders assigned to the South should be expected to stay in their jobs long enough to build their top team and their own succession.
- Streamline reporting relationships. Top leaders in the South should not be constrained by too many layers of reporting nor feel buried by having to get multiple approvals.
- Signal the importance of the position, which affects recruiting and retention. It also opens people's minds at headquarters.

Do your budgets reflect your growth priorities?

- Develop a greater awareness of the social and political aspects of budgeting, which is a central tool of shifting resources. Do this on a prospective basis—not retrospectively.
- Recognize that a portion of the operating budget for a growth market in a Southern country is a strategic investment that will pay off in years—not months.
- Funding in the South by fits and starts is a recipe for disaster for retaining top talent and winning in the market. Make sure that leaders in the South are not shortchanged in the budget game.
- To be aligned with the company's growth goals, decisions about capital expenditure should also take into account North/South differences.
- Use discretionary funds to shape the organizational tilt.

Do key performance indicators (KPIs) and compensation reflect the changes you're trying to make?

- When tracking performance, remember that conditions in the South change faster and are much less predictable than in the North. Probe for the reasons behind any misses.
- Get feedback on qualitative factors such as behavior. Watch for collaboration—such as the willingness of a global unit or headquarters to share expertise with people in the South.
- Power sharing is critical and observable when, for instance, a leader allows the decision-making to take place in the South. If not, why isn't the leader doing so? Says Charan: "Such defensive behavior is precisely what prevents many companies from moving faster and better. It cannot go unchecked."
- In the South, keep a close eye on values: Is the person demonstrating corporate values and abiding by the company's code of conduct? Use site visits, for example, to observe and accumulate evidence.

Where are the blockages in the flow of know-how, technology and expertise?

- Leaders need to sample the organization's social system to identify blockages, whether organizational or behavioral.
- Use a pulse survey (a questionnaire that polls the doers, not just the talkers, through third party interviews) to identify blockages.
- A meeting every six weeks or so among people who need to collaborate is another means to identify blockages.
- Ask the right questions at meetings: How are we doing in capturing customers? What's happening on our top-priority projects? Says Charan: "The top leaders need to know that the organizational tilt is moving at the right speed and that the company is winning in the areas it's targeted—and if it isn't, why not."
- A by-product of the meeting mechanism is that it builds a common culture. The frequency of discussions also fosters a more informal environment.

Are your reviews helping you make the shift? Social mechanisms are great expanders of your capacity. Guidelines for turning these reviews into tools for making the organizational tilt are:

- Include more people from the South.
- Use reviews to learn and observe.
- Turn presentations into dialogue.
- Create linkages. Look for ways to connect the content of one review to another.
- Follow up each review with feedback to the individuals in real time.
- Consider if critical decisions are being made in the right way.
- Rethink what decisions need to be made at headquarters, at the regional or local level. Which require joint decision-making or collaboration and negotiation?
- Assume that you have strong leaders in place at the local level and empower them.
- Allow local leaders to hire and determine the compensation of key people to fit the local conditions without having to go to headquarters for case-by-case approval.
- Let local leaders adapt strategy to their conditions and determine execution.
- Give leaders close to the ground the power to deal with local competitive dynamics within general guidelines.

Charan concludes: "The changes you decide to make, in whatever sequence, will likely seem doable. Yet they will drive big organizational shifts. As those occur, the next line of action will emerge, and eventually you'll be ready to tackle organizational structure … the shifts in power, resources and behavior will make your company better able to compete in today's tilted world and make changes in organizational structure less ominous."

chapter seven:

northern companies at the front —making bets on market growth

Making partnerships and committing to markets early are two paths that Northern companies have taken to expand in the South. The pros and cons of each, as well as examples of how companies have approached them, are highlighted below.

Choosing partnerships: Some companies from the North make partnerships knowing that they are expected to share their technology and know-how but that in the future the partner may use this acquired expertise to compete against them. Companies make this calculated risk because a partnership is often the surest and best way to stay in the game, particularly if inaction would leave the company vulnerable to low growth and other players that might be making the deal.

Other companies forge partnerships because it ensures their survival in the face of the growing power of those who control the resources they rely on. Others have found partnerships the best way to move forward. North-South partnerships and supplier relationships are staples of the modern business landscape.

Choosing to commit to markets early: Committing to markets early—the so-called "'people first, hard investment second'" approach in which a company develops local expertise in advance of market growth and lays the foundation to expand in the local economy— is another path companies follow. Nestlé, Unilever, Coca-Cola, Colgate and 3M, for example, have identified markets where growth is likely to take off eventually and start in advance to build the local business–what Charan calls the "localization" model.

The logic of GE's challenging partnership: GE has partnered with Chinese companies—for example, the state-owned Aviation Industry Corporation of China. At the same time, the company is aware that aviation is an area China has targeted as strategic. In deciding to partner, there were two ways that GE could look at the issues: Would the deal mean that the U.S. would lose jobs to China, and would GE lose its competitiveness by giving away cutting-edge technology? Or, if GE didn't do a deal, would it concede the Chinese market—and lose its relative scale—to non-U.S. competitors? Charan outlines the pros and cons:

- GE wasn't afraid of partnerships as they were common in aviation and GE had been doing them for many years.
- In the near-term, GE would eliminate China as a competitor and gain a near-term source of revenue.
- Declining to partner with China could marginalize GE in its existing and potential markets and put it at risk of falling behind technologically. Where might it turn to pick up additional sales if it turned China—a huge market—away?
- Would staying away from the partnership give competitors—e.g., Japan's Mitsubishi, Canada's Bombardier—an additional foothold?
- A partnership would give GE access to engineering talent.

Concludes Charan: "The decision about whether to partner with AVIC ultimately boiled down to how GE would draw the lines around its future market. To frame it as a future-back analysis, the question was this: Should GE go for a larger share of its existing market or a smaller share of a much larger global market … Rather than being a U.S. company facing a new competitor out of China, GE Aviation would be a global company competing from a base in the South, where the biggest market was. And if the joint venture worked well, it could be a base from which to export to other growth markets."

GE also took steps to protect its future: "One was to insist on at least half ownership of the joint venture … another was to commit to staying at the leading edge through ongoing commitment to R&D. The joint venture is chartered to create and protect its own intellectual property, and will focus only on civil applications."

Why Borealis merged with the Middle East: Vienna-based plastics maker Borealis is now owned by the International Petroleum Investment Company of Abu Dhabi (64 percent) and by OMV Aktiengesellschaft, the leading energy group along the European growth belt (36 percent). "Along with opportunities," writes Charan, "the tilt exposes threats that, if not attended to, can restrain a company's growth. Borealis saw that its future would be limited because there were not enough attractive opportunities in Europe and because control of its raw materials had essentially shifted to the South. It couldn't plan to grow without dealing with that issue."

In 1998 Borealis and the Abu Dhabi National Oil Company formed a joint venture. Over the years a new ownership arrangement emerged, with more capital coming from the South and also shifting the center of gravity from the former European business to the Middle East. With this shift, career tracks changed; engineers and production experts had to live in the Middle East and adapt to the new culture. The company created training programs to help them do so. And mind-sets had to change as well.

Charan quotes Borealis CEO Mark Garrett on the company's change in perspective: "'In Europe, the U.S. and even China, the saying goes that time is money. But in the Middle East, the philosophy is different. They say time is coming to you, not running away from you. That's a crucial difference, especially when you're sitting on 10% of the world's oil. It is not in their long-term interest to force their gas fields to overproduce. They believe what is best for them is a steady and consistent development over time. Borealis would never propose things are that are not in the best interest of Abu Dhabi. We work together with our owners and our partner ADNOC."

How and why 3M commits to markets ahead of growth: 3M, known for its innovations, has focused on tailoring its products for local markets—what Charan calls the "localization" model. For decades it has expanded into new countries by putting people on the ground, retaining and developing local leaders, and building customer relationships far ahead of market growth. 3M put down roots in Indonesia some 40 years ago, but the country's economy didn't grow until recently.

Committing to a market means:

- A strategy of people first: Recruiting local people and developing them, thus creating a global talent pool rather than depending on one country to supply the leadership or expertise. The focus is on building the leadership and technology expertise needed to run operations as they grow and prosper.
- Enabling local leaders to be decision-makers: While headquarters decides capital allocation, local leaders have considerable autonomy in deciding how that capital is spent.
- Timing expansion: Creating manufacturing hubs and adapting product platforms until the local market is big enough to support a largely self-sufficient operation gives 3M the flexibility in expanding according to market demand.
- Developing close customer relationships: These are a great source of signals about where and when to scale up, and even where to focus on selling.
- Creating "centers of excellence": These resource areas—viewed as counterparts to manufacturing hubs—co-locate the company's highest-level experts in the market sector and these become company-wide go-to sources for technical help. They generate "product platforms," a basic technology or design that engineers in other countries can adapt and combine for their local customers.
- Letting local areas decide, independent of U.S. headquarters, which research programs to pursue and when to create a totally new platform: Notes Charan, "This is a real shift in resource allocation and delegation of decision-making power to the lowest level, where the opportunities matter, possible because of the trust from headquarters."
- Fostering certain uncommon leadership skills: Leaders have to maintain a broad, long-term view—the outside in/future back perspective—while gauging how to pace the investment and capability building. Leadership has to focus on connecting people (not R&D), knowing people, knowing what problems they're working on and what they're discovering.

conclusion:

your global future—what a global company should look like in the tilt

- It might have a central headquarters in the South, several headquarters around the world or even no single location with a sizable staff.
- It will have leaders who keep a keen eye on the macro landscape, form a point of view about it and find opportunities based on information gathered at the ground level.
- It has goals, performance targets and accountability linked to the challenges leaders face in real time.
- It redirects resources quickly when a market softens, another takes off or the competition heats up.
- Its decision-makers are closely connected to each other despite physical distance and stay close to the information their decisions rest on.
- It moves decisively ahead of others because leaders are confident in their perception, yet vigilant in reading signals that they need to change course.
- It has the psychology to accept that some things are unknowable, and the confidence, flexibility, and resilience to adapt.

Your global leadership challenge in a nutshell: These are the new essential skills and abilities needed to be a successful leader in the global tilt:

- Incisiveness to cut through the complexity of the changing global landscape, to spot the unstoppable trends and hinge events, and willingness to devote the time to this activity to keep pace with the speed of change

- Imagination to see opportunities before they are fully formed and the courage to act in the face of uncertainty, to make the occasional strategic bet based partly on qualitative and sometimes incomplete knowledge
- Keen perceptual skills to quickly absorb multiple cultures, understand the rules of thumb in new contexts, and drill through cultural differences to the business fundamentals
- Expertise in building social networks and bridges of information with governments, regulators, and other external constituencies
- Savvy in shaping and reshaping the company's social system to reduce information filters, speed decision-making, establish behavioral norms, and get inherent tensions between headquarters or other centralized units, business functions and geographies resolved quickly
- The breadth and depth of perspective and the cognitive ability to see the big picture, link it to information at the ground level, and shine a light on a path to growth and profitability that energizes others
- Discipline to manage your time, keep learning and do what needs to be done

"Every company needs flexibility and responsiveness to keep attuned to changing conditions and new opportunities—and to stay financially afloat in the event of a tidal wave that washes in from some unknown corner," concludes Charan. "I hope this book has convinced you that it is possible to lead confidently in the tilt. In fact, it is your obligation. I urge you to prepare yourself to meet it by developing the mind-set and skills you will need to be a leader in the global tilt."

About Lois Gilman

Lois Gilman has written for a variety of magazines, including Corporate Board Member, Money and TIME. She has worked on the program development of numerous business conferences, including the Fortune Global Forum and the Wall Street Journal CEO Council. Gilman was a head researcher at Time Life Books; a senior reporter at TIME Magazine; a program research manager at Fortune conferences; and the Web files editor of Business 2.0 magazine. She is also the author of The Adoption Resource Book and The New York Parents' Book.

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