Mapping multinational operations

Andreas Birnik and Richard Moat assert that multinational firms need to develop an operating model at the activity level. By doing so, managers can identify inconsistencies and develop coherent operations across local subsidiaries, the corporate centre and outsourcing partners.
Developing and maintaining an operating model can be a messy project for any multinational firm. The complexity is often daunting, and the available tools do not always help managers get the job done.

For more than 20 years, business schools have diligently trained students to use Christopher Bartlett and Sumantra Ghoshal’s integration-responsiveness (IR) grid to help determine whether multinational corporations (MNCs) should operate as transnational, global, multinational or international firms. Although these four archetypes provide conceptual clarity regarding the different options available to manage international operations, many multinationals fail to fit neatly into one of the four types. Furthermore, labelling a strategy as fitting one or the other of these archetypes does not necessarily provide a working operating model, as the IR grid is focused on various drivers for integration versus responsiveness rather than on clarifying who does what within the MNC.

As a result, we have noticed that managers, consultants and students who use the IR grid sometimes struggle to make the link to specific activities of a particular multinational firm. In fact, it is possible to agree on where a firm is on the IR grid today, and in which direction it should move forward, without having tackled many of the tough operational decisions that need to be made to develop a clear operating model. In short, use of the IR grid often leads to strategies that are simply too abstract and too generic to be of much use to MNC managers, apart from functioning as a useful starting point to stimulate strategy and operating model discussions. In this article we attempt to fill this gap and provide a tool to move beyond conceptual IR grid discussions toward crafting an actionable operating model for multinational firms.

The activity-based view
In the Spring 2008 issue of Business Strategy Review, we discussed how to take an activity-based view in order to make strategy actionable. The strength of such a view is that strategy discussions become directly linked to activities that matter to the company. Without a link to the activity level, there is a clear risk that nothing will happen after the conclusion of the strategy process; strategy has then become all talk and little action. The strategy grid we proposed aims to capture key activities underpinning a firm’s business strategy in a simple one-page grid. Building on that thinking, we now present an approach to mapping a multinational’s operating model with a focus on whether strategy and execution occur at the local or central levels or are outsourced. Once again, the objective is to make sure that everyone in the company literally reads off the same one-pager to provide maximum clarity in a condensed format.

The proposed framework for mapping a local-global operating model has emerged out of practice that evolved while the authors worked for Orange subsidiaries of France Telecom. It has subsequently been field-tested in consulting assignments with other mobile telephone operators and used for teaching global strategy to MBA students and executives at the National University of Singapore. Hence, the framework has proven useful across a wide variety of industries and contexts. A key strength is that it engages participants to explore their current operating model and to manually craft their future operating model. In contrast to the IR grid, our approach can be customized to meet specific requirements and constraints; a global operating model is surfaced that might not previously have been sufficiently articulated or understood within the firm.

Crafting an operating model
The figure on the following page illustrates the IR grid together with the proposed operating model framework. The same activities have been mapped on both frameworks to provide clarity to the reader. While the IR grid is best used to explore the pressures for local responsiveness versus global integration on different activities, the key purpose of the operating model framework is to map which activities are owned at a central versus local level, and whether execution of the activities takes place centrally, locally or through outsourcing. For MNCs with a layered structure at headquarters, it would be easy to add a regional dimension to the grid between the central and local levels.

The different combinations in the operating model will be discussed below in relation to an example from mobile communications. While the approach often requires mapping of at least 30 activities to become sufficiently comprehensive, this discussion focuses on just a few activities to explain how the operating model can be used in practice. It is also important to recognize that, while strategy and execution are typically “owned” by a particular level within a multinational firm, it would be common for other levels to be involved in providing feedback on activities or vetting recommendations.

Central strategy with central execution Some activities might be suitable for both central strategic decisions and central execution. We would often expect such activities to have high pressures for global integration with low pressures for local responsiveness. An example could be the development and subsequent operations of a Web distribution platform. Other examples could include the corporate logo and graphical profile, recruitment of top management for subsidiary units, global advertising campaigns, and corporate
development activities such as merger, acquisitions and divesting operations. In an integrated multinational firm, we would expect to find quite a few activities in this category.

**Central strategy with local execution** Certain activities require central decision making, but the actual execution can take place at a local level. Activities in this category typically require a level of standardization to provide consistency across the multinational firm. This can be either regarding marketing mix elements that affect the customer experience or, as in the example above, business activities such as budgeting and accounting. The common denominator for activities in this category is that there are benefits from uniform standards across the multinational even if actual execution occurs at a local level.

**Central strategy with outsourced execution** In this category we find those activities for which the centre sets the strategy, but in which execution is outsourced to a third party rather than to the subsidiary level. A typical example would be customer service, which a number of firms have decided to outsource to specialized call centres against specific parameters set out in a service level agreement. By setting the strategy at the central level, a higher degree of consistency might be achieved compared with allocating discretion to local subsidiary units to provide the activity in-house or to outsource it to a local supplier.

**Local strategy with central execution** The corporate centre might occasionally take on the role of a service centre executing according to the specifications of the local subsidiaries. The thinking occurs at the local level while the doing is delegated upwards to the centre. An example of this might be procurement of handsets in many mobile operators. The subsidiaries might decide which handsets to purchase, but the actual purchasing is pooled to the corporate centre to maximize bargaining power versus the supplier. Alternatively, the centre might negotiate framework agreements with vendors, but the actual decision of what gets purchased is left to the subsidiaries. The centre can also support subsidiaries with the development of platforms and technical features that go beyond the competence and resources of local subsidiaries. In Romania, the local Orange subsidiary identified and specified the need for a specific type of wireless access router that was not available in the open market. By working closely with the corporate R&D centre, a solution was found which was successfully deployed in the Romanian market and later on in other emerging markets.

**Local strategy with local execution** In many firms, local subsidiary managers set the strategy for and execute a number of activities. We would often expect to find activities such as promotions, tactical advertising, payroll, IT support and office administration in this category. Some of the activities in this category will have a high need for local responsiveness as they directly affect the customer experience and a subsidiary’s competitiveness in a local market. However, the benefit from global integration is often relatively low. There are usually also a number of activities in this category that don’t have high pressures for either integration or responsiveness but that might not be suitable for outsourcing.

**Local strategy with outsourced execution** In the final category, we find those activities for which the local subsidiaries set the strategy, but in which execution is outsourced at the local level. Examples of this could include facilities management, staff canteens, office cleaning and security services. These activities are often required to support the ongoing operations of the MNC without requiring
standardization across the firm and without having a direct link to the competences underpinning a firm’s competitive advantage.

Let’s get practical
The proposed operating model can be used both deductively and inductively. By taking a deductive approach, you can start by brainstorming all activities you think should be mapped in the operating model. You can write these down on sticky notes, magnetic whiteboard hexagons or similar facilitation tools. The purpose is to generate a comprehensive list of those activities that need to be mapped. Based on this deductive approach, you can then start to populate the operating model immediately. However, it is often useful to start by discussing where these activities fit on the integration-responsiveness grid. Undertaken as a group exercise, this generates a shared understanding in the team and quickly surfaces differences in opinion. When the IR grid has been populated on a whiteboard, you can start by discussing where activities should be located on the operating model. It is often useful to leave the activities on the IR grid as a point of reference and to create the draft operating model on a separate whiteboard. As the final step in the process, you can perform a gap analysis versus what your company is doing today. This might reveal areas of alignment and misalignment that need addressing in order to improve the operating model.

An alternative route would be to start inductively by mapping what your company is doing today. You would then start by populating the operating model without making any value judgements as to whether the firm is doing the right thing or not; the purpose is simply to build up an accurate picture of how your firm is operating today. After this step, you can continue by mapping these activities onto an IR grid on a separate whiteboard. In the inductive case, the final step also consists of a gap analysis in which you discuss whether the company is doing the right thing today.

If possible, we would recommend that you complete this exercise with participants split into two separate groups. The first group can take the deductive route while the other group takes the inductive route. In the end you will have two sets of IR grids and operating models to compare and discuss. This exercise usually identifies a number of activities that are either overly centralized or overly decentralized. You may also find candidates for outsourcing.

The deductive and inductive approaches discussed above explain how to use the operating model in conjunction with the IR grid based on a facilitated group discussion. It is, of course, possible to complete the exercise individually and later discuss the results with colleagues.

Bringing clarity
The process of developing a local-global operating model can quickly bring a great deal of clarity to an MNC. Local and global responsibilities have often developed over time, and it is not always easy to find an articulation of the current operating model in use by a multinational. Hence, the proposed approach is useful to create a helicopter overview of an operating model that has often emerged gradually over several years or even decades.

Given the gradual emergence of the operating model in use in many multinationals, there is a clear risk that at least some activities are misaligned. Our proposed framework to map and craft the operating model in a multinational can become a powerful tool to improve clarity and execution of critical activities in the firm. For if there is not clarity within a multinational firm regarding who does what, you can rest assured that confusion will be the result and performance will suffer as a consequence.

Resources

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