

The Enterprise

The Global Human Capital Journal



Leadership, Trust and the Globally Integrated Enterprise

By Christopher S. Rollyson —Thursday, 31 May 2007

IBM's CEO Articulates Prescient Vision for the Enterprise—Adapting to the Knowledge Economy

Samuel J. Palmisano, Chairman, President and Chief Executive Officer of IBM Corporation, outlined a new version of the enterprise at a lunch honoring him with the [Executives' Club of Chicago's](#) Thirteenth Annual [International Executive of the Year Award](#) April 12, 2007 at the Chicago Hilton. Entitled “Leadership, Trust and the Globally Integrated Enterprise,” his speech emphasized key points from his Summer 2006 [article of the same name](#) in Foreign Affairs. He was especially interesting to hear due to his experience with leading one of the world's foremost global enterprises as well as his insight from serving global enterprises in every industry.

Yesterday's model for the global enterprise, the multinational corporation (MNC), looks increasingly outdated due to widespread adoption of standards-based technology, increasingly standardized work processes and a liberalizing regulatory environment. Today, knowledge-based resources are available globally, and the enterprise's means to create value is choosing how and where to tap the resources to best execute business processes.

Moreover, the shift to the globally integrated enterprise means a profound culture shift and outlook, which we will address here.

In addition, although Palmisano didn't reference IBM's visionary Component Business Modeling (CBM) in either his presentation or article, I clearly heard it in the background. **Transitioning to the globally integrated enterprise model requires a completely new way of thinking about business structures and operations. I will illustrate this through brief comments about Component Business Modeling as well as Transourcing, an approach I developed in 2006.**

A Global Market: From the Future's Point of View

Individuals worldwide are adopting technology and the Internet, thereby coalescing into a global market of knowledge workers. In many emerging countries, the wages and standards of living are growing rapidly for those citizens who have the ability to get the education needed to present themselves as knowledge workers. Companies of all sizes increasingly tap thousands of highly trained and educated people around the world—for their level of education as well as for their lower cost.

The Global Human Capital Journal covers this topic from several angles, and I was impressed by Palmisano's concise, relevant explanation of how the enterprise must evolve to address the globalizing economy and work force.

Global Business Structures and Knowledge Workers

Palmisano began by highlighting some key elements of the emerging global world. Standards-based information technology is providing a communications infrastructure and knowledge-based work to new regions of the world, which can join the global economy. We have a truly global market of people and expertise. Knowledge jobs are raising employment and standards of living in emerging economies. Regions of the world are striving to develop competitive advantage through differentiated skills, services and knowledge. This trend is extremely relevant to individuals, governments and companies throughout the world. According to Palmisano, enterprises, countries and individuals should be asking themselves, "How do I develop and grow my expertise and ability to create value?" and "How do I attract work to me?" How can I create sustainable differentiation?



He followed this with a brief history of the corporation:

- The **International Corporation (IC)**—Circa 1850, entrepreneurial joint-stock companies, which were organized in hub and spoke networks to control trade routes, began emerging in larger numbers (the [British East India Company](#) was one of the earliest progenitors). The IC operated where the company had been founded and traded raw materials and finished goods internationally.
- The **Multinational Corporation (MNC)**—The model shifted to the MNC during World War I and the years of trade strife that followed during the 1920s and 1930s. Trade wars made it desirable to produce within major markets around the world to avoid and excessive tariffs, so MNCs focused on producing locally, within national boundaries.
- The **Globally Integrated Enterprise (GIE)**—The GIE is emerging as today's model, due to the liberalization of trade, the globalization of capital and the pervasive adoption of standards-based information technology such as Internet-based computing.

The globalization of finance, liberalization of legislation and standardization of IT have greatly reduced transaction costs, so more people can communicate more easily than at any point in human history. Therefore, the GIE is focused on aligning its production with skills and other advantages, globally. Moreover, the global communications infrastructure makes it possible to split processes into parts and execute each part where the optimal human capital resources are. Where the MNC produced products in France to be sold there, the GIE produces and services its offerings globally for customers globally. In other words, a call center is built in the Philippines due to the local skills base, and it serves customers globally. The GIE is "global to global," and its operations ebb and flow based on the existence of optimal nodes of expertise and other advantages (e.g. government incentives, legal base, intellectual property protection, language, time zone, the list is long).

Issues and Strategy

The GIE is difficult for many people to understand because it requires a fairly sophisticated understanding of business processes and global capabilities, but most people have very limited exposure to global cultures and perspectives.

- **Economics**—People around the world are uncertain about the dynamic flow of work because it appears that "the jobs are leaving." In fact, some jobs *are* leaving while many new jobs are created. The latter are usually of a different type and often require new learning and skills.
- **Expertise**—Many high value jobs are based on knowledge and information, rather than physical labor, so education and individual initiative are critical to success.
- **Openness**—In order for global prosperity to continue to increase, people must support openness, which enables work to ebb and flow. The people who are most motivated, educated, collaborative and enact favorable laws will attract GIEs.

In this environment, people and leaders of government, universities and business need to communicate openly about the nature of these changes so that people can work together to understand and respond. To prosper, each country or state needs to rethink how it can differentiate itself and act to create competitive advantage. What can it do better than any other? Answering this question and acting to strengthen competitive advantage will be critical to thriving, to attracting the flow of work. Each needs a business strategy.

For example, Palmisano participates in the U.S. President's Council on Competitiveness, and its consensus is that to increase competitiveness, the U.S. needs to focus on significantly increasing education in mathematics and science. It also needs to create a system of portable benefits so that people maintain their security as they ebb and flow in the employment market. Countries that want to increase their competitiveness must provide people with the tools to innovate and take risks, which means education and benefits.

SMBs (small and medium businesses) companies have even more to gain from globalization than large enterprises, and this potential has barely been tapped thus far. Small companies are far more flexible, and responsiveness is a tremendous advantage in this environment. Large companies have been global for many years and have enjoyed the advantages. Technologies and global knowledge workers now give SMBs the ability to go global for very low cost. As more knowledge workers go online, they are accessible, and communications make it possible to collaborate with them far more easily than most people appreciate. As an anecdotal example, Palmisano mentioned his son's high tech company, which has partners in several countries.

Organizational Culture Shift and the Importance of Trust

These changes engender a major shift in attitude and style of working, for companies and individuals. The command/control style of management and interaction is waning in many areas, and collaboration is the new style. It requires more openness, flexibility, communication and trust. The GIE executes its processes with many partners that are distinct business entities, and people have a wide range of "employment" arrangements. They are collaborating to execute high value processes, so how does the GIE delegate and sustain trust among its distributed network of partners and people? How does it build trust at the global social level? One way is to abandon the attitude that has prevailed for that last three centuries: [cultural imperialism](#).

A vital part of trust is a global set of standards for intellectual property protection because innovators' advantage is greatly diminished when ideas are misappropriated.

The GIE and its proxies must also recognize that they have a completely different employment contract with people. Organizations must strive to develop a new humility. "Employee benefits" and corporate paternalism are waning, and this is leading to a major culture shift of all types of organizations. However, if GIEs do not consider employees or customers sufficiently, additional regulation will result. GIEs must truly serve society.

IBM has been in the throes of transformation since the 1990s, when it began shifting its focus to services. More recently it has transitioned from a MNC to a GIE. Both transformations meant that it had to become much more flat and collaborative, which meant paring layers of management. In Europe, for example, IBM went from 5,000 "above country" management to 400. This worked because IBM rewarded delegation, risk-taking and collaboration.

Collaboration also means openly engaging employees in strategic issues. Palmisano referenced IBM's use of the Internet to share the company's challenges and ask for solutions. 150,000 employees and their spouses responded to surveys. Today, IBM US has 135,000 employees, but they are complemented with partners, which brings the total to around 700,000.

On Leadership

Palmisano offered his personal definition of leadership. Recall that, when he assumed leadership of IBM in 2003, he was filling big shoes, as predecessor Lou Gerstner had led the company through a dramatic turnaround:

- "At first, you think you have to have all the answers. I quickly learned that it's far more important to get strong teams to come together."
- "Cross-boundary initiatives are critical. Encourage cross-boundary ventures and activities, and let go of control. Take risks and delegate, yet hold people accountable."
- "Command and control is an outdated management style. At IBM, we went from 407,000 employees to 212,000 from 2001-2005. In 2006, we had record earnings and margins. You have to get the best people, encourage collaboration and uphold standards."

Palmisano spends 60-70% of his time with clients. Gone are the days spent in endless finance meetings: IBM's global financial systems make it possible for everyone to access information real-time, globally, so executives are no longer required to spend time meeting to exchange and explain information. He spends one week per month in meetings and is on the road the rest of the time, and this adds far more value to clients.

Whether or not business or government leaders realize it, they are betting their destiny on human capital. Knowledge workers will ultimately determine success or failure, so getting collaboration right is of paramount importance.

New Ways to Model, Build and Operate the Extended Enterprise

Chief executives of global enterprises in all industries are worried about time to market, efficiency and innovation, but their organizations' processes are far too commingled to "hive off" easily, which prevents them from collaborating with partners. This inflexibility means high cost when entering or exiting partner relationships, which makes their processes more costly and less innovative. It is imperative to solve this problem in order to leverage the exploding global market of innovative service providers.

The Globally Integrated Enterprise is more difficult to conceptualize than were its predecessors because its structures are networked, flexible and complex, where the MNCs are composed of articulated hierarchies that are more impervious to change. As IBM's experience shows, partners execute an increasing portion of its business processes, which is in part reflected by the U.S. employee ratio cited by Palmisano (IBM 135,000:565,000 partners).

Working with partners to execute discrete parts of business processes requires a new way of conceptualizing and operating the enterprise. Increasingly, boundaries between enterprise and partners are blurring.

By defining business processes as interconnected discrete subprocesses, executives can source "providers" to execute subprocesses far more easily, whether they are a part of the enterprise or "external" partners. A new "operations architecture" is critical to achieving the state Palmisano described as "executing processes when, where and by whom it makes sense." This situation is analogous to creating enterprise architecture to improve the interoperability of discrete, interconnected "parts of functionality" within information systems.

IBM Component Business Modeling

IBM's [Component Business Modeling](#) is a methodology to to redefine processes, compare them to industry standards and break them up into discrete components. I highly recommend it as a way to begin changing your thinking about organization. It includes a process to define processes are differentiating or not, thereby identifying candidates for external partner execution. Also see [Unlocking the value of account opening with component business modeling](#).

Transourcing

[Transourcing](#)TM is an evolutionary approach to redefining processes and restructuring the enterprise in order to increase efficiency and innovation. I developed this approach last year. Companies usually approach it in three phases:

- Phase One: Develop enterprise good practices for sourcing and outsourcing, maximizing efficiency and cost savings while codifying what is working and what isn't. Most sourcing projects are currently managed in isolation from each other, which leads to tremendous duplication, waste and multiple errors. Phase one is analogous to developing a centralized enterprise architecture team to gather and share good software architecture practices throughout the enterprise.
- Phase Two: Reuse good practices to source innovation partners and proactively create robust partner networks. Develop and pilot transformation approaches.
- Phase Three: apply transformation approaches more widely to significantly increase adaptiveness and innovation.

Analysis and Conclusions

Palmisano offered an insightful, compelling argument for the GIE as the emerging model for the enterprise. He clearly defined the GIE and contrasted it with the MNC. Here are some additional thoughts on the GIE, the Knowledge Economy and business strategy:

A World Economy, a Global Enterprise

- The GIE is by no means an all or nothing proposition due to the nature of networks. Palmisano's succinct history of the corporation shows that executives evolve business structures to best take advantage of the circumstances. The GIE will prevail where circumstances allow, but it will coexist with MNC and IC models.
- The global [Knowledge Economy](#) will be the most dynamic economy in history. Change means a higher scale and scope of opportunities and threats for individuals, governments and enterprises. Palmisano reflected the right attitude when he said, "Think about how you can attract work to you" because, as transaction costs fall, work flows to where it can be accomplished best.
- The sentiment that the Knowledge Economy is "taking all the jobs going away" is understandable; however, it is more accurate to say that it replaces the known with the unknown, and this will be a good thing for most people. The IT revolution taught us that, although many "paper pushing" jobs vanished due to automation, these were more than replaced by new, higher paying IT jobs. There will clearly be disruption, but people and communities that accept it and adapt will thrive even more. For some interesting analysis on this, see [Pas de Panique/Don't Panic!](#)
- People and governmental jurisdictions (city, state, nation) that understand the new dynamism will create more wealth and choice for how they work and create value than those that do not. Motivation will play a key role: critical success factors are embracing change, avidly pursuing continuous learning and creating collaborative work cultures. In this environment of portable work and pervasive communication, value migrates quickly, and competition is high. [Here is one view of Chicago's economic development](#) and [another](#).
- Palmisano mentioned some of the multidimensional aspects of the issue of trust, which is a profound issue. As individuals can communicate their experiences to millions of others for free through their text, audio, graphical and video content, transparency continues to increase, and truth is the only option. However, different people and cultures have different interpretations of what trust means and different norms. How can the GIE maintain trust among its extended networks of partners? How does it create and uphold trust with increasingly local communities and customers globally? Explicitly seeking the answers to these questions is extremely important to your ability to collaborate.

Cultural Considerations

- The global P2P (peer to peer) world will dramatically increase direct interactions between people of different cultures. The desire to share is of paramount importance to effective collaboration, which can be defined as *voluntary cooperation between equal people with shared commitment to the outcome*. Moreover, trust is critical to the willingness to share. Further, mutual respect based on cultural appreciation is crucial to developing trust. All of these benefits are greatly compromised when cultural appreciation is

absent.

- There is a huge shortage of programs that promote cross-cultural understanding, and this is a tremendous opportunity. We must profoundly change how people and workers are educated about global cultures and customs. Traditionally, when people have direct contact with people in foreign lands, they are on vacation, and the superficial contact does not require collaboration. Business contact is often through client/supplier relationships, which are often command/control. Most people have not even had the opportunity for any direct contact.
- The performance of individuals and groups will increasingly depend on their ability to collaborate effectively. Interdependency is rising, and individuals in various parts of the world will increasingly find that the work of other people materially affects them. Individually, aggressively seek out opportunities for direct, collaborative activities with people of diverse cultures.
- People and communities will succeed more often when they change their thinking and plans for education and learning. Existing education traditions are based on assumptions that are decreasingly valid. Within a career context, learning has been "front end loaded": education has traditionally been an investment for getting a good job, but it has largely stopped with the entry into the work world. In the Knowledge Economy, learning must be continuous because new conditions and knowledge constantly emerge. Also see [Knowledge Economy Learning](#).
- Consider the organizational structures of the MNC and the GIE. The Industrial Economy MNC is an amalgamation of tightly coupled business processes, which makes it inflexible. Command/control and inflexibility are mutually reinforcing, which is one reason why they are difficult to change. Networked organizations offer relatively high choice of information and workflow. In knowledge work, people create value by exchanging human beings' most precious asset, thought. But success is predicated on the freedom to execute on a (relatively) wide range of possibilities. Collaboration, trust and networked organizations are also mutually reinforcing.
- Palmisano's remarks on leadership resonated with [Ray Spencer's comments about decentralizing decision making](#). Both understand that leaders' most important role is to engender collaboration among talented people, rather than having all the answers and directing (commanding) people.
- Palmisano was clear about the importance of trust in creating economic value through GIEs and the global Knowledge Economy. To create and maintain trust, it is necessary to consider partners' well-being as of equal importance to your own.
- Concomitant with collaboration for business will be the imperative to partner to collectively manage human beings' impact on the Earth and our use of its resources. Although it is a cliché that the world is getting smaller, this fact will increasingly confront us with its reality. In the Industrial Economy, leaders often had an exploitative attitude toward resources. Exploitation is most relevant when resources are abundant. Cooperation will be increasingly required as resources become more limited and waste more intolerable.

Ramifications for Business Strategy

- Strategy becomes useful when one is trying to resonate with developing or future market conditions. It increases in value with the complexity and size of the action. Cities, nations and enterprises benefit more from it than individuals because they must coordinate large scale actions when the individual can perceive conditions and respond more quickly. Strategy also becomes more useful when market conditions are more dynamic because the range of possibility is greater as well as the risk that your entity will not resonate with conditions.
- Consider that the world is transforming itself from a collection of geographically-based local societies to interest-based local societies. Among some groups, interest based on geography is giving way to interest based on online interactions. Overall, this will be a gradual process, but pockets of the world will change relatively quickly. Surprise and disruption will be the rule, but they also bring unprecedented opportunity.
- Global strategy is increasingly the default for enterprises and government, and this is new, especially for government and people, who have largely been "geographically local" and isolated from the world:
 - It is imperative to understand competitive advantage and barriers to entry for global competitors. Increasingly, competitors will emerge that play by different rules because their "inputs" are not constrained in the same ways as traditional competitors'. For more on this, see [The Transformation Imperative](#).
 - Most business leaders and traditional advisors are ignorant of emerging pockets of expertise, so numerous surprises will occur.
 - Partnering with offshore players pays handsome dividends: offshore partners often provide excellent expertise and services at a lower cost, but it also gives your people the opportunity to gain experience with collaborating with global teams. Whether company or government, a key element to your success will be your ability to partner with expertise wherever it emerges. In addition, offshore partners naturally think differently and can add considerably to your ability to innovate. Pursue multicultural collaboration as a strategic imperative. The experience will build resident knowledge of the capabilities of various regions of the world and, therefore, you will also get a richer vision for your competitive advantage. You will be able to create and maintain better strategy.
 - Due to market volatility and increased complexity (i.e. global), strategy should be developed as a core competency by

most organizations, and it should be widely practiced, collaboratively. Leaders can increase peripheral vision by involving many levels of their organizations, partners and customers. Palmisano's anecdote about IBM's outreach to employees and their spouses is an excellent example.

- Web 2.0 and social networks are beginning to produce profound change in the market (see "[consumer empowerment](#)").
 - Customers are becoming more accessible due to their increasing activities online. They are addressing increasing scope of topics by collectively interaction and cooperation. they are building collaborative skills and becoming viable innovation partners for GIEs.
 - Most of the accessible customers for GIEs in emerging markets are knowledge workers, and they are online by default. Your company has the opportunity to understand these new customers far more quickly and profoundly by interacting with them online.
 - As Palmisano stated, SMBs have yet to tap these possibilities, and they have extensive potential in this area. One way to get started is reaching out to local universities to tap foreign students for internships. Consider starting an offshore, virtual internship program.

About the Author

Christopher S. Rollyson launched *The Global Human Capital Journal* in 2005 to address the most poignant issues of day for chief executives, namely global transformation, the reinvention of the enterprise, technology and culture. Mr. Rollyson has been a technology and marketing visionary and pioneer for over fifteen years, with distinction in corporate strategy and innovation. As a consultant and marketing executive, he has had a leading role in launching such game-changing offerings as: Java with Sun, e-business strategy with PwC Consulting, and SOA, Web services and architecture solutions with IBM and nVISIA. In 2006, he launched The Consumer Empowerment Adoption Curve™ and Transourcing™, a new approach to innovation that leverages high performance collaborative partner networks. He currently advises global enterprises on collaborating with Web 2.0-enabled customers—to drive innovation and to engage emerging markets.

Recently the Vice President of Marketing at nVISIA, he developed executive marketing programs and service offerings to drive the value of software transformation through service-oriented architecture and Web services, working with IBM, Rational and Grand Central. Previously a subject matter expert for e-business and knowledge strategy in PricewaterhouseCoopers' Strategic Change practice, Mr. Rollyson developed original models and services frameworks for e-business strategy consulting. He consulted to clients in automotive, software, telecoms, consumer electronics, chemicals and petroleum industries, advising global enterprises in e-business strategy and technology start-ups on innovation and business strategy. Prior to PwC, he led marketing for KPMG's Midwest High Technology practice, where he built one of the firm's first intranets to transform the marketing organization to a real-time team. Before that the head of marketing at a leading edge Java consultancy, he played a key role in co-launching Java via marketing alliances with Sun and Netscape. Mr. Rollyson has done graduate work in corporate strategy and economics at the University of Chicago, with additional studies at Die Freie Universität Berlin, L'Université de Clermont-Ferrand in France and il Liceo Americano d'Aviano in Italy. He earned his undergraduate degree from Kalamazoo College. <http://rollyson.net>

About the Global Human Capital Journal

The Global Human Capital Journal addresses the global shift from the Industrial Economy to the Knowledge Economy, which is changing how human beings work and deliver value. In the Industrial Economy, products encapsulated the value of human work; in the Knowledge Economy, information produces the lion's share of value, and customer experience itself is the focus of commerce and government. A greater degree of collaboration among people of the world is possible than ever before, and increased interaction will bring unprecedented surprise and opportunity, especially because the potential is great to "level the playing field" among people of the world. Obviously, these developments hold significant ramifications for business and organizational strategy.

Global Human Capital covers two prongs of economic transformation: 1) strategically, how organizations can rejuvenate their relationships with customers and constituents by collaborating with them to drive innovation and 2) operationally, how organizations can build strong collaborative cultures and skills to engage the world's emergent network of expertise, both within and without their walls. We analyze how global sourcing and collaboration are transforming enterprise and government organizations, as they transition from relatively self-contained, closed entities to more networked, open organizations.

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