



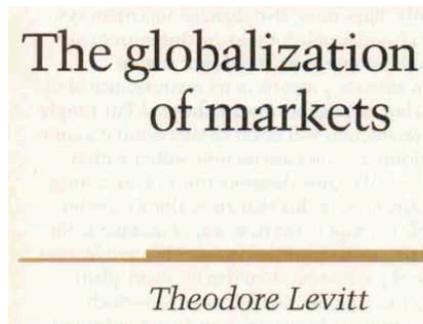
# Global Strategy & Organization

Joe Santos

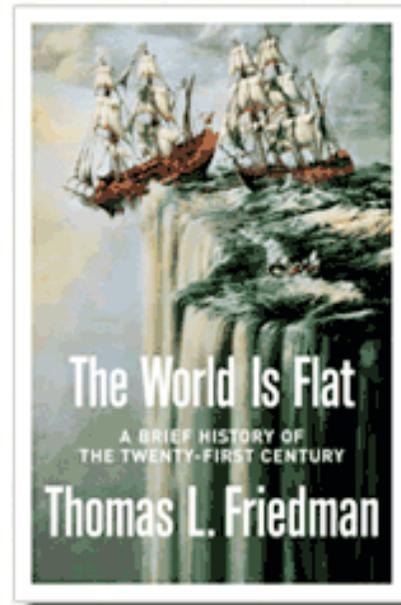
Class 1

# “Going Global” and “Being Global”

# Global?



Levitt, Theodore. "The Globalization of Markets." *Harvard Business Review* 61 (May 1983): 92–102.



© Farrar, Straus and Giroux. All rights reserved. This content is excluded from our Creative Commons license. For more information, see <http://ocw.mit.edu/fairuse>.

Friedman, Thomas L. "The World Is Flat: A Brief History of the Twenty-First Century." *Farrar, Straus & Giroux*, April 2005.



Palmisano, Sam. "The Globally Integrated: The New Global Business." *Ideas from IBM* (June 2006): 1, 4–8.

H\Y; `cVU`nUh]cb  
cZA Uf\_Yhg



H\YcXcfY`@/j ]h

"7ca dUb]Yg'a i gh`YUfb`hc`cdYfUhY  
Ug`Zh\Y`k cf`X`k YfY`cbY`Uf[ `Y`a Uf\_Yh`E`  
][ bcf]b[ `gi dYfZ]VU`fY[ ]cbU`UbX`  
`bUh]cbU`X]ZZYfYbVWg`"

"H\Y`a cXYfb[ `cVU`W`fdcfUh]cb`W`bhfUghg  
`dck YfZ`m`k ]h`h\Y`U[ ]b[ `a i `h]bUh]cbU`W`f!  
`dcfUh]cb` =bghYUX`cZUXUdh]b[ `hc`gi dYfZ]VU`  
`UbX`Yj Yb`YbhfYbVWYX`X]ZZYfYbVWg`k ]h]b`UbX  
`VYh`YYb`bUh]cbg`z`]h`k ]`gYY`gYbg]V`m`hc`ZcfW  
`gi ]hUV`m`ghUbXUfX]nYX`dfcXi W`g`UbX`dfUW]VWg  
`cb`h\Y`Yb]fY[ `cVY`"

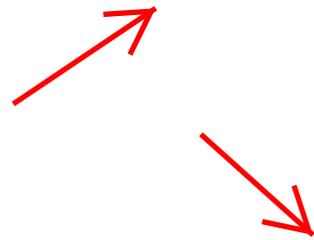
(Source: Levitt, 1983)

"fH\Y`k cf`X`]g`ZUh`fi5g`gccb`Ug`=k fchY`h\Ya`z`=fYU`]nYX`h\Uh`h`]g`k Ug`h\Y  
`i bXYf`n]b[ `a YggU[ Y`cZYj Yfnt`h]b[ `h\Uh`=\UX`gYyb`UbX`\YUfX`]b`6Ub[ U`cfY  
]b`hk`c`k YY`g`cZ]`a ]b[ "H\Y[ `cVU`W`a dYh]h]j Y`d`mU]b[ `Z]Y`X`k Ug`VY]b[ `  
`Yj Y`YX`" H\Y`k cf`X`k Ug`VY]b[ `ZUh`YbYX`"

(Source: Friedman, 2006)

.....H\Y; `cVU`m  
=bhY[ fUhYX`9bhYfdf]gY

.....GUa i Y`>"DU`a ]gUbc`



.....Y`a Yf[ ]b[ `cVU`m]bhY[ fUhYX`YbHfdf]gY`]'g`U`W`a dUbm`h\Uh`ZUg\]cbg`]'hg`ghfUhY[ m`z`]hg`a UbU[ Ya Ybhz`UbX`]'hg`cdYfUh]cbg`]'b`di`fgi ]h`cZ`U`bYk`]'cU`. `h\Y`]'bhY[ fUh]cb`cZdfcXi W]cb`UbX`j`U`i`Y`XY`]'j`Yf`mk`cf`Xk`]XY`"

(Source: Palmisano, 2006)

# Global ?

*everywhere*  
“all over the world”  
(worldwide)

*sameness*  
“a unique world”  
(universal)

*totality*  
“a united world”  
(global)

# Global ?

- 1) The expressions “global” and “globalization” are relatively recent but quickly became a central feature of our contemporary world. But what does “global” mean? What does a CEO mean with “our company is global”? Or when stating “our company has started a process of globalization”?
- 2) I have observed at least three very different uses of “global”, each corresponding to a different meaning of “globalization”. They are all out there, and we can’t really say that they are wrong. But we do need to be careful, as the ensuing confusion is quite dysfunctional.
- 3) Some use “global” to mean *everywhere* in the world, or at least in many parts of the world. A company would be “global” if it were present in many countries, perhaps in all continents. Globalization would then mean the same as internationalization. Sure, “global” sounds more contemporary. But if this is the meaning we wish to express, why not say “very international” or simply “worldwide”? Those terms mean exactly that, without being confusing.
- 4) Others use “global” to mean *the same* everywhere in the world. In this sense, globalizing would be tantamount to standardizing at the world level. This is the meaning inspired by cases such as McDonald's, Coke, or Visa. It comes from the concept of a “global market”, which by definition is a market of one (same) product everywhere (as opposed to a set of national markets, each one with a local variation of the product and different terms of trade). Indeed, McDonald's became the symbol of globalization, and its restaurants have at times served as the instigator of those who are anti-globalization.
- 5) (When I look around the world, both inside and outside companies, this use of "globalization" has the most negative connotation: “We don’t want to become like them” is often uttered, namely by young people – and the “them” tends to be “the American”. I gather that it was the British in the 19<sup>th</sup> Century or the Romans over twenty centuries ago. I wonder if it will be the Chinese or the Indian in a not-too-distant future.)
- 6) In line with this “global market” meaning, the adjective “global” came to mean the strategy of a company that is not responsive to national differences, and therefore aggregates its offering to benefit from economies of scale. “Act global” (do the same everywhere) came to mean the opposite of “act local” (do different things in each locale).

# Global ? (cont.)

- 6) There is nothing wrong in principle with having the same thing (product, process, rule, and so on) everywhere in the world. Many companies do, and to their benefit. But then, if we wish to say that something is the same everywhere, why not just say that such thing is “universal”? If you wish for all of a company's subsidiaries around the world to purchase a raw material using the same specifications, rules and process, then just state that the procurement of such raw material is universal.
- 7) Indeed, a company cannot exist (let alone perform) as a multinational company unless some of its elements, such as strategy and organization, are universal. Such elements (which I refer to as the “universal core”) constitute the essence of the company and the source of its differentiated worldwide performance and value. Elements of such a “universal core” may include a value proposition, a set of principles and values, a decision-making process, a governance regime, and so on. However, the general rule is that only a part of what makes up a successful company is universal. Even in the high performing MNC, there is a lot of room for feeling and acting locally.
- 8) The expression “global” is used in yet another meaning – its most meaningful nowadays. It means the *totality* of something, its entirety or wholeness. In this sense, a “global” company is a multinational company that is “one”, in that its organization is united across borders (as opposed to a set or portfolio of local organizational units). This is the meaning of global that is in line with the contemporary process that economists and political scientists call “globalization”. Globalization is, of course, not the process by which the world becomes the same, but the process by which it becomes integrated.
- 9) A “global world” is a union of different nations. Indeed, the more global the world, the more the local differences matter for company performance. More generally, the more global the world (that is, the more extended and deeper the process of globalization around the world), the more that nations will be different. The value of global integration arises from the different specialization of each national part, not from each part copying the rest.

# Global ? (cont.)

- 10) Adam Smith remarkably intuited that the larger the extent of the market, the deeper the division of labour. Hence, the more global markets that exist, the more locations will specialize – and make national differences more relevant. The more global the world, the more the differences matter for the performance of companies – not the opposite.
- 11) Note that the three uses of the expression “global” are somehow related. In a “global” (united) world, the process of internationalization is different and the value of a “global” (worldwide) reach is higher than in a divided world. Such new internationalization process and higher global value largely depend on how “global” (universal) the company is, or may be, across countries.
- 12) The received polysemy of globalization is, as it were, here to stay. One could even imagine a CEO uttering: “Our vision is to have a global, global, global company” – translation: “a worldwide, universal, and globally integrated company”. Aristotle warned us: “a man is more likely to know what it is he asserts, if it has been made clear to him how many meanings it may have”. So must we, whenever we discuss “globalization” and “global”.

# A Global World

Globalization is a process of increased interdependence across nations.

A global world is a united world in the sense that the most meaningful performance is the performance of the whole.

A global world is a union of differences.

One World, Many Dreams.

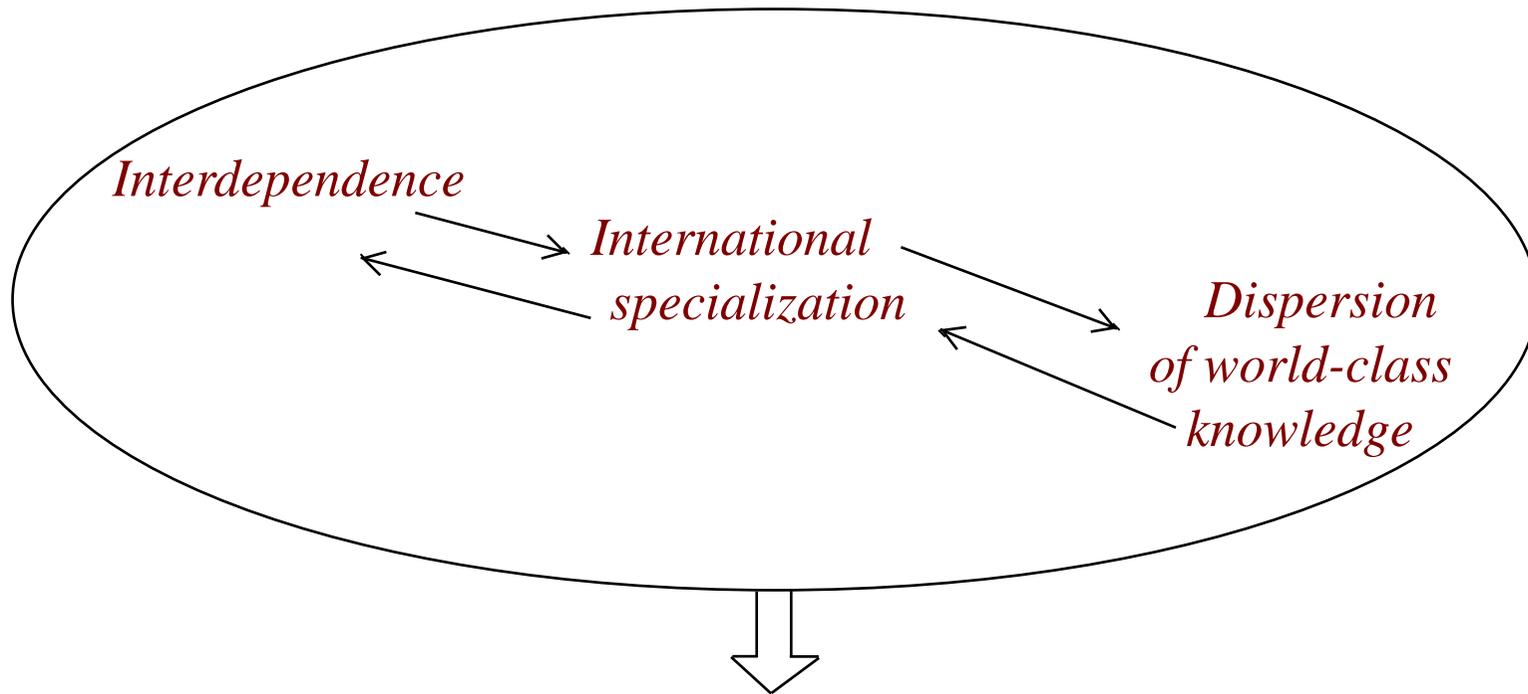
# A Global World

- 1) *Interdependence is the keyword of globalization.* It means that the performance of each nation is impacted by the performance of the other nations, and this is true for all nations including the bigger ones. Therefore, the performance of each nation (say, its economic growth) in a global world is not autonomous (it can't be determined by the will of its People alone) but rather depends on how other nations are performing too. It is of course possible to measure each nation's performance at any point in time, but such metrics are only meaningful if taken as part of a non-linear dynamic system that models the whole world. A country may do very well, and in so doing bring about such large growth in the production of carbon, locally and worldwide, that it may ultimately contribute to the destruction of the planet.
- 2) *We only have one planet.* This is why globalization (as interdependence) is not a matter of choice, but rather an historic imperative. It was always so, and "globalization" as a process has been out there since the dawn of human societies, though now it is more obvious as our technology can really impact our physical environment).
- 3) However inevitable or positive globalization may be (and not all will agree on that), we know the process itself is not smooth and is rather difficult for many (namely for those that see their jobs and livelihoods seriously disturbed by new patterns of international specialization). History and the shadow of the past may also have a negative impact, as some nations may feel that this is their turn to be centre stage. Globalization may well recede at some point, as it did in the past. The question is if one can pursue it and have contingent plans at the same time.
- 4) *In a globally integrated company, the only meaningful performance is that of the whole.* That is what a "one company" policy actually entails. We can (and must) somehow measure the economic and financial performance of each national unit, but such measurement is largely conventional. National institutions such as local tax regulations and international trade agreements make such accounting a legal requirement. But such fiscal accounting at the country level is a technical matter for the multinational company's CFO, not for the general managers of local or global units.
- 5) It is quite a spectacle to watch managers of the same multinational company (that is, colleagues) behave like enemies when it comes to transfer pricing across countries. Something that is an abstract construction for the most part (no market equivalents, for example) becomes the source of mistrust and loss of energy in what was supposed to be a united organization around the world. This is not to say that "local performance" does not matter. It surely matters a great deal locally to local employees, media, governments, and so on. But it has to be taken as "local", not more than that – but, even so, interdependent with the rest.

# The Impact of Globalization

- ✓ A global world
- ✓ Local/International specialization
- ✓ Dispersion of world-class knowledge

The more the world becomes global ...



... the more national differences will matter.

*Focus on the differences across nations,  
for there you will find extraordinary sources  
of innovation, growth, and value ....*

MIT OpenCourseWare  
<http://ocw.mit.edu>

15.220 Global Strategy and Organization  
Spring 2012

For information about citing these materials or our Terms of Use, visit: <http://ocw.mit.edu/terms>.