

perspectives

CREATING THE DIVERSE ORGANIZATION

HOW TO THRIVE IN A COMPLEX WORLD

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AT A GLANCE



With increasing complexity—caused by globalization and digitization, among other things—companies need to develop ways to serve different customer groups in a variety of markets with a multitude of products and services.

The answer to complexity used to be a clear, simple strategy. Popular executive watchwords were *focus*, *streamline*, and *lean*. Now the answer should be *diversity*.

Companies should look to employ a diverse workforce, set up an organization that reflects the diverse environments in which they do business, and accommodate diverse business models.

Leaders should embrace complexity in a constructive way—rather than fight it. They should keep an open mind, welcome differences, encourage experimentation, and resist the temptation to concentrate power in one person.

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IN AN INCREASINGLY COMPLEX world, companies have to do business in many different markets, work with many different brands, partner with many different suppliers, and use many different operational structures in many different businesses. They have to experiment more than ever before, and they even have to collaborate with competitors.

Until now, the typical response to this increasing complexity—which is the result of globalization and digitization, among other things—has been for company leaders to pursue a clear, simple strategy. Their watchwords have been *focus*, *streamline*, and *lean*. And in the quest for focus, the conglomerate, with its seemingly cumbersome multidimensional business model, fell out of fashion—at least in developed markets.

But if homogeneity worked in the past, it is no longer a long-term solution. Because what really determines success is competitive advantage—or rather, competitive advantages—which constantly change in a globalizing and digitizing world.

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So the solution to the problem of complexity is not homogeneity—it is heterogeneity. We are not saying that companies should step back in time and resurrect the conglomerate, although it is striking that state-run and family-owned conglomerates are proving enduringly successful in fast-growing emerging markets. But they *should* embrace diversity.

To do this, companies need to develop ways to serve different customer groups across a variety of regional markets with a multitude of products and services. In short, they need to become diverse organizations.

A New Diversity of Customers, Regions, and Products and Services

It used to be thought that the world would shrink with globalization, which is why a simple and straightforward strategy—the homogeneous approach—seemed to make sense. But the world has not shrunk. As connectivity increases, it's the contrasts among communities—and not just the commonalities—that stand out. It is now evident that there is no one world. There is no one Europe, one Africa, or one Asia. Nor is there even one China or one India.

The central objective of any company is to serve the customer. But the word *customer* obscures the extraordinary range of people who may buy a company's goods and services: people from different backgrounds, in different income groups and generations, with different needs, tastes, and aspirations.

Each customer within an increasingly precise group, or “segment,” requires different products and services with different price points. At the extreme, companies have to pursue a segment-of-one approach, which

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requires that they develop a wide range of approaches and capabilities. In particular, companies need to use a geographical lens when thinking about customer needs and business operations. Each country or region, and the areas within each region, needs to be considered as a business in its own right. It must have its own specific success factors.

This is how Standard Chartered—the London-listed bank that concentrates on Asia, the Middle East, and Africa—reordered its business in 2015. Bill Winters, the CEO, announced that Standard was shifting its focus from product lines to regions in order to reduce costs, improve accountability, speed up decision making, and improve its chances of survival.

In the course of serving customers in different markets, companies should not expect to stay the same. On the contrary, they should expect to change—sometimes dramatically. Most companies start by offering one core product or service. But in this era of globalization, many have expanded their offering over time and morphed into very different companies. The most successful have done this by discovering their core purpose—the fundamental problem they are solving. We use the word *discovering* because this is often an exercise in trial and error, conducted over several years.

When customers go to an automobile showroom, what are they really looking for? Sometimes it's just a car. More often, however, they're looking for a solution to their mobility problems. Realizing this, automotive companies—including BMW, Daimler-Benz, Toyota, and GM—now not only sell cars but also arrange automotive financing and motor insurance, offer rent-a-car services, and even provide the infrastructure for car sharing. Likewise, banks such as Crédit Agricole, BNP Paribas, and the German savings banks operate not just as financiers but also as insurers and real estate agents. They have responded to the needs of customers who want a home and not just a mortgage.

In 2015, Google (which started as a search engine company in 1998) was subsumed into a larger entity called Alphabet, as the founders sought to reposition their company as a broader technology business with interests in mobility (driverless cars), the “smart” home (connected appliances), financial services, health care, and other “solution businesses.” This move has been so successful that Alphabet surpassed Apple in early 2016 as the world's most valuable company, with a market capitalization of \$540 billion.

How to Ensure That Diversity Does Not Become Complexity

Each additional customer group, region, or product/service offering provides opportunities for additional revenues, growth, and profitability.

But there is always the danger that diversity will lead to more costly complexity—which undermines the search for growth and drives down profitability. To guard against this danger, company leaders need to diversify their workforce, their organizations, and their business models.

The People Dimension. The big-data revolution is transforming business, and some bold claims have been made regarding robotics, artificial intelligence, and machine learning. But there are still many things that can be captured, understood, and acted on only by human beings. So as a company's customers become more diverse, its workforce needs to reflect that. A diverse workforce promotes the cross-pollination of ideas and allows a company to take different perspectives, understand the needs of its varied customer base, be more creative, and gain a better understanding of the complex environment in which it operates.

To create a diverse workforce, it is essential to hire the best, regardless of gender, culture, ethnicity, faith, socioeconomic background, education, experience, and sexual orientation. Of course, not all talented people fit all businesses and all situations all the time. This is why companies need to mix and match in order to find the best fit for their different needs. But most talented people have one feature in common, and that is a distinctive mind-set: they are not afraid to be different, to stand out from the crowd, to say what they really think, to flout convention.

Of course, diversity comes at a price. The best people can be difficult and hard to manage. They can be, and often are, a nuisance. But it's important to embrace them—and not merely accept them—because they are the employees who are most likely to be sources of new ideas, new products, and new approaches.

One company that does this well is Schneider Electric, the world's largest electrical equipment maker. Headquartered in France, it has created a talent system to capture and develop the best minds in the world. Through its Marco Polo Programme for high-level recruits, the company ensures that the stars of the future get to know several countries during a two-year program before they take their first position. This helps stimulate a practical working knowledge of the business and a real international perspective.

Another company that is developing a diverse workforce is Lenovo. The China-based PC and smartphone maker concentrates on identifying and developing local talent in its various subsidiaries in order to ensure local leadership over the longer term. A third example is Bertelsmann, the Germany-based media company, which seeks to attract people from very different backgrounds and with very different skill sets to cater to different customer groups and tasks. And at BCG as well, we try to pick

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the best people to serve our customers; in recent years, we have hired army officers, surgeons, and NASA scientists.

The secret to success is developing a collection of all-stars who pull together as one: brilliant innovators and entrepreneurs pushing the boundaries and creating the future; deep subject-matter experts delivering original solutions; smart administrators ensuring the smooth running of the corporate machine. Such a mix of leaders, generalists, and specialists is hard to manage but absolutely necessary. Ultimately, the challenge is to create a rounded team out of a group of outstanding individuals, rather than a team of all-rounders.

The Organizational Dimension. It should not be surprising that some of the most successful companies have become conglomerates. Alphabet/Google and Apple are two obvious examples, but so are CVS and Fresenius, which operate across a broad range of health care products and services. The downside of the conglomerate—with its multitude of business units operating across many legal entities—is that it can and often does prevent transparency, flexibility, and agility.

But whether or not company leaders recreate the conglomerate approach, they should resist the temptation to force all business units into the same restrictive straitjacket. Instead, they should adopt a “horses for courses” approach. Where they need efficient production, they should opt for larger, streamlined units. Where they need innovation, they should choose smaller, informal units.

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Lockheed famously created its Skunk Works project during the Second World War, developing some revolutionary aircraft designs with a small R&D team that worked outside the constraints of the normal organization structure. In the 1990s, Steve Jobs picked 20 “pirates” to launch the first Macintosh computer, giving them work space three blocks away from the main Apple campus in Texaco Towers. Today, Jack Ma is trying something similar at Alibaba, the China-based e-commerce group. He has established units of 60 to 80 people tasked with developing new businesses.

Google’s reorganization is all about allowing individual businesses to thrive on their own terms. The company’s Internet business has been slimmed down and is now part of Alphabet, a holding company or conglomerate, alongside other businesses such as Google X (which launched Google Glass and is developing driverless cars), YouTube, and Calico (which focuses on health and well-being).

The Business Model Dimension. A company’s business model is the product of many choices made over many years: online or offline, local or international, direct distribution or indirect distribution, premium or mass market, asset light or asset intensive.

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But as industry boundaries become ever more blurred, companies cannot always make simple either-or decisions. They must have several different business models. It is now clear that unless companies have online and offline businesses, they will struggle to survive—it's as simple as that. HMV, the UK retailer, opted to focus narrowly on its offline business, distributing products through high-street stores. It turned out to be a disastrous decision. The company entered receivership in 2013, just five years after being named Entertainment Retailer of the Year at the 2008 MCV Industry Excellence Awards.

For companies that do have an online and an offline presence, the question is whether they should follow a multichannel approach or create separate offline and online channels. There is no clear answer. Historically, US and UK banks and insurance companies have managed their online channels in a more independent way. By contrast, those of mainland Europe have taken a more integrated approach.

Another thorny question is whether to control the whole value chain—in order to protect important proprietary know-how—or to cede control by outsourcing to low-cost suppliers. Some consumer electronics companies are prepared to outsource manufacturing to companies in countries with low labor costs in order to remain competitive with challenger companies from emerging markets. Apple focuses on development, design, marketing, and sales—but its iconic iPhone is manufactured in China. Nike does this, too. But equally, there are companies that take the opposing view, such as Samsung and New Balance, the US-based sportswear company.

A third divisive issue is whether to be an asset-light, low-margin, high-return business or an asset-intensive, high-margin, low-return business. Again, some rival companies that compete in the same sector have taken quite different approaches. In the construction industry, for example, Vinci and Ferrovial have developed asset-intensive infrastructure management businesses, overseeing highways, ports, and airports. Others, such as Hochtief, have stuck to the traditional asset-light approach more typical of the industry.

Leading a Diverse Organization

Real life is not simple, but complex and even messy. It's the same with business. To thrive in an increasingly complex world, you should not look for simple solutions. You should embrace diversity. This means employing a diverse workforce, setting up an organization that reflects the diverse environments in which you do business, and accommodating diverse business models.

Leading a diverse organization requires special skills. Here are five that are essential:

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- Keep an open mind. Welcome differences. Don't force sameness.
- Exert control by sharing responsibility across a broad range of businesses around the world. Don't try to centralize decision making.
- Select and develop a diverse group of people and give them responsibilities. Encourage entrepreneurial freedom.
- Give local leaders the chance to experiment with new business models and new organizational structures that accommodate the varying needs of customers, changing environments, and different levels of maturity. Don't stick to one business model, however successful it has been in the past.
- Empower and enable the next generation of leaders. Don't concentrate power in one person.

Ultimately, you need to understand that constant change is a must in a complex world. If you understand this and act accordingly, if you embrace complexity in a constructive way rather than fight it, you and your company can prosper.

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