



Winning in a polycentric world

Globalization and the changing
world of business

Contents

Executive summary..... 4

Four priorities in a polycentric world..... 8

The Globalization Index 22

What's next?..... 27

Foreword

As the world recovers from the worst recession in decades, relationships between developed and emerging economies, between the private and public sectors and between global institutions and nation states are changing.



Different speeds of economic growth, different approaches to safeguarding recovery through stimulus or fiscal consolidation, and different approaches to tax and regulation around the world are creating challenges for global companies. At the same time, the rise of the emerging markets is creating a polycentric world where growth, innovation and talent can come from anywhere.

To succeed today, companies need to balance global scale, capabilities and strategy with deep local understanding of customers, markets and, increasingly, regulatory and tax environments. They need to maximize the benefits of globalization through economies of scale without losing sight of individual markets.

Navigating this new environment requires agility and know-how. That means taking a more networked approach to innovation – through decentralized innovation hubs or new external partners. And it requires creating and nurturing diverse leadership teams with strong global experience.

As the most globally integrated organization in our profession, we have long recognized globalization as one of the defining issues of our times. In 2009, we engaged the Economist Intelligence Unit to help create the Globalization Index. Now in its second year, the Index, informed by the views of more than 1,000 global business leaders, looks at the most important elements of globalization for business. These insights show that we are entering a new chapter in globalization, where companies that combine global scale with local knowledge will thrive.

A handwritten signature in black ink that reads "James S. Turley". The signature is fluid and cursive, with a long horizontal stroke at the beginning.

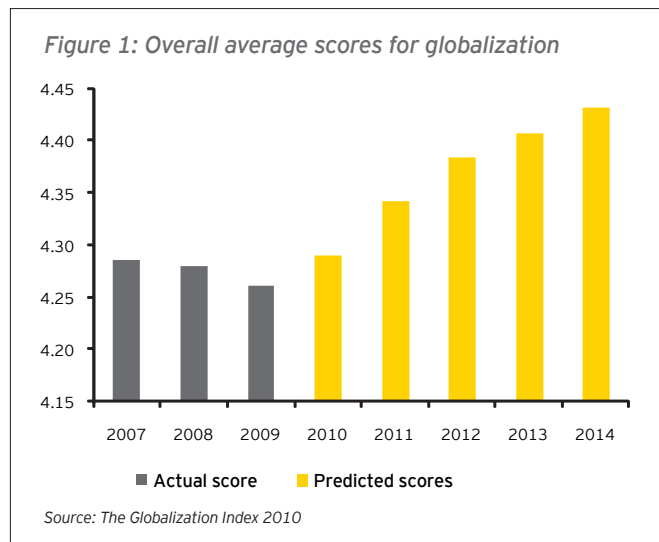
James S. Turley
Chairman and CEO
Ernst & Young

Executive summary

A new chapter in globalization

In his 2005 book, *The World is Flat*, Thomas Friedman argued that globalization was “flattening” the world and creating an increasingly level playing field of global competitiveness. In many respects, he was right. Recent decades have undoubtedly seen greater integration of trade, capital, culture and labor across borders. Cross-border investment flows are broadening and deepening, and opportunities and competition are now spread more evenly between developed and emerging markets.

This convergence of market potential between East and West, along with a gradual economic recovery and growing interdependencies between sovereign states and multinationals, will ensure that globalization continues to deepen over the coming years. Our second annual Globalization Index¹ shows that, after a brief pause in 2009, the overall average score for the world’s 60 largest economies will increase steadily between 2010 and 2014 (see Figure 1).



But in some other respects, the “flat world” theory now seems wide of the mark, especially from the vantage point of the post-crisis world. The economic fortunes of developed and developing countries are diverging, with growth rates in China and India nearing double-digit levels, while growth in the US remains tentative, and some parts of Europe are struggling to sustain a recovery. This is prompting different policy responses, from the tightening of monetary policy in some emerging markets to further stimulus and tax measures in the US.

Current account balances are heading off in different directions, with key emerging markets amassing huge surpluses while many developed countries plunge further into deficit. And, despite the emergence of the G-20 as a more inclusive “steering committee” for the global economy, the growing assertiveness of emerging economies and a gradual loss of primacy for the US could herald growing geopolitical tensions.

1. The Globalization Index developed for this report measures and tracks the performance of the world’s 60 largest economies, according to 20 separate indicators that capture the key aspects of the cross-border integration of business. The indicators fall into five broad categories: openness to trade; capital movements; exchange of technology and ideas; labor movements; and cultural integration. The Index measures “relative” rather than “absolute” globalization. This means that a country’s trade, investment, technology, labor and cultural integration with other countries is measured relative to its GDP rather than by the absolute value of the elements being exchanged. The Index, therefore, reflects the degree to which the global integration of a country is observable or experienced from within that country.

Business environments and customer needs also vary considerably from one market to the next. Spending power is an obvious example of this. Although the gap is narrowing, per capita incomes in the world's largest economies range from around US\$3,700 in China to US\$46,000 in the US. This means that products and services created for one market are unlikely to be suitable for the other.

In essence, the story of business today is one of a tension between the flattening effect of globalization and significant variation across international markets. While the former encourages companies to roll out business and operating models globally, differences between markets demand a more localized approach. The future challenge for business will be to strike the balance between these opposing forces and achieve both scale and local relevance at the same time.

About this report

Winning in a polycentric world draws on three sources of original research: an online survey of 1,050 global business executives conducted in November 2010 by the Economist Intelligence Unit; a program of in-depth interviews with 20 senior executives and high-level experts conducted in November and December 2010; and The Globalization Index 2010 data, which measures the 60 largest countries by GDP according to their degree of globalization.

Responding to a polycentric world

In our globalized economy, growth, innovation and talent can come from anywhere. Never before have opportunities, or indeed competition, been so evenly distributed around the world. Market potential between the developed and emerging world has converged. As a result, the number of markets that multinationals must consider as “strategic” has increased. But at the same time, the nature of the opportunities in those markets can be fundamentally different.

Globalization does not mean homogeneity. In the developed world, companies have well-established business models and asset bases but face weak growth prospects. In the emerging economies, this situation is often reversed. Companies must now operate in a “polycentric world” in which there are multiple but divergent spheres of influence in both developed and developing markets.

Multinationals must essentially operate at multiple speeds in order to fit their strategies to both fast- and slow-growth markets. Success in the former requires rapid-fire decisionmaking and the capacity to experiment, learn and scale at speed. For large multinationals, this may require a rethink of reporting lines in order to bypass bureaucracy and maximize agility. Developed markets, on the other hand, will require a different approach, which is more dependent on efficiency and incremental growth.

“In developed countries, your predominant challenge is the re-engineering of your existing asset base against slow growth,” says Kal Patel, Executive Vice-President for Asia at Best Buy, a global consumer electronics retailer. “In Asia, you have a completely different set of characteristics where your main challenge will be your ability to experiment, fail and make resource allocation decisions quickly enough.”



John Ferraro
Chief Operating Officer – Ernst & Young

“Companies today can make and sell products and recruit people across the world – that’s the flattening effect of globalization. But it’s a mistake to think that this means uniformity. Companies need to keep sight of local markets and how to harness the strengths of individuals to build a more powerful organization.”

The traditional approach of treating local markets as homogenous and imposing a standardized business model on them is no longer fit for purpose. “The model of saying ‘we’re going to do it this way and roll it out to all these different countries just doesn’t work anymore,” says David Weymouth, Chief Operating Officer of RSA, a UK-listed insurance company. “It’s a question of being flexible, adaptable and understanding the market.”

The need to respond to a polycentric world is encouraging a fresh approach among leading businesses. Rather than a top-down management style with decisionmaking centered on the corporate headquarters, these companies are empowering regional managers to develop plans and business models to suit local market dynamics. This ensures that products and services are relevant to local customers and enables the company to compete against nimble, and market-savvy, local competitors.

Succeeding in a polycentric world

Succeeding in a polycentric world requires companies to focus on four priorities:

1. Redefine global and local

The need for local relevance across a growing number of key strategic markets is demanding a higher level of decentralization. But this alone is not enough. Unfettered autonomy for local managers will quickly lead to inefficiency and undermine the advantages of global scale. As a result, leading companies are adopting a more balanced approach whereby local autonomy is combined with globally consistent strategic direction, a shared corporate culture and set of values, and the ability to draw upon capabilities and resources from anywhere in the world.

2. Develop a “polycentric” approach to innovation

Rather than innovate centrally, then adapt or de-feature products to suit different price points, companies are increasingly decentralizing the innovation process, and setting up multiple innovation hubs in key strategic markets. Products, processes or components are developed primarily with local markets in mind, but reapplied when appropriate in other markets. An open approach to innovation helps to facilitate the transfer of ideas and innovations.

3. Rethink relationships with government and tax administrations

Government is playing a bigger role in business than at any time in living memory. This new dynamic requires companies to think carefully about how they engage with the public sector. On the other hand, there are new risks to be managed. Many governments are increasing taxes and stepping up tax enforcement. This requires companies to manage and anticipate potential risks on a global basis. But partnership with government also creates opportunities, particularly in emerging markets where a more top-down approach to managing the economy may be adopted.

4. Build diverse leadership teams with strong global experience

The skills and capabilities that are required to succeed in fast-growth markets are different from those needed in more mature markets. While business success in developed markets has been more recently rooted in process and efficiency, emerging markets demand experimentation, risk-taking and entrepreneurship. The need to balance these very different capabilities will require companies to rethink the balance and diversity of leadership teams. They must also ensure that they have the right talent management processes in place to develop a new generation of diverse business leaders with this vital combination of skills.

Four priorities in a polycentric world

1. Redefine global and local

In a polycentric world, companies must focus their efforts on key strategic markets and ensure that their delivery to customers is tailored to local needs. This requires a decentralized approach, whereby customer insight can be gained at a local level and where products and services meet the needs of different price points and expectations.

But while local relevance is a key priority, the benefits of scale should not be ignored. When creating products and services for local markets, companies should draw in relevant resources and capabilities from around the world. They should also look for common threads or similarities that enable components, processes or products to be replicated from one market to another.

What do companies need to do?

Put the local customer first

A polycentric world requires companies to prioritize local relevance over scale. While it may be tempting from an efficiency perspective to take global products and services, and then adapt, reconfigure or de-feature them to meet the needs of local markets, this approach is unlikely to succeed over the long term. Any efficiency gains will be more than offset by a lack of local relevance, particularly in the context of local competitors who have the insight and knowledge to create products and services that are better suited to local customers.

“Leading companies are localizing product, research and business development to reflect local market characteristics as well as developing new approaches to sales and business development,” says Nigel Knight, Managing Partner for Advisory services at Ernst & Young in China. “These approaches include a wide mix of alliance and partnership arrangements, often in ‘co-opetition’ – cooperate in some markets and compete in others – to help scale business quickly.”

This focus on local delivery requires companies to give greater autonomy to regional managers. “In large emerging markets, you need to scale at speed,” says Anil Gupta, Professor of Strategy at The University of Maryland and Visiting Professor at INSEAD. “If you keep the traditional ‘push’ model of corporate headquarters setting strategy for your market, then you may be relying on people sitting 10,000 miles away from where the new reality is opening up. Instead, you need the local CEO to be making decisions on the ground, depart from established ways, and have the freedom to ‘pull’ in resources from around the world.”

Autonomy is particularly important for managers in emerging markets, where the pace of business is so much faster than in the developed world. “The traditional pace of decisionmaking in a developed nation will be inappropriate in a developing nation,” says Alexander Cutler, Chairman and Chief Executive of Eaton Corporation, a global diversified power management company. “You just can’t ask people in emerging markets to have their daily decisions reviewed or you will miss opportunities.”

Macroeconomic factors are also encouraging a decentralized approach to manufacturing and delivery. Cutler says that concerns over currency volatility have encouraged his company to manufacture locally. He explains that along with divergent economic growth rates, the company expected to see volatility in currencies that it would not be able to forecast accurately. "As a result, we did not want to export across these zones of currency, so we have localized production as a basic strategy."

Benefit from scale, but be more selective about it

Local delivery is vital but the pendulum must not be allowed to swing too far. Excessive decentralization can lead to loss of cohesion, duplication of effort and a failure to capture the advantages of global scale. In designing and developing products for local markets, local managers should be able to pull in and re-use existing resources from around the world.

Consider GE as an example. When managers in Asia were developing a hand-held ultrasound machine for sale in China, their first priority was the local customer. But they also drew upon capabilities from head office, which had been conducting research into ultrasound for years. In this way, GE was able to create a product that was relevant to local customers while still making efficient use of global resources. This gave the company a strong advantage over local competitors who could not draw on GE's deep research capabilities.

"It's essential to have a blended approach," says Craig Boundy, Chief Executive of Logica UK. "You need to have people onshore who are close to the client and know them inside out. But you need to combine this with the skills and knowledge to deal effectively with quality, volume and efficient processes."

Benefiting from scale can also mean seeking out common needs across markets and thinking about components and processes that can be reapplied. When dealing with emerging markets, for example, Cisco has observed that a common thread in almost any public sector bidding process is the requirement for local manufacturing. "Rather than reinvent the wheel every time we face this issue, we have devised a formula for developing our capability to manufacture locally in a replicable fashion," explains Mohsen Moazami, Vice President of Cisco's strategic consulting arm, the Internet Business Solutions Group, in the Emerging Markets and Globalization Centre at Cisco.



Mark Otty

Managing Partner, EMEA – Ernst & Young

"Strong emerging markets are creating opportunities for companies all over the world. When markets are open, competitive and fast-paced, however, you need to continue to innovate to stay ahead."

Similarities in purchasing power between two markets can also be a common thread, even if those countries are different in other respects. In December 2010, for example, Walmart announced that it would transfer a successful "bare-bones" compact hypermarket developed in South America to serve low- and middle-income customers in China. "That's how we're all having to operate now," says Best Buy's Patel. "We have to move ideas across geographies and bring concepts from one market to another."

Companies have long seen the standardization of back-office functions and systems as a way of achieving scale. But, while this is undoubtedly important, it may not always be appropriate. "Scale might mean putting in place a central back office IT system and sharing it globally," says Patel. "But what people are finding is that this imposes a cost base on some markets that might be too high to compete with fast-moving local companies."

Maintain consistent values and culture

A polycentric world may demand greater autonomy and decentralization, but culture and values are the glue that holds the organization together. As they expand overseas and hand over decisionmaking power to local managers, companies must ensure that a shared corporate culture and values remain a consistent thread that runs through their entire global operations.

Strong leadership helps to ensure that culture and values are embedded and adhered to throughout the organization. This is vital when operating in distant markets where day-to-day decisions may take place out of sight from corporate headquarters. "Globalization brings with it a greater level of scrutiny and interrogation of business ethics and values," says Matt Carter, UK Chief Executive of Burson-Marsteller, a public relations firm. "Most businesses haven't fully understood that, as soon as you become a big player, you attract a whole wealth of interest and scrutiny from people who are looking at the way in which your values are delivered every day in your business in each of your markets."

The importance of culture and values requires executives to strike a careful balance between the recruitment of a local workforce and the use of expatriate managers, particularly when they first enter a new market. While the local workforce is essential to gain insights into the needs of local customers and build relationships with local stakeholders, experienced expatriates can serve as the messenger of the company's overall culture and values.

"Values are absolutely critical and that is why we always put managers who understand the corporate culture on the ground but overlay that with local expertise and supported by an accelerated learning program for them," says Rosaleen Blair, Chief Executive of Alexander Mann Solutions, a global specialist in talent and resourcing. "If you have a strong employer brand, then you have a huge opportunity to leverage that to become an employer of choice."

In fast-growth emerging markets, where employee attrition rates may be significantly higher than in the developed world, a strong culture can also serve as a powerful retention tool. "When you analyze why attrition rates are higher than you expected, you realize that the primary factor is often a failure to instill a strong, consistent culture," says Cisco's Moazami. "This is a very important but often overlooked aspect of leadership."



Yoshitaka Kato

Managing Partner, Japan – Ernst & Young

"The best global companies understand how to create advantage from economies of scale while staying locally relevant. They combine global strategy and access to the best global resources with local delivery and know-how."

Case study: Best Buy

In March 2010, the global consumer electronics retailer Best Buy reorganized itself into three divisions – Americas, Europe and Asia – with an Executive Vice-President running each region and reporting into the Chief Executive, Brian Dunn.

The restructuring acknowledges that the needs and priorities of business in different regions around the world can vary considerably. And rather than apply a multi-speed model onto a single organizational structure, the separation into three divisions enables each region to set its own pace.

By giving equal weight to the Americas, Europe and Asia in its organizational structure, Best Buy is moving away from traditional perceptions of developed versus emerging markets. “We try not to talk about emerging markets,” says Kal Patel, Executive Vice-President for Asia at Best Buy. “Instead, we talk about having three markets – all of which we are trying to grow. We did not want to be seen as a predominantly US-based company with other regions as subsidiaries.”

Individual regions have considerable latitude to set their own strategies and business models. In Asia, this means adopting an experimental approach so that ideas can be tested and, if successful, scaled up quickly. “You’ve got distinctly different competitive characteristics in each region and you need to be able to respond to that,” says Patel. “So in Asia, we place bets and take options and operate a bit like a Silicon Valley start-up.”

The ability to draw in resources and capabilities from other parts of the business creates scale. But rather than transfer entire operating models or functions from one market to another, Best Buy takes a selective approach, disaggregating business processes and picking and choosing the most appropriate components. “Our goal is to take pieces of good practice and transfer them in an incremental way,” says Patel. “For example, we might like the commission base or delivery system in Canada and bring it over to parts of Asia.”

This is very different from the traditional approach of most multinationals, where the goal is to standardize and centralize as much as possible. But while this may offer scale, Patel believes that it is not sufficiently flexible to suit the needs of very different markets. “The more you rely on capabilities from the core business, the more they bring their orthodoxy with them,” he says. “You need to get smart about building business models in these regions and finding out how you are going to compete. By all means, share some things, but the more you share, the less relevant you become.”

2. Develop a “polycentric” approach to innovation

The need for local relevance demands a new approach to innovation. Rather than innovate centrally, then adapt or de-feature products to suit different price points, companies are increasingly decentralizing the innovation process, setting up multiple innovation hubs in key strategic markets, and relying on external partners as a source of ideas and intellectual property.

As part of this new approach, companies are rethinking their approach to innovation in emerging markets. At present, companies in our survey conduct a relatively small proportion of their research and development (R&D) in emerging markets, despite the importance of these economies to their growth prospects. Overall, just 16% of respondents say that more than one-quarter of their R&D expenditure is invested in emerging markets (see Figure 2).

But over the next five years, this picture will change. The proportion of respondents that will conduct more than one-quarter of their R&D in emerging markets will almost triple in Western Europe and more than double in North America. Overall, around 28% of companies will spend more than one-quarter of their overall R&D investment in emerging markets five years from now.

Just as Western multinationals are ramping up their innovation efforts in countries such as India, so too are emerging market multinationals eyeing similar investments in the West. “In the future, we will set up innovation centers in the US and Europe,” says Kris Gopalakrishnan, President and CEO of Infosys. “Technology allows you equal access and distance is not a problem.”

It may seem surprising that the proportion of R&D conducted in emerging markets is not greater. But some commentators find this anomaly easy to explain. “There is still a considerable conservatism about ramping up R&D investments in emerging markets,” says Brent Hudson, Chief Executive of Sagentia, an international innovation, and technology and product development company. “Many companies continue to have concerns about process, regulatory compliance and the security of intellectual property.”

Skills and proximity to markets are important drivers in the decision to locate R&D facilities, but tax is also a factor. Indeed, respondents tell us that corporate tax rates and the extent of fiscal stimulus targeted at their industry are among the most influential aspects of government policy when deciding to invest in a particular market (see Figure 3).

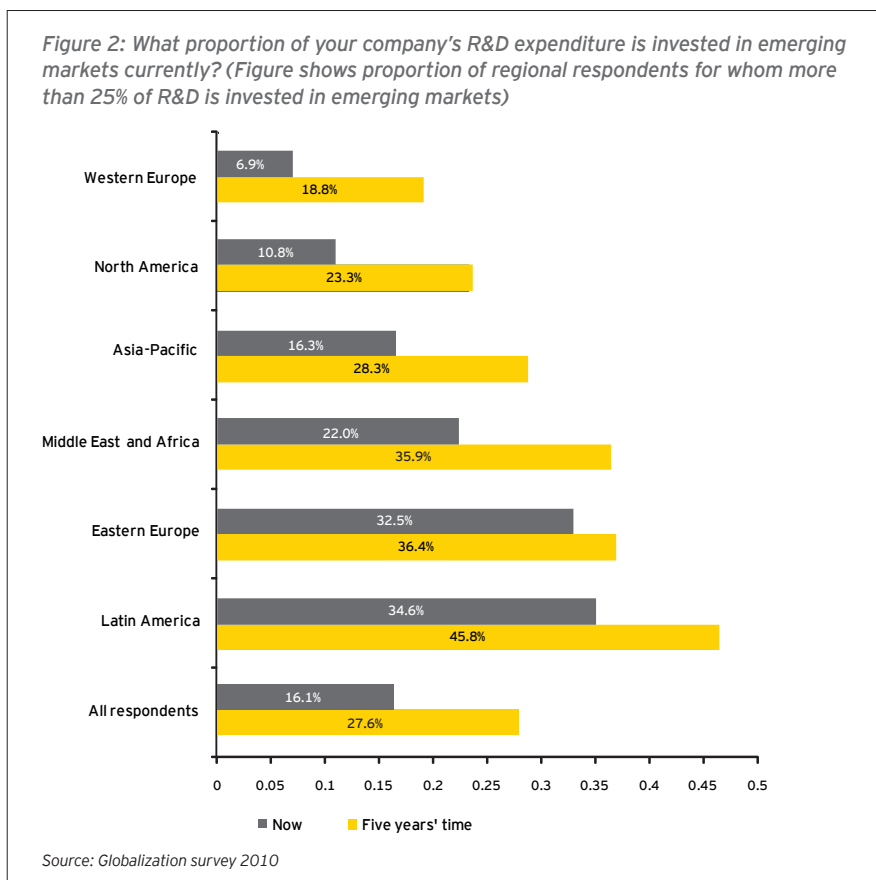
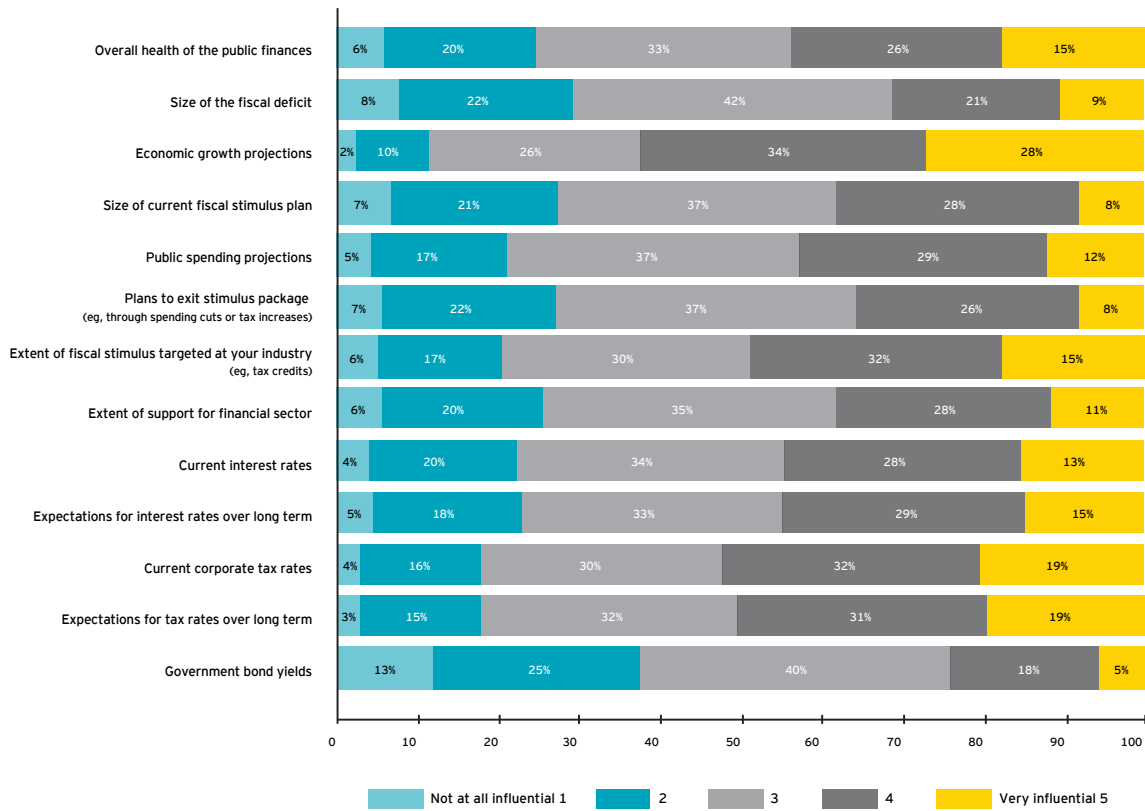


Figure 3: How influential are the following aspects of government policy when deciding to invest in a particular market?



Source: Globalization survey 2010

Around the world, governments provide a range of grants, loans and tax advantages with the express aim of attracting and retaining R&D activities.

In recent years, the vast majority of countries have increased and enhanced their R&D support and are introducing a range of innovative measures to encourage companies to increase their R&D investment at a time when many may be tempted to rein in their expenditure on innovation efforts.

“Tax policy is increasingly being used as an economic tool by governments,” says Mark Weinberger, Global Vice-Chair, Tax at Ernst & Young. “During the financial crisis, there were stimulus bills introduced across the world and over half of the stimulus measures were tax incentives of some kind. New incentives for investing in research and development are one example of this type of fiscal policy that governments started to use because monetary policy had been pretty much exhausted.”

What do companies need to do?

Break down the barriers of fortress R&D

R&D can no longer be something practiced at the corporate headquarters and then cascaded into other markets. Instead, companies need to adopt a more open approach that relies on networks of “hubs” in key strategic markets. As companies develop more R&D centers around the world, they should ensure that these are linked and that there is fluidity of knowledge and human capital between them. In fact, studies have shown that the dynamics of team diversity stimulate creativity. Innovation thrives on the “diversity of thought” and debate that emanates from R&D project teams comprised of people from different cultures, backgrounds and work experiences.

Tata Consultancy Services (TCS), for example, runs a Co-Innovation Network, which brings together internal and external innovation partners, including academic institutions, start-ups, venture funds, partners and clients. “We are constantly looking for the next big thing and our approach to innovation is very open,” says N Chandrasekaran, Chief Executive of TCS. “It is increasingly important for companies to look outside their borders and open up their innovation process.”

This decentralization of R&D, whereby products are developed locally and companies use skills and capabilities from around the world, is slowly becoming more commonplace. “The world has moved to a polycentric mode of innovation,” says Cisco’s Moazami. “It can and does happen everywhere and it is the responsibility of companies to capture the innovation and creativity that takes place across the globe.”

Innovation in a polycentric world requires companies to understand where specific expertise lies and how it can be combined. “Large multinationals need to start mapping the different innovations, capabilities and assets that are available to them,” says Navi Radjou, Executive Director of the Centre for India & Global Business at Cambridge Judge Business School, UK. “In the polycentric model, you accept the fact that there are multiple centers of excellence around the world. The key point is to know which center is good at what. Then, depending on the context, you bring them together into a global network.”



Pip McCrostie

Global Vice Chair, Transaction Advisory Services – Ernst & Young

“As their economic power has risen, the emerging markets have become real hotbeds of innovation. The new products and business models they are creating are being increasingly adopted in developed and developing markets alike.”

Experiment, learn and scale

When entering emerging markets, companies need an approach in which experiments are supported and in which failure is not seen as a stigma. This means behaving more like a venture capital firm – testing ideas and, if they are successful, scaling them up quickly.

Executives accustomed to the pace of innovation in developed markets can struggle with this change of mindset. A key challenge is that most companies are built for efficiency, rather than innovation. They focus their efforts on establishing repeatable, efficient processes and delivering predictable results to customers and shareholders. This is anathema to the more experimental approach required in emerging markets especially.

Innovation in emerging markets often requires new business models, as well as products. Western multinationals, for example, must make the transition from a business model based on higher prices and lower volumes to one based on lower prices and much higher volumes. “Companies in emerging markets may be adding millions of new customers every year,” says Moazami. “The ability to serve this colossal body of consumers on a high-velocity and low-cost basis requires unprecedented levels of business model innovation.”

Consider how innovations can be repackaged or repurposed for use in other markets

Although products should be designed with local customers in mind, this does not mean that economies of scale cannot be derived. Companies can either take products and sell them in other markets that share common characteristics, or take components of products that might form a platform for other products elsewhere in the world.

Equally, creating R&D labs in every market in which a company operates is impractical. Vijay Govindarajan, a Professor at Tuck School of Business at Dartmouth, US, advises companies to set up dedicated teams in five or six key strategic markets around the world. "You don't want to duplicate things because scale is so important," he says. "So when you are getting proposals for innovation from your six strategic markets, you need to evaluate those at head office, and throughout your business, and consider if there are commonalities that will enable you to take an innovation from one market to another. The key is to develop platforms that have local relevance for strategic markets but that could be scaled up in other markets as well."

Innovative processes used to create new products can also be replicated and shared between markets. At Diageo, for example, efforts to bring down costs of the final product in Africa led to a new technology solution that could be applied to other markets. "Innovation in emerging markets is really forcing us to push the boundaries of technology," says Chris Copeland, Innovation Director at Diageo International. "And what we're increasingly finding is that this technology has applications in our developed markets as well."



Steve Howe

Managing Partner, Americas – Ernst & Young

"You're never too big to innovate. Companies that foster 'intrapreneurship' in all their markets have the best of both worlds – great resources behind them and a rich source of entrepreneurial ideas."

Case study: Xerox

When the document management company Xerox opened its India Innovation Hub in March 2010, it was a break from the past. The company already had four innovation centers, but these were located in North America and Europe. By adding a fifth in the world's fourth-largest economy, it was showing a strong commitment to Asia and a recognition that emerging market problems require local solutions.

The Xerox India Innovation Hub, which is located in Chennai, will bring together Xerox scientists and engineers with a range of external partners, including academic institutions, research labs and industry partners. For Meera Sampath, Head of the India Innovation Hub at Xerox, this "open" approach to innovation will be critical to its success. "One of the key ingredients to being able to crack the emerging markets is to rely strongly on partnerships," says Sampath. "The local companies that have been around a while really understand the market and can relate to the needs of the local customer. So while we might not be able to get all the best and brightest people to work for us, at least we can get them to work with us."

The goal of the India Innovation Hub will be to focus first and foremost on products and services tailored for emerging markets. But Sampath sees the remit as being broader than this. While products may be designed with emerging market customers in mind, components of those innovations may be re-applied in other markets around the world, including developed ones. "This means that we are able to take ideas innovated anywhere in the world and potentially apply them somewhere else," says Sampath.

The relatively low cost of innovating in India, and an awareness that Xerox will, in many cases, be creating a new market for itself in emerging markets, highlights the importance of conducting many small-scale experiments to test ideas on the market. "If we can successfully figure out how to roll-out products and services for these highly challenged, low-cost environments, that gives us a tremendous platform to then roll them out globally as well," says Sampath.

Researchers will be encouraged to move between centers in a program that the company refers to as "crossovers." "Our vision for the India Innovation Hub is that this would be a place where we can really leverage and harness the power of global innovation networks," says Sampath. "It will become a focal point to connect researchers in India with Xerox researchers around the world and is specifically designed to enable the cross-fertilization of ideas and transfer of knowledge."

3. Rethink relationships with government and tax administrations

Government is back in business everywhere. From the bailouts of the financial services and automotive industries, to the return of industrial policy, in many countries governments are more embedded in business than at any time in recent memory. In developed countries, the relationship between private and public could become more fractious as governments facing revenue shortfalls rethink tax policy and administration. For business leaders, these trends mean re-evaluating traditional partnerships with governments around the world, and considering how best to execute their strategy in this changed environment.

Understanding the political environment, and how it might affect the company's ability to do business, has become a core competence. And yet according to our survey, companies pay a relatively small amount of attention to policy as part of their investment decisions. The only aspects of government policy that more than half of respondents consider to be influential when planning an investment are economic growth projections and current tax rates (see Figure 3).

"For much of the developed world, government relations rarely used to be seen as a core strategic role for business," says Steven Weber, Professor of Political Science at the University of California, Berkeley. "A lot of people are going to find it difficult to come to terms with the fact that governments in the developed world are now a key determinant of where capital gets allocated, who can buy your company and where you can invest."

For companies in emerging markets, the idea that government plays a prominent role in business is nothing new. "The role of non-market stakeholders, including governments, is much greater in emerging markets than in mature economies," says the University of Maryland's Professor Gupta. "Western multinationals have not historically had to deal with those non-market forces to the same extent as emerging market companies."

But companies from developed countries would be advised to close this gap and pay greater attention to policy issues, particularly as they expand more deeply into emerging markets. "The Anglo-American culture of short-term shareholder return has to be managed very differently in emerging economies," says David Weymouth, Chief Operating Officer, RSA. "In many of these markets, you're dependent on a government that will see long-term value in building a financial sector that doesn't get translated into immediate return on capital."

What do companies need to do?

Rethink the way in which they engage with government

A larger role for government within business requires companies to rethink the way in which they engage with the public sector. Building effective relationships with governments and responding effectively to a changing regulatory environment will continue to be a critical element of competitive strategy. "We would emphasize the critical importance of working closely and collaboratively with the relevant government and regulatory bodies," says Ernst & Young's Nigel Knight. "This is both to help shape and inform regulatory policy as well as ensure proper understanding of the context and intent of regulations as they are introduced."

Rather than trying to keep governments at arm's length, many companies are finding that they need to develop a relationship that is more akin to a partnership. "There's a greater degree of interactivity between business and government," says Burson-Marsteller's Carter. "Companies are finding that they need to become more sensitive to ways of collectively achieving some of the common goals that are seen as desirable in society, and being smarter about using the power of commerce to help deliver them."

Nowhere is this more evident than in emerging markets. Many governments are imposing a top-down agenda of modernization, and have a clear vision of the roles that will be played by the private and public sectors to achieve that. Companies that recognize this, and that possess the know-how and willingness to achieve these objectives in collaboration with state stakeholders, will find that they have many opportunities ahead of them.

Cisco, for example, is working with a number of emerging market governments on what it calls "country transformation" projects, such as the development of new broadband networks. "All emerging market governments share the view that investment in broadband will yield benefits across multiple sectors," says Cisco's Moazami. "By working directly with governments in these regions, we can play an active role in their economic growth and create important new markets for our company."

In June 2010, Cisco hosted the Russian President Dmitry Medvedev at its Silicon Valley campus and pledged a US\$1b investment to drive entrepreneurship and sustainable innovation in Russia. Part of this investment would involve a commitment to build a presence in Skolkovo, a new R&D hub that it is hoped will become the “Russian Silicon Valley.” Partnerships of this nature are likely to remain an important aspect of business in emerging markets.

In developed markets, strained public finances mean that governments will increasingly look to partner with the private sector on projects related to infrastructure, education and healthcare. These public private partnerships (PPP) have a range of advantages for governments, including the ability to shift risk onto the private sector, spread costs over the life-cycle of the investment and build robust performance metrics into contracts. This increases the likelihood that projects will be completed on time, on budget and to agreed quality levels. Although different countries are at varying levels of maturity in their adoption of PPP, this model is likely to become an increasingly significant opportunity for many companies in the years ahead.

Understand shifting trends in tax policy and administration

The financial crisis has had a profound impact on tax policy and administration. With monetary policy in many developed countries having reached its limits, fiscal policy has become an increasingly important lever for governments to boost economic growth and investment. “Tax policy is increasingly being used as an economic tool by governments,” says Mark Weinberger, Global Vice Chair, Tax at Ernst & Young. “During the financial crisis, more than half of the stimulus measures introduced were tax incentives of some kind.”

It is notable that developed countries, even those under severe fiscal strain, are reluctant to increase corporate tax rates and, in many cases, continue to reduce them. Over the past decade, more than 90% of OECD countries have reduced their corporate tax rates and, for many, tax competition remains an important plank of government policy. Among our survey respondents, corporate tax rate cuts are the policy measure that respondents would most like to see their own government introduce (see Figure 5). “Although they are trying to raise revenues, governments still want to remain competitive from a tax perspective and to ensure that they continue to attract investment from multinational companies,” says Weinberger.



Mark Weinberger

Global Vice Chair, Tax – Ernst & Young

“Companies are adapting to governments taking a more prominent role in business and to the quickly changing regulatory environment that comes with it. Many will need to take a more collaborative approach to help navigate through this change, building strong relationships with governments and other regulatory bodies.”

But although tax competition remains an important goal for many countries, some forms of tax increases are largely inevitable in order to bring down deficits and address revenue shortfalls. And although approaches vary, indirect taxes and income taxes are generally seen as the most likely candidates for increases. At the same time, governments are ramping up enforcement and seeking to obtain and share information with other jurisdictions. “Governments are trying to be much more efficient in their enforcement efforts, which means focusing on activities and transactions that are considered to be high-risk from a tax perspective,” says Weinberger. “They are also working much more closely together, and sharing information on tax planning in order to get rid of any tax arbitrage or tax abuses.”

This changing environment presents considerable uncertainty for multinational companies. Increasingly, tax risk is becoming a board-level issue, while tax is becoming a major factor that influences location decisions. “Companies need to manage their tax risks globally,” says Weinberger. “They should be aware of changes in policy in any of the jurisdictions in which they operate and how this might affect them. They also need to anticipate increased enforcement and challenges to their position so that their investors, board members, and audit committees are not surprised by any significant potential controversies or litigation.”

Tax controversy is on the rise, and foreign investors are finding themselves in the firing line. In November 2010, an Indian court ruled that Vodafone must pay capital gains tax on the acquisition of Hutchison Essar, an Indian subsidiary of Hong Kong's Hutchison Whampoa, even though the deal was conducted between offshore subsidiaries. The case has now been passed to the Supreme Court, but if it loses, Vodafone could be liable to up to US\$2.5bn in taxes.

Professor Weber of the University of California, Berkeley believes that cases like Vodafone are less about governments trying to raise revenue from taxes, and more about shaping the behavior of global investors and cross-border acquirers. "This is yet another manifestation of government being 'in the game' and being willing to pull new levers as part of their industrial policy," he says.

This continuing focus on tax competition has the potential to create significant advantages for companies seeking to invest overseas and re-consider the global allocation of their assets and strategic priorities. Again, it is vital for companies to stay abreast of current trends in tax policy to ensure that they maximize these advantages. This trend also highlights the need for managers to involve the tax function in the investment decision process – ideally from the outset.

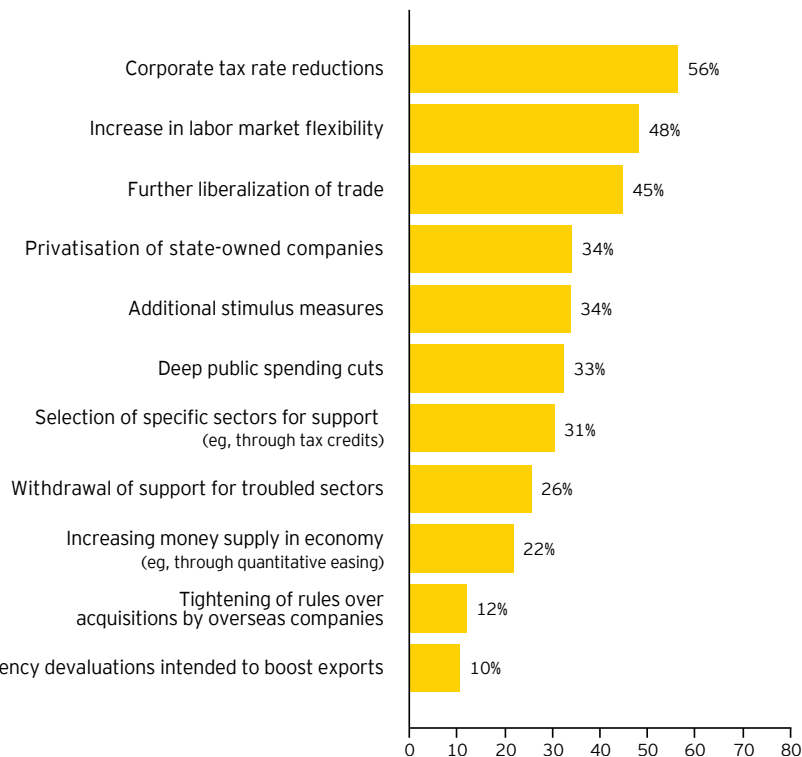


Beth Brooke

Global Vice Chair, Public Policy, Sustainability and Stakeholder Engagement – Ernst & Young

"As called for by the G-20 leaders, we remain optimistic that IFRS will ultimately become the single set of high-quality, global accounting and financial reporting standards. Achieving this would bring greater transparency and help create a level playing field for global businesses and investors in a complex and interconnected world."

Figure 4: Which of the following policy measures would you like to see your own government introduce in order to stimulate investment and business growth?

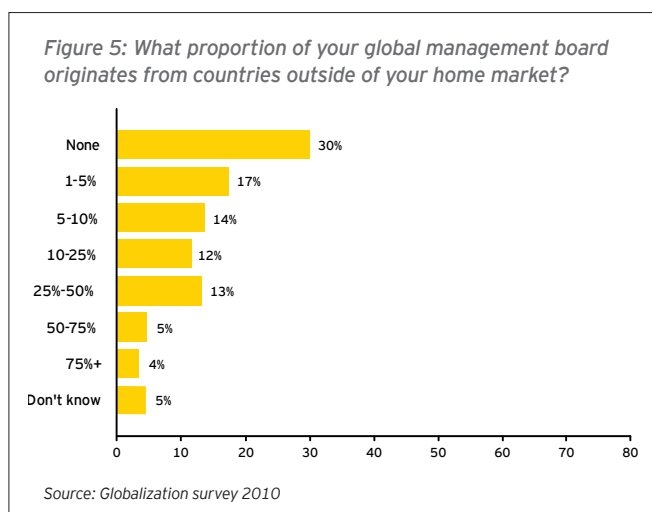


Source: Globalization survey 2010

4. Build diverse leadership teams with strong global experience

Increasingly, homogenous management teams made up of individuals who have spent their entire career at corporate headquarters will no longer be fit for purpose. Instead, companies need to ensure that management teams comprise individuals from diverse backgrounds and different ages, races and gender, who have experience of both fast- and slow-growth markets.

But despite broadly agreeing about the benefits of diversity, companies continue to struggle with translating their beliefs into action. Three out of ten respondents say that they have no representatives on their management team from outside their home market and less than 10% have management boards where more than half the executives come from outside the home market (see Figure 5).



With companies around the world pinning their hopes for growth on emerging markets, managers who have spent much of their career in the West will be ill-equipped to deal with the changing demands of their business. "Managers in the West are unlikely to have experience of sustained double digit growth rates or to understand the challenges that this poses in terms of service delivery, manufacturing capability or human capital," says Symon Elliott, Head of European Operations at Russell Reynolds Associates, a board-level executive search and assessment firm.

The skills and capabilities that are required for success in emerging markets are often completely different from those that have determined success in the developed world. "The people who have risen to the top of Western multinationals are people who have succeeded in mature markets," says the University of Maryland's Professor Gupta. "They're grandmasters at managing operational efficiency and at operating in a very process-driven manner. By contrast, the emerging economies require an entrepreneurial approach and the need to go easy on the processes because you need to make decisions at four times the speed."

As companies pursue increasingly ambitious global expansion strategies, it becomes critical to have executives in place who understand the strategic markets of the future.

A growing number of companies recognize this. In April 2010, for example, MasterCard announced that it had appointed Ajay Banga as its new CEO. Born and educated in India, Banga previously ran the Asia-Pacific business at Citi. The appointment sent a strong signal to the market about where the company expects its long-term prospects to lie.

Equally, emerging market companies are looking for Western experience to help spearhead their expansion. In early 2010, Tata Motors announced that it had appointed Carl-Peter Forster, the former European Head of General Motors, to become its new Group CEO. His long-standing experience of running a business in developed markets again provides a clear indication about Tata's plans for expansion to the West. "Multinationals from developing economies are increasingly looking to inject foreign talent into their leadership teams to help support their regional and global growth ambitions," says Ernst & Young's Nigel Knight.

For some companies, the need to have international experience is becoming a prerequisite for a position on the executive board. "Any manager in my top 250 people will have spent up to 50% of their career in at least three overseas markets," says N Chandrasekaran of Tata Consultancy Services. "We encourage key managers in all our markets to move between countries in order to get global exposure."

Diversity must be viewed through a broad lens to encompass differences in gender, ethnicity, generation and skills, as well as experience. This highlights the importance for companies to capitalize on a broad array of talent and to overcome barriers that may in the past have prevented women and others from certain ethnic and cultural backgrounds from rising through the leadership ranks in significant numbers.

Tomorrow's successful companies will be those that are already grooming and empowering diverse leaders through strategic leadership development programs.

The benefits of having diverse management teams are well understood. Over the past two decades, there has been a steady flow of academic research that makes a link between diversity and increased market share or enhanced organizational effectiveness. A 2007 report from Catalyst, for example, concluded that Fortune 500 companies with more women board directors had a return on equity that was 53% higher than those with the lowest female representation. "You need both diversity of culture and diversity of experience to create the highest performing leadership teams," says Rosaleen Blair, Chief Executive of Alexander Mann Solutions.

Respondents to our survey generally share this view. Just over half agree that there is a link between diversity and superior reputation and financial performance (see Figure 6). Only 15% think that diversity does not have a positive impact on reputation or performance.

A diverse management team may also have a positive impact on recruitment and retention, particularly in fast-moving emerging markets, where attrition rates can be high. If recruits can see that the top echelons of a company include individuals from a similar background, gender or race to them, they will be more likely to consider that their experience will be valued at the top table. Homogenous management teams, by contrast, send a signal that there is a glass ceiling for other groups that may be difficult to breach.

What do companies need to do?

Put in place talent management programs that encourage diversity of experience – as well as diversity of backgrounds, genders, ages and cultures.

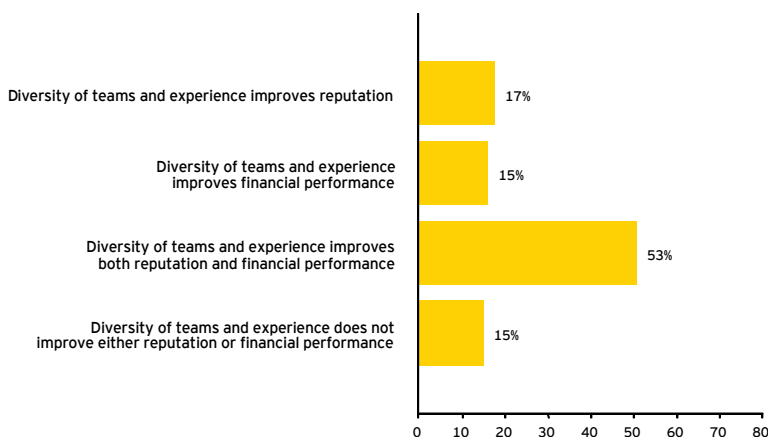
In order to build leadership teams that combine experience of both fast-growing and more mature markets, companies will need to build greater levels of international mobility into talent management programs. "Mobility is going to be crucial for organizations that want to operate on a global basis," says Blair. "Those organizations that are running programs where you are rotating people and getting that global experience are going to be at a major advantage."

Postings to emerging markets, which may once have been regarded as tantamount to being sidelined, must now be seen as a crucial component of the senior manager's toolkit. Equally, managers from emerging markets must be given the opportunity to spend time in developed markets as part of a structured career-management program.

A growing number of companies are instituting formal, global programs that give managers experience of different regions in order to prepare them for senior leadership positions. HSBC, for example, operates an international management program for recent graduates, whereby individuals are given a new assignment every 18 months to two years. Many of the bank's senior executives have emerged from the ranks of this program.

Greater employee mobility sounds like common sense, but there can often be resistance to it. A key barrier to wider adoption is that managers will typically want to hang on to good staff rather than see them relocated halfway around the world. This is particularly true in companies that have experienced downsizing and where resources may be stretched. "The desire to hold on to talent is understandable but is short-term thinking," says Blair. "If you want to survive and prosper as an organization, then you need to nurture talent but be able to move it on a global basis."

Figure 6: Which of the following statements best describes your assessment of the link between diversity and reputation/financial performance?



Source: Globalization survey 2010

Make the transition to a new style of leadership

The shift to greater regional autonomy and more decentralized decisionmaking may require business leaders to adopt a change in management style. Rather than maintain a command and control mentality, business leaders need to give regional managers the latitude to make decisions locally without constant review from head office. They also need to be comfortable with the notion that different regions will be operating at different speeds and taking divergent paths to achieve their objectives.

Navi Radjou, Centre for India & Global Business at Cambridge Judge Business School, draws a parallel with the difference between an orchestra and a jazz band. Whereas an orchestra follows the lead of a conductor, a jazz band relies much more on improvisation and individual flair to create its own form of harmony. "In a jazz band, there's a lot of bottom-up experimentation as opposed to top-down management. It's the same in business. I would say that the leadership style of the future will be more about facilitation than being prescriptive about how employees should act."

Become more comfortable with multiple perspectives

The business leader of the future must be comfortable with complexity and multiple perspectives across the organization. They will need to ensure that every task force, management program and leadership team is diverse and know how to harness that power. "Business leaders will have to figure out how to manage multiple viewpoints and perspectives across the company," says Radjou. "But rather than trying to seek convergence, which is the easy route, companies will need to encourage divergence, because divergence leads to diversity and diversity leads to more innovation. If you want to fight complexity, the answer is not simplicity."

Companies should also bear in mind that diversity has multiple dimensions. As well as maximizing cultural and gender diversity, companies will increasingly need to manage generational diversity, particularly as populations in many markets age. "By 2020, companies will essentially have workforces made up of three generations," says Radjou. "Human resources strategies that work for one generation may not be appropriate for another and companies need to recognize those differences if they want to build and retain an effective workforce."



Lou Pagnutti

Managing Partner, Asia-Pacific – Ernst & Young

"Welcoming people with different perspectives and backgrounds is a sure-fire way to ignite innovation and fresh-thinking. Talent management programs have to recognize that high-potential managers don't need to come from the same mold."

A paper published by Ernst & Young, *Leading without borders: inclusive thinking in an interconnected world*, released during the World Economic Forum, Davos in January 2011, recommends three practical techniques for leaders to hone their ability to benefit from multiple perspectives.

1. Think differently: collaborate in the face of uncertainty

Inclusive leaders collaborate imaginatively to tackle the challenges of our increasingly global, volatile, uncertain, complex and ambiguous world.

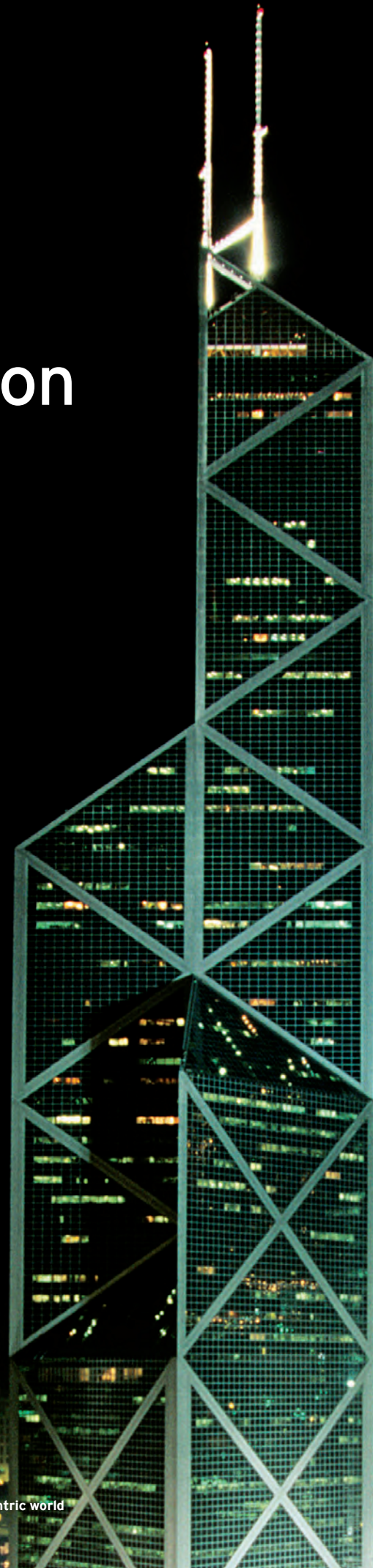
2. Learn differently: seek out different viewpoints and experiences

Immersion in a variety of perspectives and cultures is critical for the leaders and employees of tomorrow to compete globally.

3. Act differently: sponsor people who are not like you

Unintended biases are so ingrained that leaders must make conscious efforts to not only recognize and overcome them but also stretch to change the face of their leadership team.

The Globalization Index 2010



Measuring globalization

The shock of the global economic crisis caused some commentators to question whether globalization would swing into reverse, after decades of deepening integration between countries. Although a dramatic fall in international capital flows and trade volumes caused a brief reversal of globalization in 2009, this phenomenon was temporary. The Globalization Index created for this report shows that the pace of globalization picked up again in 2010, and forecasts that it will continue to increase steadily until 2014.

Technology continues to remain the key driver behind deepening globalization. In emerging markets, the rapid adoption of the internet and mobile technologies is a powerful engine behind the greater integration of trade, capital, culture and labor – in some cases “leapfrogging” the West in terms of their infrastructure. For companies seeking to succeed in a polycentric world, technology is vital as a means of binding together disparate markets and operations into a seamless whole.

About the Globalization Index

The Globalization Index measures and tracks the performance of the world's 60 largest economies, in relation to 20 separate indicators that capture the key aspects of cross-border integration of business. The indicators fall into five broad categories: openness to trade; capital movements; exchange of technology and ideas; labor movements; and cultural integration. These factors have been weighted based on the significance placed upon each factor by 520 surveyed senior company executives doing international business. Subsidiary indicators are also given sub-weightings within each category. Indicators chosen include both quantitative data and qualitative scores from a range of trusted sources. The performance of countries is measured over time, so that progress toward greater or lesser globalization since 1995 can be observed, with a forecast of likely performance until 2014.

For this year's report, the Economist Intelligence Unit has refreshed Ernst & Young's Globalization Index in all years between 1995 and 2013 and extended to 2014. In updating the Index, we have used the latest data available for each year of the Index, thus enabling the most up-to-date view possible of the progress of globalization.

The Index measures “relative” rather than “absolute” globalization. This means that an economy's trade, investment, technology, labor and cultural integration with other economies is measured relative to its GDP rather than by the absolute value of these elements being exchanged. As a result, smaller economies that depend on international integration will tend to have a high level of globalization, while larger economies that can rely on a big domestic market will tend to have a lower level, even though the total amounts exchanged internationally involved may be much greater. The Index, therefore, reflects the degree to which the global integration of an economy is observable or experienced from within that economy.

For more insight on the Globalization Index please visit www.ey.com/globalization.

The Globalization Index 2010

The Globalization Index was created to measure the extent to which the 60 largest countries (by GDP) are connecting to the rest of the world. This table provides a breakdown by country (or, where applicable, territory) for each of the five key categories most relevant to business.

Overall	Country	2010 Composite	1995 Composite	2010 Trade	2010 Capital	2010 Technology	2010 Culture	2010 Labor
1	Hong Kong	7.48	5.45	9.78	7.91	5.87	9.25	4.57
2	Ireland	7.34	4.93	6.66	7.11	9.49	7.20	6.10
3	Singapore	6.78	5.91	9.55	6.16	5.58	8.11	4.37
4	Denmark	5.93	4.20	5.17	6.05	8.92	4.74	4.41
5	Switzerland	5.86	3.99	5.12	5.50	6.20	5.97	6.62
6	Belgium	5.82	4.50	6.21	6.44	6.67	4.63	4.81
7	Sweden	5.80	4.04	5.32	6.10	8.18	4.70	4.38
8	Netherlands	5.59	4.57	6.01	6.09	6.10	4.65	4.85
9	Hungary	5.35	4.39	6.06	5.22	5.87	4.92	4.48
10	Finland	5.29	3.85	4.93	5.60	7.35	4.31	3.98
11	Slovakia	5.16	3.25	6.00	4.83	3.89	6.41	4.83
12	Taiwan	5.15	3.90	5.72	5.13	6.04	4.12	4.43
13	Israel	5.11	4.71	4.84	5.22	6.38	5.18	3.83
14	Austria	5.10	4.38	5.50	5.39	5.56	5.25	3.70
15	United Kingdom	5.00	4.14	4.63	5.75	5.78	4.55	4.12
16	Germany	4.89	3.78	5.30	5.24	5.39	4.44	3.88
17	Canada	4.89	4.07	4.91	5.40	4.96	5.05	4.07
18	France	4.71	3.80	4.34	5.46	5.10	4.48	4.10
19	Norway	4.67	3.50	4.56	5.61	4.87	3.87	4.27
20	Czech Republic	4.67	3.47	5.74	4.90	4.52	4.01	3.95
21	Spain	4.61	3.65	4.57	4.97	4.14	4.47	4.91
22	Portugal	4.49	4.15	4.04	4.96	3.82	4.56	5.17
23	Bulgaria	4.48	3.56	5.40	4.76	3.69	4.18	4.27
24	New Zealand	4.48	3.67	4.60	5.16	4.36	4.43	3.79
25	Poland	4.48	3.01	4.68	4.97	3.86	4.39	4.44
26	Australia	4.43	3.66	4.36	5.45	4.30	4.08	3.82
27	Malaysia	4.43	3.88	6.20	5.04	3.16	4.13	3.37
28	United States of America	4.41	3.57	4.48	5.35	4.60	4.15	3.33
29	Chile	4.32	3.51	4.73	6.32	3.11	3.52	3.68
30	Romania	4.32	2.65	4.49	4.72	3.59	3.97	4.79

Overall	Country	2010 Composite	1995 Composite	2010 Trade	2010 Capital	2010 Technology	2010 Culture	2010 Labor
31	Italy	4.32	3.40	4.10	4.62	4.26	4.16	4.43
32	Saudi Arabia	4.21	3.30	4.79	5.19	3.21	2.48	5.10
33	South Korea	4.17	2.81	5.10	4.66	4.76	2.84	3.07
34	Vietnam	4.15	2.73	5.63	5.04	3.02	2.53	4.13
35	Greece	4.08	3.79	3.65	4.37	3.83	4.58	4.06
36	Mexico	3.81	3.03	4.65	4.88	2.78	3.52	3.05
37	Thailand	3.77	2.99	5.38	4.32	2.43	3.44	3.06
38	Philippines	3.74	2.90	4.51	4.12	1.43	3.29	5.41
39	China	3.63	2.69	4.15	4.75	3.53	2.55	2.90
40	Colombia	3.61	2.94	3.30	4.69	3.21	3.33	3.49
41	Peru	3.58	2.93	4.16	4.69	2.48	3.34	3.10
42	Japan	3.57	2.73	3.97	4.55	4.52	1.94	2.43
43	Ukraine	3.49	2.42	4.13	3.38	3.40	3.09	3.35
44	Turkey	3.43	2.98	3.91	4.27	3.33	2.82	2.61
45	Egypt	3.39	3.16	3.76	4.64	1.93	2.63	3.86
46	Brazil	3.37	2.77	3.48	4.70	2.72	3.29	2.56
47	Sri Lanka	3.36	3.27	3.29	4.33	1.46	3.31	4.53
48	Ecuador	3.28	2.69	3.83	3.07	2.55	2.61	4.30
49	Argentina	3.18	3.15	3.04	3.47	2.98	3.41	3.05
50	Pakistan	3.14	2.69	2.66	4.53	1.47	1.75	5.25
51	Russia	3.13	2.55	3.73	3.46	3.24	2.03	2.93
52	Azerbaijan	3.11	3.07	3.21	3.25	2.52	2.79	3.79
53	Kazakhstan	3.09	2.49	3.43	3.78	2.26	2.86	3.03
54	South Africa	3.04	2.69	3.86	4.23	1.47	2.72	2.83
55	Nigeria	3.03	2.57	2.40	3.66	1.90	2.50	4.81
56	Indonesia	3.00	2.70	4.18	3.76	1.78	2.53	2.54
57	India	2.96	2.60	3.06	4.13	1.51	2.51	3.55
58	Venezuela	2.85	2.62	2.85	2.72	2.68	3.36	2.74
59	Algeria	2.62	2.51	3.16	3.46	1.86	1.82	2.65
60	Iran	2.27	1.87	2.56	2.31	2.72	1.82	1.82

The Globalization Index – indicators, sources and weightings

The Globalization Index was created by identifying the key indicators of globalization most relevant to business. The table below shows, for each of the headline categories, the individual indicators used and their source. The categories were then weighted according to the views captured in a survey of 520 business leaders.

Category and indicators	Source
Movement of goods and services <i>Business leader weighting: 22%</i>	
Total trade (exports + imports) as % GDP	National accounts
Trade openness (5=very high)	Scored on 1-5 scale by EIU analysts
Tariff and non-tariff barriers (5=very low)	Scored on 1-5 scale by EIU analysts
Ease of trading (cross-border) (5=very easy)	Scored on 1-5 scale by EIU analysts
Current-account restrictions (5=very low)	Scored on 1-5 scale by EIU analysts
Movement of capital and finance <i>Business leader weighting: 21%</i>	
FDI flows (in and out, % GDP)	IMF International Financial Statistics
Portfolio capital flows (in and out, % GDP)	IMF International Financial Statistics
Government policy towards foreign investment (5=very encouraging)	Scored on 1-5 scale by EIU analysts
Expropriation risk (5=non-existent)	Scored on 1-5 scale by EIU analysts
Investment protection schemes (5=very good)	Scored on 1-5 scale by EIU analysts
Domestic favoritism by government (5=no favoritism; level playing)	Scored on 1-5 scale by EIU analysts
Exchange of technology and ideas <i>Business leader weighting: 21%</i>	
R&D trade (in and out, as % GDP)	IMF Balance of Payments Statistics; EIU estimates
Broadband subscriptions (per 100 people)	International Telecommunications Union
Internet subscribers (per 100 people)	International Telecommunications Union
Movement of labor <i>Business leader weighting: 19%</i>	
Net migration rate (per 1,000 population)	United Nations
Current transfers (in and out, as % GDP)	IMF International Financial Statistics
Hiring of foreign nationals (5=very easy)	Scored on 1-5 scale by EIU analysts
Cultural integration <i>Business leader weighting: 17%</i>	
Tourism (in and out, per 1,000 population)	World Tourism Organization
International outgoing fixed telephone traffic (minutes) per capita	International Telecommunications Union
Openness of national culture to foreign influence (5=very open)	Scored on 1-5 scale by EIU analysts

What's next?

Rapid economic growth in emerging markets and the increasingly multi-directional flows of trade and investment have created a polycentric world in which opportunities, capabilities and competition are spread broadly across multiple spheres of influence. And although globalization continues to enable the free flow of ideas, technology, capital and labor across borders, the world is not yet flat. Divergent economic growth rates mean that the pace and priorities of business vary considerably between developed and emerging countries, while the range of cultural, business and regulatory environments requires companies to adopt multiple market-entry and product strategies.

Responding to a polycentric world will require companies to think differently – sometimes radically so – about the way they structure, lead and run their business. Leading companies recognize that they must give greater autonomy to local managers, particularly in emerging markets, where the pace of business demands rapid decisionmaking. But while local execution is vital to ensure relevance and timeliness, it must take place within an overall, global framework of culture, values and corporate goals. Regional autonomy is important, but decentralization without guiding principles and an understanding of where scale can be achieved can quickly undermine the advantages of global presence.

The skills and capabilities that are required to succeed in fast-growth markets are different from those that are necessary in more mature markets. The leadership teams of multinational companies will increasingly need to be weighted towards managers who have experience of fast-growth markets. After all, these are likely to be the most important regions of the world from a growth perspective. The lesson for managers seeking leadership positions in the future, and for companies as a whole, is to develop the capacity to operate at multiple speeds and be comfortable with multiple perspectives. It will be a complex juggling task but, for those that master it, a world of considerable opportunity.

Ernst & Young – a leader in globalization

At Ernst & Young, we have long recognized globalization as one of the defining issues of our time. Our response has been to transform our organization so that we keep in step with the changing needs of our clients and our people. Our clients need integrated, cross-border service and the same high quality wherever they do business around the world. Our people want to build careers in an organization that's global in its outlook and inclusive in its approach. We're not merely a loose collection of national practices. We are the most globally integrated professional services organization in our mindset, actions and structure. And at the heart of our highly integrated organization are the 141,000 people who comprise Ernst & Young.

Global integration means we can respond faster than our competitors. We can access the right people and assemble broader, more experienced teams, wherever the client is based, to deliver seamless service worldwide. We can consistently negotiate everywhere, execute everywhere and mobilize resources everywhere. Our global approach also strengthens our ability to establish and execute on global policies and practices that raise the bar for service quality.

At Ernst & Young we have a global structure that is unique in our profession and can best meet the demands of today's and tomorrow's business. We have one strong global leadership team that sets one single global strategy and agenda. To ensure we are efficient and effective, we have organized our legal entities into similarly sized business units in terms of both people and revenue.

These business units are grouped into four geographic Areas: Americas, Europe, Middle East, India and Africa (EMEIA); Asia-Pacific; and Japan. Each business unit's leadership team works directly with their Area and global leaders to ensure flawless execution. This structure is streamlined – it allows us to make decisions quickly, and ensures that we execute our strategy and provide high-quality service wherever in the world our clients do business.

Contacts

James S. Turley*

Chairman and CEO

Tel: + 1 212 773 4300

Email: james.turley@ey.com

John Ferraro*

Chief Operating Officer

Tel: + 44 20 7980 0044

Email: john.ferraro@uk.ey.com

Steve Howe

Managing Partner – Americas

Tel: + 1 212 773 3258

Email: stephen.howe@ey.com

Lou Pagnutti

Managing Partner – Asia-Pacific

Tel: + 1 416 943 3981

Email: lou.pagnutti@ca.ey.com

Mark Otty*

Managing Partner – EMEA

Tel: + 44 20 7951 4966

Email: motty@uk.ey.com

Yoshitaka Kato

Managing Partner – Japan

Tel: + 81 3 3503 1122

Email: kato-yshtk@shinnihon.or.jp

Beth Brooke*

Global Vice Chair – Public Policy,
Sustainability and Stakeholder Engagement

Tel: + 1 202 327 8050

Email: beth.brooke@ey.com

For more information on how Ernst & Young
can help you in a globalized world, please visit us at:

www.ey.com/globalization

* World Economic Forum delegate

Notes

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com.

© 2011 EYGM Limited.

All Rights Reserved.

EYG no. DK0060

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

www.ey.com

The opinions of third parties set out in this publication are not necessarily the opinions of the global Ernst & Young organization or its member firms. Moreover, they should be viewed in the context of the time they were expressed.