BCG

Weekly Brief

Organizing for Fractal Advantage

To BCG's network around the world,

For decades, the power of global companies to leverage their scale to win in markets around the world has been enormous. Innovation, consumer insights, supply chains, and common processes all benefited.

But the world is changing—and fast. The intersection of fragmented geopolitics, deconstructed value chains, the increased power of digital in value creation, new forms of innovation, and more nimble local competitors is transforming the global playing field into a series of local contests, often with common themes but very different offerings and tactics.

Local consumer companies, lacking scale but highly relevant on the ground with customers, are gaining share against much larger, global peers. Deep-tech newbies are storming ahead in the product development race against multinationals that spend billions of dollars more on R&D. Even companies with no presence in a sector are winning the competition for new value pools against incumbents.

What are these smaller players getting right? Back in November, a BCG team led by senior partner Arindam Bhattacharya introduced a [new basis of competitive advantage](#), which they call "fractal"—a strategy that breaks apart traditional scale-driven, centralized operations and creates teams focused on speed, local innovation, and responsiveness to customers. Fractal companies deemphasize hierarchy and focus more on connections in order to share out-of-the-box thinking and accelerate execution.

A follow-up article has just come out—[The Organization of the Future Is Fractal](#)—and it's based on in-depth interviews with dozens of business leaders about how they are evolving their organizations and why. The team learned that scale and fractal

strategies rely on starkly different principles. To adapt, leaders of traditional global companies need to focus on five elements of organization design:

- **Roles, Responsibilities, and Reporting Relationships**. Instead of hierarchy, fractal companies maximize interactions, links, connections, and conversations across functions and hierarchical levels.
- **Structure of Value-Creating Assets**. Fractal companies use a network of dynamic, continuously evolving capabilities—their own and those belonging to partners—that can be deployed quickly at local levels and enable more rapid targeting of new value pools.
- **Distribution of Decision Rights**. Fractal companies are more decentralized and distribute significant power to customer-facing teams at the periphery.
- **Flow and Management of Information**. Fractal companies democratize data when possible with a real-time, transparent, multidirectional flow across boxes and organizational boundaries.
- **Management and Control of Transactions**. Fractal companies build digital trust to facilitate an environment of sharing and to grow online transactions in an increasingly digital business environment.

Some large, traditional companies are making the shift successfully. Natura, the Brazilian cosmetics giant, has begun forming a network of horizontal and diagonal links across the usual vertical lines to promote the greater lateral thinking that companies need in order to build distinctive market positions. Roberto Marquez, Natura's chairman and group CEO, says that this crisscross approach promotes a better balance between the efficiency that comes from global scale and the innovation, speed to market, and customer responsiveness that come from local ownership of the business.

Even in an industry as focused on scale as steel, fractal competition is possible. Tata Steel's CEO T.V. Narendran described a future in which the company's fast-growing consumer solutions business will depend on the fractal advantage created by speed and innovation, allowing it not only to respond to customer needs but also to shape them. This part of the business will have a very different design from its traditional steel business.

Scale isn't dead. Global companies can instill fractal design principles without giving up all the strength earned by size. The trick will be finding the winning balance and leveraging modular design principles often used in software to enable the linking of both global and local elements. While there will be a range of solutions, the leadership challenge is to recognize how much the world has changed and not to try

to shoehorn a 2015 organization model built for scale into a 2025 world that is more localized, digital, data intensive, and fast paced.

Please see below for these articles and other related content.

Until next time,

Rich Lesser
Global Chair

Further Reading

The Organization of the Future Is Fractal

Scale isn't dead. But it's critical to find the right balance between scale and fractal principles—and to do it before your competitors do.

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Building Fractal Advantage in a Fragmenting World

Powerful forces are reshaping the global business environment. To stay competitive, companies need to evolve beyond the traditional quest for scale.

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By attracting leading-edge organizations and helping them grow, governments can develop economies that thrive in an era of geopolitical, technological, and social change.

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