Meeting the challenges of global expansion

An AT&T survey and white paper in co-operation with the Economist Intelligence Unit

Executive Summary
Globalization continues at its inexorable pace. A worldwide survey of 497 senior executives conducted by the Economist Intelligence Unit for AT&T shows that 42% of firms will be deriving half or more of their revenue from foreign markets (those outside their own base) in two years time. This compares to 30% of firms who can claim this today. China, the United States and India are the overseas destinations of greatest interest to firms. One-fifth of surveyed executives consider China to be the focus of their company’s growth strategy, while 13% cite the United States and 10% mention India.

Companies will employ a variety of strategies and entry vehicles to achieve international growth over the next two years. Nearly half (47%) will set up joint ventures, and sales or marketing alliances will also be prominent, as cited by 43% of respondents. For many firms, research and development alliances will prove an important means of tapping new sources of innovation.

Mergers and acquisitions (M&A) will also be a favoured growth vehicle, cited by 40% of the executives polled, and can be the best option for maintaining control over operations in an overseas market and acquiring local talent. To help ensure success of M&A and joint ventures, management leadership and direction, clarity of objectives and a clear roadmap for integration are required.

There can be numerous obstacles to successful acquisitions and ventures overseas. Among them is the difficulty of integrating communications and IT networks, which is cited by 13% of executives as a common M&A pitfall. When network integration fails, the most frequent reason (mentioned by 34% of respondents) is the incompatibility of the merging parties’ IT systems. In many cases, failure to engage IT staff early in merger talks also hinders integration later on, as does inadequate due diligence of IT systems.

No matter what course companies decide to follow in extending their reach across borders, the support of IT and networks is critical to making it work. Most companies agree that they could not carry out their plans for international growth without the help of advanced technologies. IP-based networks in particular lend themselves to globalization, offering a flexible, consistent and secure way of holding communications together across dispersed global operations.

Investing to widen horizons
Most medium and large corporations cannot remain within their borders and stay competitive. A recent report from the International Monetary Fund estimates that the integration of China, India, and the former eastern bloc countries into the world economy, together with population growth, has quadrupled the size of the available global labor force since 1980. Not only must access to low-cost goods and services be gained, but new markets must also be tapped and fresh ways to innovate discovered overseas. None of this can be achieved without robust network communications technology.

As demonstrated in the AT&T/EIU survey, companies today realize that growth abroad must be supported by corresponding IT investment. In fact, the need to support expansion into global markets will be a key driver of companies’ network investment over the next two years. Fully 67% of executives describe reach as an ‘important’ or ‘critical’ attribute of their network.

One in five companies plans to increase investment in its network over the next two years by more than 25%, and another 43% of surveyed firms will boost spending by between 10% and 25%. In Asia-Pacific a quarter of executives surveyed say they will raise their...
Globalization is clearly a key driving force for the increases planned for networking investments. “Without technology, our global expansion wouldn’t be possible,” says Ralph Baxter, chairman and CEO of the international law firm Orrick, Herrington & Sutcliffe, based in San Francisco with a staff of 1,700. Five years ago around 3% of its lawyers were outside the US; now the figure is one-quarter and is to double in the next five years. “Everyone is connected to all data now, whether in Tokyo or Moscow,” says Baxter. “Every office around the world is linked by videoconferencing.” The firm has also spent several million dollars on knowledge management technology so that its lawyers’ experience can be shared across the globe.

The drivers are similar for established global multinationals. “Technology is enabling us to build businesses in a completely different way than we did five years ago,” says Alan Rosling, executive director of Tata Sons, the holding company for the Indian multinational, Tata Group. “The whole organizational model is evolving because of technology. For one thing, it allows us to become more disaggregated. Tata will be a more diffuse organization in the next five years.”

**Going where the money is**

The EIU/AT&T survey confirms that companies around the world are decidedly growth-oriented. While 30% of executives say that half or more of their firms’ revenues derive from abroad today, 42% say this will be the case in two years. Currently only one in 12 firms obtains more than 80% of its revenues from abroad; but according to the survey, by mid-2009 one in eight will be doing this level of overseas business.

Expanding their global reach has become critical for many companies. As Baxter says, “We’re driven on the one hand by where our clients are going and the need to service their business, and on the other by what we ourselves need to do to be competitive.” The requirements are clear: “We need people in each location who understand local custom and practice and the local legal systems. We need to supply a single reliable level of service and client relationship across the world.”

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**Please estimate the share of your company’s revenue earned in overseas markets today, and what you expect it to be in two years’ time.**

- 5% – 20%
- 25% – 45%
- 50% – 70%
- 75% – 100%
- Don’t know /Not applicable

**Today**

- 5% – 20% 20.8%
- 25% – 45% 9.2%
- 50% – 70% 20.8%
- 75% – 100% 19.8%
- Don’t know /Not applicable 34.9%

**In 2 years**

- 5% – 20% 19.8%
- 25% – 45% 25.6%
- 50% – 70% 16.6%
- 75% – 100% 13.7%
- Don’t know /Not applicable 24.3%

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**Strengthening the foothold**

Following years of off-shoring their call centers, manufacturing and other functions, the survey shows the remarkable spread of companies abroad. Of these, the most likely region for a firm to maintain at least one subsidiary, joint venture or some other kind of substantial presence is Asia-Pacific. This region is listed by 60% of the companies in the survey, followed by North America (54%) and Western Europe (52%).

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**In which of the following regions does your company maintain at least one subsidiary, joint venture or other substantial presence? Select all that apply**

- Asia-Pacific 60.1%
- North America 53.5%
- Western Europe 51.5%
- Latin America 42.5%
- Eastern Europe 32.1%
- Middle East and Africa 29.1%

Source: Economist Intelligence Unit / AT&T survey, June 2007
As for individual countries, China, the US and India are the most prominent destinations on corporate radar screens. One-fifth of the executives polled cite China as either their primary or secondary focus of company growth strategy over the next two years, followed by the 13% who point to the United States and 10% who cite India. The United Kingdom also figures highly in many firms’ growth strategies.

Which countries will be the focus of your company’s overseas growth strategy over the next two years? Share selecting the listed countries as either their primary or secondary target. (Top ten countries)

Source: Economist Intelligence Unit / AT&T survey, June 2007

Seeking the right entry channel

The survey shows that companies are implementing a range of strategies to achieve international growth. Over the next two years, nearly half will set up joint ventures as part of their growth strategy, and 43% will establish sales or marketing alliances.

For 29% of companies, such as the Swiss healthcare corporation Roche, the focus is on research and development (R&D) alliances. “Innovation is our lifeblood,” says Jennifer Allerton, CIO of Roche Pharmaceuticals (see box). “We need to tap the resources of small and nimble companies and find the best way to collaborate.”

Many will also be signing up new suppliers in overseas markets (22%), and the same proportion plans to make greenfield investments in wholly-owned facilities. One-quarter of companies surveyed said they would be offshoring some of their business processes or IT functions over the next two years.

But for many companies, mergers and acquisitions (M&A) stands out as a more important string to their bow. “Our predominant model for new markets is that they have been entered organically or by acquisition,” says Rosling of Tata Sons. “It is much simpler to enter overseas markets yourself on a wholly-owned basis.” Nearly 40% of survey respondents will turn to M&A as a means of global expansion, but this method has a very mixed record.

The wisdom of India

India is providing fertile ground for companies wanting to grow new talent in their workforce at relatively low cost. “There’s a huge focus on education in India, particularly in the sciences,” says Geoff Webster, vice president of global ventures and business development at AT&T. Global companies are targeting the highly qualified and motivated graduate workforce the country offers.

No one denies the high standard of skills available in India, enabling global companies to innovate and service customers better. But there are serious infrastructure problems, both for physical movement and data transmission. Communications quality is poor and also expensive, says Webster. A monsoon in Mumbai can bring a call center down for days, and currently there is less than 20% wireless penetration. But with liberalisation of the telecommunications market, voice and data communications are expected to improve. “Within a year there should be significant improvement in service levels, quality and reliability,” says Webster. The monumental traffic jams in India’s cities may never clear, but at least voice and data promise to flow more smoothly.

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M&A pitfalls
Although M&A is often the best option for launching into a new market and acquiring a pool of local talent, a range of obstacles can get in the way of success. The main one for cross-border mergers—as well as for joint ventures—is a lack of management leadership and direction, cited by around one-third of survey respondents, and 39% in the Europe, Middle East and Africa (EMEA) region. “Many of the top-performing companies achieved their status through ambitious M&A strategies, but success is determined by the quality of the in-house team,” says Aidan Birkett, a managing partner at the business advisory firm Deloitte. “Our research has found that most corporate leaders have rose-tinted spectacles on when assessing their own M&A capability.”

Geoff Webster of AT&T warns that an ‘arm’s length’ approach to M&A will not work today. He believes that one of the success factors for global expansion is to “accept high performers from the acquired company into the leadership of the newly merged organization—and learn from them”.

Another 30% of respondents cite a lack of clarity around the actual objectives of the merger or venture as a hindrance to their successful implementation, and 28% point to the absence of a clear roadmap for executing the merger or venture. In a word, the survey suggests that many firms adopt a somewhat rudderless approach to implementing expansion strategy.

The cost or difficulty of integrating communications and IT networks is cited by 13% of executives as a barrier to successful M&A and joint ventures, and 6% say data security concerns are an issue. IT and network integration can indeed make or break a cross-border merger. “A crucial part of M&A is how the technology is put together,” says AT&T’s Webster. “We advise companies to go to IP. It’s much more effective for transition and integration. They get efficiencies from day one.”

Finding the right medicine
Global expansion started more than a century ago for the Swiss healthcare group, Roche. In the late 1800s, its founder Fritz Hoffman-La Roche alighted on the idea of applying industrial manufacturing processes to produce medicines of uniform strength and quality. By the summer of 1905 Roche had expanded into a number of European countries and opened its first office in New York.

Today, the CIO of the Roche Pharmaceuticals division, Jennifer Allerton, manages an IT operation extending across 62 countries. She says that tapping skills through international partnerships is essential to Roche for developing innovative medicines for cancer, diabetes, HIV and other diseases. A fragmented IT operation won’t work. “You’ve got to be global yourself or you can’t provide the support the organization needs,” she says. “We started going global ourselves five years ago.”

An important part of Allerton’s remit when joining the company was to get Roche’s 62 different IT departments to act as a single team. To enable the 2,500 IT staff globally to work as one, basic issues need to be dealt with. “Don’t underestimate how hard it is to get people around the world working comfortably together,” Allerton warns. Staff may need language training (English is the lingua franca in Roche) so they are confident speaking on the phone, and are mutually understood. Training is also required in how to operate in virtual teams. To get everyone in different time zones ‘on board’, it is vital that things like regular conference calls are established at times that don’t cause a hardship for participants.

From the technology point of view, Allerton has found that the global operation must be prepared to use a whole range of communication devices: phone, instant messaging, web conferencing and, of course, videoconferencing. Roche has 200 videoconferencing rooms around the world. Experience has proven that flexibility is required. “Each communications method is appropriate in different situations,” says Allerton, but “IP is a given.”

“If you’re going to work in a global environment, employees need to be comfortable with the tools,” she says. They must be robust, appropriate to the user’s needs, and available.

Roche continues to explore new ways to enhance global communications. It is launching a videoconferencing service from laptops at employees’ homes; the introduction of texting may help improve the flow of communication during international meetings; and online virtual worlds, like ‘Second Life’, now beckon as a meeting place for its dispersed workforce.
When network integration fails, what are the most common factors? There appears to be one principal culprit: the incompatibility of IT systems of the merging parties. This applies in 34% of cases globally, and even more in the US, according to respondents in that country. Also, companies still make the mistake of not involving IT staff at the early stages of merger talks and discovering too late that systems do not work together, or that synergies cannot be achieved. On average, 25% state this, but in EMEA it is the main impediment alongside legacy and incompatibility.

The complexity of implementing today’s manifold systems and inadequate due diligence of IT networks and systems are also cited by about one-quarter of the respondents as making network integration problematic. A lack of in-house technical skills and experience in integration also comes into play, particularly in Asia-Pacific where it is the second most frequently cited factor (by 26% of respondents).

Getting help
Whatever methods of overseas market entry companies are considering, many feel they will need help with the management of their networks. Fully 40% of executives in the survey say their firms plan to outsource the management of at least part of their communications networks. The enthusiasm for outsourcing wanes when viewing the responses of CIOs or technology directors only—30% say they plan to outsource, while 44% say they do not. Even so, a high level of interest in outsourcing as a network management option is evident in both cases, and it does not differ when comparing the responses of large and small companies (those with annual revenue of more than US$500m and those with less).

Fear of losing control over the network is the primary concern about a network outsourcing decision. Concerns about compromising network security are also uppermost in the minds of senior business executives in the outsourcing discussion, although CIOs and technology directors appear less worried about security. For the latter, the risk of service quality deterioration is a larger worry.
Conclusion

Growth in overseas markets is clearly on the agenda of firms around the world. The potential rewards of successful global expansion are immense: These could take the form of revenue windfalls in high-growth emerging markets or substantial savings or efficiencies from the use of overseas suppliers and service providers. Choosing the right vehicles for market entry is critical, of course, and implementing global growth strategy successfully is no easy task.

Talented people, clear management thinking and flexible structures are all necessary ingredients to the effective management of global operations. So is technology, and the advanced IP networking technologies available today make possible a level of visibility and control of disparate global operations not available a decade ago.

This is the first in the Globalization and networking series of thought-leadership papers written by AT&T in co-operation with the Economist Intelligence Unit. Future papers in the series will explore how companies are addressing the challenges of collaborating with partners, managing the global supply chain, and addressing the risks surrounding globalization.
Appendix
The following findings are drawn from a survey of 497 executives in a range of industries across the world. The survey was conducted in June 2007, and we are grateful for the time and insights of everyone who participated.

How important are each of the following network performance attributes for your business?

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Critical</th>
<th>Important</th>
<th>Of minor importance</th>
<th>Not Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Network availability/ downtime</td>
<td>58.7%</td>
<td>38.1%</td>
<td>2.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td>2. Speed of network</td>
<td>33.9%</td>
<td>60.0%</td>
<td>5.5%</td>
<td>0.2%</td>
</tr>
<tr>
<td>3. Security</td>
<td>63.2%</td>
<td>30.4%</td>
<td>5.7%</td>
<td>0.4%</td>
</tr>
<tr>
<td>4. Reliability of connections</td>
<td>50.4%</td>
<td>45.5%</td>
<td>3.0%</td>
<td>0.4%</td>
</tr>
<tr>
<td>5. Scalability</td>
<td>16.6%</td>
<td>52.5%</td>
<td>24.1%</td>
<td>2.4%</td>
</tr>
<tr>
<td>6. Reach (number of end points)</td>
<td>14.8%</td>
<td>52.0%</td>
<td>25.9%</td>
<td>3.4%</td>
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<tr>
<td>7. Efficiency/ capacity utilisation</td>
<td>20.8%</td>
<td>51.2%</td>
<td>24.2%</td>
<td>1.8%</td>
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<tr>
<td>8. Applications performance</td>
<td>29.1%</td>
<td>55.5%</td>
<td>12.8%</td>
<td>1.6%</td>
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<tr>
<td>9. Ability to prioritise applications</td>
<td>14.6%</td>
<td>45.3%</td>
<td>31.7%</td>
<td>5.7%</td>
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<tr>
<td>10. Open, standards-based architecture</td>
<td>11.9%</td>
<td>40.4%</td>
<td>29.3%</td>
<td>11.7%</td>
</tr>
<tr>
<td>11. Accessibility</td>
<td>24.4%</td>
<td>48.8%</td>
<td>21.2%</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit / AT&T survey, June 2007

To what extent do you expect your company to increase investment in its network over the next two years, from current levels?

Very significantly (by more than 25%)
Significantly (10-25%)
Modestly (1-10%)
Not at all
Don’t know/Not applicable

Source: Economist Intelligence Unit / AT&T survey, June 2007

What are likely to be the main drivers of network investment in your company over the next two years? Select up to two.

1. Supporting expansion in global markets       28.3%
2. Improving customer service and customer relationships 26.3%
3. Supporting greater collaboration with external partners (excluding suppliers) 23.0%
4. Improving supply-chain efficiency           19.8%
5. Supporting the expansion of remote working by employees 19.8%
6. Supporting business continuity planning, eg. network back-up, redundancies 18.4%
7. Improving network defenses against attacks and data theft 16.6%
8. Convergence—migration of network and applications to IP 12.6%
9. Increased M&A, and the need to integrate networks 12.2%
10. Implementation of enterprise wireless capabilities 10.0%
11. Don’t know/Not applicable                   1.8%
12. Other                                      1.2%

Source: Economist Intelligence Unit / AT&T survey, June 2007
In which of the following regions does your company maintain at least one subsidiary, joint venture or other substantial presence? Select all that apply.

- Asia-Pacific: 60.1%
- North America: 53.5%
- Western Europe: 51.5%
- Latin America: 42.5%
- Eastern Europe: 32.1%
- Middle East and Africa: 29.1%

Source: Economist Intelligence Unit / AT&T survey, June 2007

Please estimate the share of your company’s revenue earned in overseas markets today, and what you expect it to be in two years’ time.

- 5% – 20%: 19.8%
- 25% – 45%: 20.8%
- 50% – 70%: 9.2%
- 75% – 100%: 15.3%
- Don’t know /Not applicable: 24.3%

Source: Economist Intelligence Unit / AT&T survey, June 2007

Aside from the country where your company is based, which countries will be the focus of your company’s growth strategy over the next two years? Select the top two. (Country 1)

- China: 6.8%
- United States of America: 15.8%
- United Kingdom: 26.4%
- Brazil: 1.1%
- Russia: 1.9%
- Mexico: 2.1%
- Australia: 2.6%
- Argentina: 1.7%
- France: 1.5%
- Germany: 1.3%
- United Arab Emirates: 1.3%
- Canada: 1.3%
- Singapore: 1.3%
- Indonesia: 1.3%
- Other: 22.4%

Source: Economist Intelligence Unit / AT&T survey, June 2007
Aside from the country where your company is based, which countries will be the focus of your company’s growth strategy over the next two years? Select the top two. (Country 2)

Source: Economist Intelligence Unit / AT&T survey, June 2007

Which of the following will form part of your company’s international growth strategy over the next two years? Select all that apply.

Source: Economist Intelligence Unit / AT&T survey, June 2007

In your view, what are the primary obstacles to the successful implementation of cross-border mergers and joint ventures? Select up to two.

Source: Economist Intelligence Unit / AT&T survey, June 2007
When integration of IT systems and networks in cross-border mergers does not go smoothly, what do you think are the most common factors? Select up to two.

1. Legacy or incompatible systems of merging parties 33.9 %
2. Complexity of implementation 25.9 %
3. Failure to involve IT in the early stages of merger talks 25.3 %
4. Inadequate due diligence of IT networks and systems to be integrated 23.6 %
5. Lack of in-house technical skills and experience in integration 20.4 %
6. High cost of implementation 11.8 %
7. High cost of new systems to support integration 11.2 %
8. Inadequate state of the country’s network infrastructure 7.4 %
9. High cost of retiring redundant systems 7.4 %
10. Don’t know/Not applicable 7.0 %
11. Network security issues 5.0 %
12. Other 2.6 %

Source: Economist Intelligence Unit / AT&T survey, June 2007

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Please state whether you agree or disagree with the following statement about outsourcing the management of network services at your company:

“To help cope with the growth of our overseas operations, we will outsource the management of all or part of our communications network services to a third-party provider.”

Agree 40.0%
Disagree 37.2%
Don’t Know 22.8%

Source: Economist Intelligence Unit / AT&T survey, June 2007

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What are the primary reasons that would lead your company to decide against outsourcing the management of communications network services? Select up to two.

1. Fear of losing direct control over network 36.9 %
2. Network security concerns 34.5 %
3. Risk of deterioration in service quality 26.7 %
4. Financial costs of outsourcing 19.0 %
5. Risk of diminished service reliability 17.8 %
6. We can manage this more efficiently in house 13.4 %
7. Lack of in-house ability to manage outsourcing relationships 11.0 %
8. Compliance concerns 9.6 %
9. Don’t know/Not applicable 6.2 %
10. Resistance from board or senior management 5.0 %
11. Other 1.8 %

Source: Economist Intelligence Unit / AT&T survey, June 2007
Survey Demographics

In which region are you personally based?

- Asia-Pacific: 23.3%
- Western Europe: 18.6%
- North America: 11.6%
- Latin America: 10.9%
- Eastern Europe: 8.6%
- Middle East and Africa: 2.8%

Source: Economist Intelligence Unit / AT&T survey, June 2007

What is your title?

1. CEO/President/Managing director: 31.1%
2. Manager: 23.3%
3. EVP/VP/Director: 15.1%
4. Head of Department: 8.9%
5. Other C-level executive: 7.8%
6. Other: 6.0%
7. CFO/Treasurer/Comptroller: 5.6%
8. Head of Business Unit: 5.4%
9. Board member: 5.4%
10. CIO/Technology director: 5.2%

Source: Economist Intelligence Unit / AT&T survey, June 2007

What is your organisation’s global annual revenue in US dollars?

- $500m or less: 7.4%
- $500m to $1bn: 15.7%
- $1bn to $5bn: 46.6%
- $5bn to $10bn: 17.4%
- $10bn or more: 12.7%

Source: Economist Intelligence Unit / AT&T survey, June 2007

In what country are you based?

- United States of America: 18.0%
- France: 13.1%
- Mexico: 9.4%
- Japan: 7.8%
- Brazil: 7.6%
- China: 7.6%
- India: 7.6%
- Germany: 7.2%
- Canada: 6.6%
- United Kingdom: 6.4%
- Australia: 6.4%
- Other: 12.1%


What are your main functional roles?

Please choose no more than three functions.

1. Strategy and business development: 40.7%
2. General management: 38.7%
3. Finance: 23.4%
4. Marketing and sales: 20.4%
5. IT: 11.6%
6. Operations and production: 11.2%
7. Customer service: 8.8%
8. R&D: 8.6%
9. Information and research: 8.4%
10. Risk: 8.4%
11. Human resources: 6.0%
12. Supply-chain management: 4.6%
13. Legal: 4.2%
14. Procurement: 3.4%
15. Other: 4.0%

Source: Economist Intelligence Unit / AT&T survey, June 2007