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The Future of the Globally Integrated Enterprise

By **IRVING WLADAWSKY-BERGER**
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Stormy weather ahead for global firms? The replica of the Dutch East India Company ship Halve Maen sails in the harbour of Hoorn, the Netherlands, May 23, 2015. *PHOTO: EUROPEAN PRESSPHOTO AGENCY*

In this hyperconnected era of Internet of Things devices and cloud-based apps, who would have thought that the modern multinational enterprise, a product of technological and market forces, could be facing so much pressure? Yet local competition, and rising public and government discontent with globalization, are helping muddy its future. A pair of recent articles explain what's at stake by tracing the rise of the global company, its current challenges and the business model it may have to embrace to overcome today's political obstacles. Technology, of course, will play a key role.

For the past three decades, global firms, defined as those companies where over 30% of their sales come from outside their home region, have been the "apex predators of the global economy," directing the global flow of goods, services and capital, shaping ecosystems, orchestrating supply chains and owning most of the world's intellectual capital, Economist reported recently. But now, "The biggest business idea of the past three decades is in deep trouble."

To help explain this shift, the Economist referenced The Globally Integrated Enterprise, a 2006 Foreign Affairs article by IBM Corp.'s then CEO Sam Palmisano, that traces the global firm's evolution, from the mid-19th *international corporation* to the 20th century's multinational and its pursuit of national subsidiaries around the world.

Starting in the late 1980s technological and market forces transformed the multinational corporation into the globally integrated enterprise. These companies operated in an increasingly seamless way across national boundaries, locating their operations wherever it made the most sense in terms of talent, resources and cost. Competitive pressures forced every enterprise to examine its operations, asking simple questions like why processes and practices were different from country to country, and why it was necessary to have different departments performing the same set of tasks in each country.

The intensely competitive global marketplace required that companies pay more attention to costs, quality and opportunities for innovation and differentiation than ever before. At the same time, the explosive growth of the internet accelerated the ability to integrate business processes, information and workforce around the world, leading companies to outsource production and services operations to global supply chain partners.

But, notes the Economist, "in 2016 multinationals' cross-border investment probably fell by 10-15%. Impressive as the share of trade accounted for by cross-border supply chains is, it has stagnated since 2007. The proportion of sales that Western firms make outside their home region has shrunk. Multinationals' profits are falling and the flow of new multinational investment has been declining relative to GDP. The global firm is in retreat…"

Moreover, "The changing political landscape is making things even harder for the giants."

Last October, Mr. Palmisano published a follow-up to his 2006 Foreign Affairs article, The Global Enterprise: Where to Now? The article started with a warning he'd presciently written 10 years earlier:

> "The alternative to global integration is not appealing. Left unaddressed, discontent with globalization will only grow. People might ultimately choose to elect governments that impose strict regulations on trade or labor, perhaps of a highly protectionist sort. Worse, they might gravitate toward more extreme forms of nationalism, xenophobia, and antimodernism. The shift from [multinational corporations] to globally integrated enterprises provides an opportunity to advance both business growth and societal progress. But it raises issues that are too big and too interconnected for business alone or government alone to solve."

In the decade between the two Foreign Affair articles, we've transitioned from the connected world of PCs, browsers and web servers, to the hyperconnected world of smartphones, IoT devices, cloud-based apps, oceans of data, and broadband wireless networks. Increasingly smart AI applications are emerging all around us.

In addition, the 2008 financial crisis led to an economic downturn around the world, from which many have not fully recovered. Labor markets remain weak. "Among 25 advanced economies, about 550 million people – two-thirds of the population – have seen their incomes stagnate or fall over the past decade." For a while now, the world has been stuck in a period of low productivity and economic growth. No one really knows what to do or how long it will last. Looking into the future, few topics are as challenging as the future of work, given our justifiable fears of rising technological unemployment.

Powerful forces are pulling in opposite directions, with governments moving away from "economic and political openness" and the digital world "increasingly pulling people toward greater integration," he writes. In such an environment, where clashes are a foregone conclusion, leaders from both the public and private sectors "need to develop business and governing models that reflect the realities of this dual world while maximizing opportunities and minimizing obstacles."

According to Mr. Palmisano, global firms have generally responded to these challenging economic environment by focusing primarily on reducing their overall operational costs. Despite dramatic advances in technology, companies have mostly ignored the opportunities to pursue growth through innovative new products and markets. Companies must embrace a new business model, "pre-empting or overcoming the obstacles erected by politics or the public while leveraging the opportunities presented by connectivity and integration."

Global firms must address a few fundamental issues, including:

The shift from a supply-side to a demand-side world. "People, regardless of where they live, will be much more likely to support globalization if they can see how they as individuals will benefit."

Expansion of the middle class and consumer technologies. "From 1990 to 2010, for example, 1.2 billion people moved into the middle class throughout the world, and 1.8

billion more are projected to do so by 2025… The potent mix of higher incomes and greater access to technology will lead citizens, customers, and investors to become more engaged and more demanding."

Integration of different generations and perspectives. "It will be especially important to place individuals from digitally raised generations in management roles so that their skills and global orientation are embedded in a company's procedures."

Opportunities based on the proliferation of new technologies. "Progress on these fronts depends on developing a contemporary business model, corporate structure and management system that capture these opportunities. A guiding principle should be showing constituencies a path to the future while providing simple, low-cost solutions that draw on modern technologies to drive speed and responsiveness."

> "Amid volatility and uncertainty, companies and governments should not lose sight of one of the important lessons from the past two decades: the individuals and communities that have prospered have done so because they developed the skills needed for the future, embraced a more connected and diverse world, and became hubs for innovative behavior and investment."

Irving Wladawsky-Berger worked at IBM for 37 years and has been a strategic advisor toCitigroup and to HBO. He is affiliated with MIT, NYU and Imperial College, and is a regular contributor to CIO Journal.

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