Tuck CENTER FOR GLOBAL BUSINESS AND GOVERNMENT™
THE SLAUGHTER & REES REPORT™
A weekly brief on the intersection of business and policy
April 7, 2014

Going Global with the Globally Integrated Enterprise

The profile of the global economy has dramatically changed over the past generation, reflected in the rise of emerging markets, the ease of moving goods and services across borders, and the growth of highly skilled workforces in the world's largest nations. Given these changes, a fundamental question for companies around the world—particularly those based in developed markets—is not *whether* to compete globally, but rather *how* to compete globally. "You are not safe at home unless you can compete abroad," says the chairman and managing director of Mahindra & Mahindra, a Mumbai-based automobile manufacturer.

One company has taken a particularly innovative approach to competing in the global economy: IBM. While possessing a long history of operating in multiple countries (remember that the "I" in IBM stands for "International"), for decades the company was a traditional multinational. Every country operation had its own sales force, its own supply chain, its own procurement, its own human resources, and so forth. In many cases, these IBM operations had their own manufacturing, their own development, and even their own research capabilities.

This model succeeded for some time thanks to ongoing revenue growth, but it ultimately handicapped IBM. It was expensive; it impeded speed; and it impaired the company's ability to make the most of its collective smarts. Former IBM CEO Lou Gerstner, in his book, "Who Says Elephants Can't Dance?", described the mind-boggling fragmentation he discovered upon arriving at the company in 1993: "In Europe alone we had 142 different financial systems. Customer data could not be tracked across the company. Employees belonged to their geography first, while IBM took a distant second."

Soon thereafter Gerstner began to transform the company, in large part because of its declining financial health (IBM had lost $16 billion from 1991 through 1993). His successor, Samuel J. Palmisano, moved into the CEO suite in 2003 and saw the need for further transformation, inspired by his vision of fundamental shifts both in the information-technology industry and in the global-business environment.

Palmisano and his colleagues restructured IBM's operations, focused both on deploying the company's global resources more efficiently and pursuing revenue opportunities in emerging growth markets—especially those in services and software, beyond IBM's historic strength in hardware. With the goal of lowering the center of gravity in the company, they eliminated layers of bureaucracy and pressed decision-making into local markets away from IBM headquarters. They moved managers into local markets so they could execute closer to clients. And they took core processes and functions once managed regionally, integrated them across borders, and began managing them globally.

Palmisano's transformation of IBM was fundamental to the company's robust performance during his tenure as CEO. He said IBM reflected a new structure for companies: that of a "globally integrated enterprise," which refers to companies that are truly global—not just "multinational" or "international"—in their management and their operations. In this model, work is organized in fundamentally different ways. It calls for different skills and behaviors, more collaboration, greater focus on a multiplicity of cultural differences, and less hierarchy.

In a new book, Palmisano tells the story of IBM's transformation, lays out his vision for the globally integrated enterprise, and explores challenges and opportunities facing leaders in business and government. The book, "Re-Think: A Path to the Future," was co-written by Matthew Rees, and can be purchased here. An excerpt, recently published in Bloomberg Businessweek, can be found here.