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Going Global • What It Takes

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Introduction

The current worldwide economic crisis is showing in dramatic fashion just how global the economy has become. What began as movements of capital out of a few developing countries has become a full-blown Asian recession that threatens to engulf the West as well. Financial and product markets are far more interconnected than ever before. Even in the early part of the twentieth century, a supposed heyday of globalization, only a small number of countries handled most of the currencies and goods being traded. As we enter the next century, it is fair to say that nearly all countries are navigating a single economic sea.

It is one thing to say that the markets of the world are coming together. But are global markets creating globally minded companies? Are we seeing the emergence of rootless corporations guided only by market opportunities, not by allegiance to their home countries? As managers look for growth outside their home regions, are they shaking off traditional operating rules in favor of supposed global ideals of behavior? Are company practices matching the grand rhetoric of globalization? In the political realm, are global companies overwhelming the efforts of nations to preserve their distinctive identities?
For the authors of *The Myth of the Global Corporation,* the clear answer to those questions is no. they see enormous differences among multinational companies, which they trace to the unique political and economic characteristics of their home countries (Doremus, 1998).

National Destinies

Given the widespread view that globalization means convergence among nations and companies toward common ways of doing things. Studies done by business professionals and analysts at the U.S. Department of Commerce have noted that, "However lustily they sing from the same hymnbook when they gather together in Davos or Aspen, the leaders of the world's great business enterprises continue to differ in their most fundamental strategic behavior and objectives." But most of it consists of factual analysis.

By examining national difference among multinational companies based in Germany, Japan, and the United States we can find great differences in corporate governance, especially ownership patterns. Arguments are made about the strong role of banks in Japan and Germany, which invest for the long term. German managers have a great deal of autonomy except

in crises, while their Japanese counterparts are often constrained by obligations arising from the corporate networks overseen by the banks. By contrast, the stock of US companies is traded in blocks by short-term-oriented pension, insurance, and mutual funds. Although US managers rarely face direct supervision, they are heavily influenced by movements in their company's stock price.
Investments in R&D also reveal national differences. US companies often aim for breakthroughs in science-based industries, whereas their German and Japanese counterparts prefer incremental, process-based advances in "medium-technology" industries such as automobiles (Wilkins, 2008). Moreover, US managers typically use R&D to achieve specific goals for their own company. R&D in Germany is highly cooperative across companies and aims to diffuse innovation throughout the economy. Japanese companies are also oriented toward diffusion, but the national government often steps in to promote specific objectives for innovation in various industries.

Multinational corporations bear the imprint of their national origins

All of these differences make sense in light of how each country developed. Americans have traditionally distrusted concentrated power, so individual banks never achieved the great influence they enjoy elsewhere. In Germany and Japan, which industrialized after the United State, a few large banks helped to speed up the process by filling the crucial role of channeling savings into capital-poor corporations. Even today, these companies rely more on banks for their capital than on broader financial markets. Their cautious, cooperative approach to innovation probably reflects similar national goals of stability and control. By contrast, US companies have emphasized fundamental technological advances ever since the great successes of World War 2, which initiated a government-led push for basic scientific research.
These national traits work to discourage multinational companies from adopting a truly global perspective. What are companies doing with their investments in other countries? Are they accessing the sort of global technology base that proponents of globalization have predicted? Or are they stick to what many cal their "national systems of innovation"?

For evidence, we can refer to surveys conducted by the US department of Commerce, which asked multinational companies about their foreign investments. The results of the surveys give only a crude picture of corporate activity, but they do indicate overall trends. It is true that foreign affiliates of multinationals are taking on a greater share of R&D (Muhammad, 2010). But the vast majority of such work still takes place in the home country. And the affiliates tend to concentrate on adapting the original product to local needs. Except in a few highly technical industries such as pharmaceuticals, the technology flow from parents to affiliates; the parents usually aren't trying to tap into global sources of innovation (Kim, 2003).

Multinational corporations bear the imprint of their national origins to some degree. The only "anational" organizations of any kind are likely to be international agencies populated by polyglot employees (Qiang, 2009). Every company carries the baggage of its home environment as it expands internationally.

If anything, we are to understand the institutional differences across countries. In addition to corporate governance and innovation, national regulations on employment also affect corporate strategies. Take the United States' continued emphasis on science-based R&D. if US companies are driven to short-term goals by myopic financial markets, how do they have the patience to invest in risky scientific enterprises that promise only distant rewards? Part of the answer may lie in the unique characteristics of the US labor market. Because the US labor force is largely unregulated, managers have a great deal of flexibility in bringing people together in response to market opportunities. People are willing to work on risky ventures because they can receive large rewards if the venture is successful or they can move easily to other companies if the venture fails. The German workforce, by contrast, is highly organized and protected by both unions and the government. Japanese workers have fewer external protections, but their companies are committed to keeping employment stable.

National Companies, Global Reach

The difficulties of adapting to national differences are likely to discourage many companies from relying heavily on foreign affiliates for basic innovation (Hacihasanoglu, 2010). But that doesn't mean businesses are necessarily shrinking from global opportunities. Companies can be integrated into worldwide markets without conforming to a single, global ideal of behavior. Nor do they need to have dynamic affiliates all over the world. The free movement of trade and people allows companies to compete on a global basis without straying far from headquarters.

What needs to be addresses is what national differences mean for corporate competitiveness. This is where the debate on the global economy and the nation state becomes fascinating. As we know from the theory of comparative advantage, when countries open up to international trade and investment, their companies tend to specialize in whatever the country of operation does best. As long as the global economy remains relatively open, nations will increasingly consist of highly specialized activities in a worldwide production chain. Countries tend to foster competencies in their companies and public institutions that favor particular kinds of products and ways of doing things.
Take the Japanese focus on medium-technology industries such as automobiles. Success in this industry requires a disciplined and stable labor force willing to invest in learning the skills required to achieve world-class performance. Profitability depends on incremental innovation and close coordination with fellow employees, suppliers, and markets. Japanese companies have fine-tuned these capabilities to the point that their cars are in demand almost everywhere.

Countries that allow the easy migration of skilled labor can specialize all the more. US companies have benefited enormously from this movement. When people come to the United States to work they usually adapt to US institutions while still maintaining personal and professional links to their home country. As a result, US companies are able to take advantage of global labor markets without altering their institutional foundations.

We can best see the global division of knowledge work in the computer industry. Each year, thousands of well-educated engineers graduate from India's institutes of technology: some migrate to Silicon Valley, others go to Bangalore, India's high-tech capital, and others move back and forth between the two. Those transplanted to Silicon Valley work in circumstances remarkably different from those in their home country. Engineers regularly move between companies, and their high salaries are closely tied to the demands of this dynamic and fluid external labor market. Knowledge flows

freely within and across companies, and job titles and other accoutrements often mean little. (At Intel, Andrew Grove actually sits in a cubicle, just as his employees do.) And companies can start up and close down rapidly. If the company is in a downward spiral, the human capital walks out the door in no time at all; yet the departing workers - and their knowledge – stay in the region (Weismann, 2010). These flexible arrangements promote a highly innovative working environment. Bangalore, by contrast, has a different sort of comparative advantage. Many of its companies are working on the same technology or problem and other labor-intensive software challenges. Their physical capital is much weaker – most companies rely on batteries to back up the faulty electrical supply. And even though wages are rising rapidly, there's still abundant and cheap labor for doing lower-order activities on a highly competitive basis. To manage this labor, companies in Bangalore rely much more on supervision than do their equivalents in Silicon Valley.

Many identify that these differences might be evidence that US and Indian companies are shying away from global integration (Van Tulder, 2008). But even though Microsoft may have only a small office of its own in Bangalore, it still relies heavily on its Indian counterparts to do work on the global software value chain. These companies continue to reflect their national origins, but they have learned to manage resources and divide responsibilities on a global basis.

Globalization, however, does not always work so smoothly. The trouble occurs when a company's ambition goes up against rigid national institutions that do not easily adapt. Take the computer division of Siemens, the big German electronics group (Gritsai, 2004). It has heroically tried to make itself more innovative in the face of global competition. Should Siemens adopt the flat internal organization of Silicon Valley?

What managers can do strategically depends on where they are located

-Hemphill, 2008

Even if the government allowed the change, it could be a disastrous mistake. The German labor market is based on the assumption that workers build their skills in return for gradual increases in pay within companies. Without this guaranteed link between skill and reward, the labor force might lose the skills that have given the country its competitive advantage in slower-moving industries such as automobiles. Individual German companies cannot simply change their organization and their competencies if the country's labor markets do not support their efforts. As worldwide competition in high technology intensifies, German companies may not be able to keep up without shifting R&D to environments that are more flexible.

On November 11, 2000, the American online bookstore Amazon opened its Japanese subsidiary, throwing wide virtual doors to a Japanese bookselling market that, at $8 billion, was larger than the $7 billion American market (Karmarkar, 2010). Considering that the population of Japan is less than half of the American population, such a world-leading market size indicates that the Japanese are truly voracious readers.

By 2000, Amazon had already established itself as one of the three main booksellers in its domestic market, along with the much older Barnes & Noble and Borders. Amazon's success in the United States was based on its price advantage and wide selection, as it was able to offer a greater variety of books at a lower price than its brick-and-mortar rivals. The Japanese retail bookselling industry was much less

concentrated than the American market; the largest Japanese bookseller, Maruzen, was only one fifth the size of Amazon's largest American rival, Barnes & Nobel. By opening its new subsidiary, Amazon appeared to be in a position to feast on a Japanese bookselling industry characterized by a large market but small competitors. But optimism soured quickly when Amazon Japan's 2001 sales only reached a disappointing $150 million, a drop in the bucket compared with Amazon's worldwide sales of $4 billion. Amazon's struggles were puzzling given its great success in the United States. Why was it unable to replicate its success in Japan, at least initially?

The primary source of Amazon's troubles stems from the unique institutional landscape of the Japanese bookselling industry. Laws have allowed publishers to fix the price of new books and newspapers since 1980. In other words, publishers alone, not retailers like Amazon, have discretionary power over pricing. This price-fixing system is known as the Saihanbai Kakaku-iji Seido, or "Resale Price Maintenance System," commonly known as the Saihan system. It virtually outlaws price competition between bookstores. For Amazon, whose primary competitive advantage rested on its ability to offer the lowest prices, the Saihan system was a critical roadblock. While this could have spelled doom for Amazon, Amazon stood out from its Japanese competitors by the end of 2005, passing Maruzen and raking in approximately $1 billion in sales (a 560% increase from 2001). In 2001, Amazon's sales in Japan made up only 4% of its total sales, yet by 2005 Amazon's Japan operations accounted for over 10%. How did Amazon do this?

First, even though Amazon was not the first online bookseller in Japan, it was the first to sell a wide variety of products besides books. Seven months after opening in Japan, Amazon added music, DVD's, games, videos, and software to its selection of books. By 2005, the software and gaming division was Amazons second-largest source of sales after books. Games were not regulated by the Saihan system, which allowed Amazon to give its customary 20% to 30% discounts on these products. Between 2001 and 2006, many more products were added, including electronics, kitchen appliances, toys, sporting goods, and health and beauty products. By 2005, book sales made up less than half of Amazon Japan's total sales. By this time, Amazon's online sales presence was nearly as large as that of Yahoo's Japanese site and Rakuten, the Japanese equivalent of eBay. Unlike books, many of these products were not under Saihan regulations, allowing Amazon to offer a large variety of products at discount prices. Even though Amazon was unable to sell books at discount prices, it was able to differentiate itself by offering a larger selection of products than its competitors.

Second, Amazon made adjustments to Japan's unique environment. For example, a fear of fraud has made the Japanese comparatively more hesitant to make credit card purchases on the internet. In response, starting in April 2006, Amazon allowed its customers to makes payments at any of over 70,000 convenience stores and ATMs throughout the country, enabling customers to avoid the risk of online fraud. (As of 2007, Amazon Japan is the only Amazon subsidiary to offer this service.) Japan also has a long tradition of tachiyomi (standing-and-reading), where readers pick up a book or magazine and stand to read it for as a=much as an hour or two. Following its US online store, in November 2005 Amazon Japan began to offer the "look inside" option for many of its books, allowing customers to read excerpts and passages from books before they purchase them.

Finally, Amazon used three clever methods to indirectly bypass the Saihan system. First, Amazon offered free shipping on purchases over 5,000 yen (approximately $45). Later, the minimum amount was lowered to 1,500 yen (about $13), lower than even the $25 minimum offered by its US online store (as of 2007). Free shipping put Amazon on par with its brick-and-

mortar rivals but gave it an advantage over other online stores that did not (or could not) offer this service. Second, in late 2003, Amazon Japan opened a Japanese version of its highly successful "Amazon marketplace," where third-party users sell both new and used products to each other. This allowed Amazon to indirectly sell books and music at prices below Saihan-mandated prices as third-party users-not Amazon-made the transaction. Of course, Amazon profited by charging a commission on the sale. Lastly, Amazon used a points system that allowed customers to accumulate points based on the price of items purchased, which could then be redeemed for gift certificates. The points system essentially allowed Amazon to offer a discount in disguise.

From space, the world might appear to be broken up into concentrated regions of entrepreneurial activity. But between these regions lie the superhighways of multinational corporations, bringing the world together.

Despite a slow start, once Amazon adjusted its strategy to Japan's unique institutional environment, its sales took off and allowed the company to enjoy the same success that it had enjoyed in its home market. Should the Saihan system be repealed, Amazon is in a prime strategic position to capture any potential windfalls.

The message is simple: what managers can do strategically depends on where they are located (Hemphill, 2008). National influences on multinational companies limit corporate behavior in important ways. But supposedly parochial policies can actually make companies more competitive on a global scale, not less.

National Workers, Global Companies

If companies like Siemens decide to shift some activities to surroundings more conducive to innovation, the easiest path is through an acquisition or merger. But what happens when a company from one national environment has to manage operations in another? Companies cannot escape their national traits, making international mergers difficult. And there certainly is evidence for such pessimism (Adler, 2008). A fine example is the investment banking industry, in which the so-called Anglo-Saxon system appears to excel (Parhizgar, 2008). In the early 1990s, Deutsche Bank and Dresdner Bank purchased several British investment firms, only to find that the high-stakes, high-incentive pay of the city could not be easily integrated with traditional German compensation practices. No amount of learning could resolve the conflict of employee incentives that were irrevocably locked into the respective national systems.

But that's not true for all mergers. Consider the case of Chrysler and Daimler-Benz. These two companies carry out almost all of their manufacturing at home, and they are marked by very different management styles and capabilities (Brasset, 2010). Chrysler demonstrates typical American strengths in managing new product development, whereas Daimler-Benz exhibits the usual German strengths in production engineering. Still, there's no reason why the combined companies cannot continue to operate on largely national

lines and take advantage of each partner's strengths.

Observers have pointed to the enormous disparities in compensation at the top of the two companies, and there's no doubt that the high-paid American executives will be under some uncomfortable scrutiny. But problems at this level can be outweighed by the advantages of the merger if the combined company maintains continuity at the operational level, where thework actually gets done. As long as the company preserves the appropriate institutional framework for its operations in each country, it can expect to benefit from what each country has to offer.

Indeed, for all the talk about compensation disparities, few observers have called for Daimler's workers to accept a smaller benefits package. Despite the fact that Germany is the most expensive location in the world for labor and despite the differences in corporate governance, US companies in a number of industries already invest a good deal in Germany (Elekdag, 2008). They do so because their success depends on local skills, and Germany's productivity and quality more than make up for the higher costs.

By focusing on how companies are the products of their national systems, we can discount the opportunities for multinational corporations to prosper in a world balanced by global and local influences. In cases where the incentives for managers and workers do not conflict, international mergers can help companies exploit national advantages (Fidrmuc, 2010).

Indeed, globalization can actually strengthen national differences, not erode them. DaimlerChrysler presumably will shift some of its product development to Detroit, further encouraging the US penchant for rapid innovation. Stuttgart, for its part, will take on more responsibility for engineering and the design of high-performance systems, further boosting Germany's elaborate institutions of vocational training. Multinational companies will be eager to support national practices that promote global competitiveness.

We can already see the integration gaining momentum with global alliances. Most technological alliances still take place among companies from the same nation. But the situation is not so simple. A study found that large companies in the biotechnology and semiconductor industries act as bridges across countries and large regions. Small companies from different countries rarely form alliances with one another; it takes big enterprises like Novartis and Motorola to make such connections. From space, the world might appear to be broken up into concentrated regions of entrepreneurial activity. But between these regions lie the superhighways of multinational corporations, bringing the world together.

National Debates, Global Ideas

If the global economy is going to arrange itself around national comparative advantage, then managers face a special challenge. Although the current financial crisis may be reviving some doubts about globalization, there is still enormous cultural momentum for the economic convergence. In the 1980s, political critics wanted every country to imitate Japan (Kedia, 1999). Now, the thriving United States has become the standard-bearer of the increasingly pervasive global economy. We might be skeptical that this kind of cultural momentum will make economic institutions bend in times of crisis. But as the world comes to believe in globalization, politicians may come under intense ideological pressure to change these fundamental institutions.

The question now is how to react to the momentum for institutional convergence. Certainly, managers should welcome a degree of convergence at a minimum level of good policy. Already Japan and other Asian countries

are likely to adopt a degree of US-style regulatory policy for banks as the countries emerge from recession. But if Germany deregulates its labor markets to imitate the high-flying United States, it may endanger the skills that make it such an attractive place for investment. How can countries change their institutions to boost global competitiveness without losing the advantages they already have? (Thomsen, 2007) The answers are far from clear.

The national debates over globalization now taking place, from the streets of France to the villages of Indonesia, should not be dismissed. They raise not only powerful concerns over the survival of national cultures and the unfairness of rapid change but also complex questions about the sources of a nation's advantages. Globalization is a powerful force not just because influential political and economic interest groups, frustrated with national institutions, have made it their war cry. Globalization is powerful because it is an idea that has seeped into the imagination of ambitious individuals in all corners of the world, even though many find the concept alarming. Trying to create the right balance between the national policies that undergird competitiveness and the aspirations of a globally conscious world citizenry is a major challenge for managers and their companies. ■

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