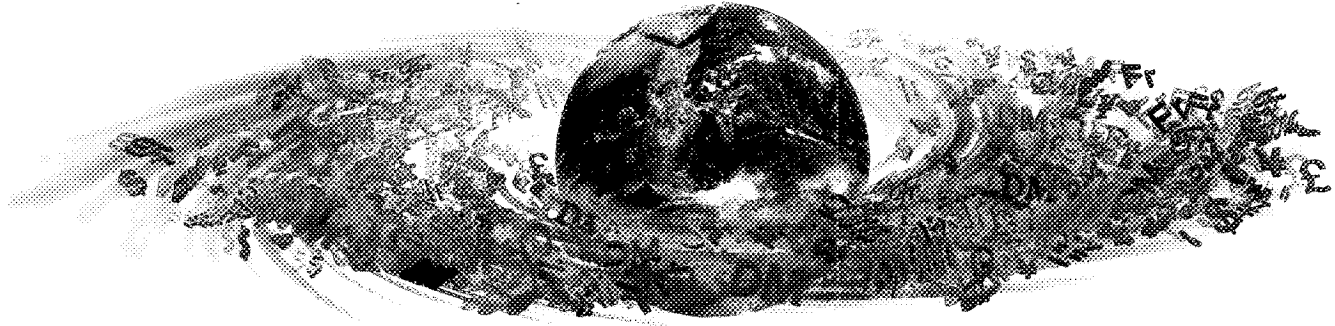


True globalization can go hand in hand with a strong national identity.



What Makes a Company Global?

by Bruce Kogut

The Myth of the Global Corporation
Paul N. Doremus, William W. Keller,
Louis W. Pauly, and Simon Reich
Princeton, N.J.: Princeton University
Press, 1998

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?

Bruce Kogut is the Felix Zandman Professor of Management at the Wharton School of the University of Pennsylvania in Philadelphia.

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. When it comes to corporate behavior, the authors show convincingly that nationality is destiny.

National Destinies

This is a timely and brave book, given the widespread view that globalization means convergence among nations and companies toward common ways of doing things. Two of the authors are academics, and the other two are analysts at the U.S. Department of Commerce. The book has inspired passages such as this one: "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.

The first half examines national differences among multinational companies based in Germany, Japan, and the United States; multinationals in France and Britain show up only briefly. Differences in corporate

U.S. companies are able to take advantage of global labor markets without altering their institutional foundations.

governance, especially ownership patterns, get most of the attention. The authors make the usual arguments 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 U.S. companies is traded in blocks by short-term-oriented pension, insurance, and mutual

funds. Although U.S. 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. U.S. 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. Moreover, U.S. 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.

All of these differences, the authors explain, 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 States, 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, U.S. companies have emphasized fundamental technological advances ever since the great successes of World War II, which initiated a government-led push for basic scientific research.

These national traits, say the authors, work to discourage multinational companies from adopting a truly global perspective. In the second half of the book, the authors focus on what companies are 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 sticking to what the authors call their "national systems of innovation"?

For evidence, the authors rely heavily on surveys conducted by the U.S. 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. 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 flows from parents to affiliates; the parents usually aren't trying to tap into global sources of innovation.

Is the book on target? The central thesis, that multinational corporations bear the imprint of their national origins, is correct in general terms. The only "anational" organizations of any kind are likely to be international agencies populated by polyglot employees. Every company carries the baggage of its home environment as it expands internationally.

If anything, the authors understate 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 U.S. 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 U.S. labor market. Because the U.S. 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. 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.

The book does not address in detail what national differences mean

for corporate competitiveness, but they're worth examining closely. 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 fel-

low 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. U.S. companies have benefited enormously from this movement. When people come to the United States to work, they usually adapt to U.S. institutions while still maintaining personal and professional links to their home country. As a result, U.S. 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



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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. 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 Year 2000 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.

For the authors of *The Myth of the Global Corporation*, these differences might be evidence that U.S. and Indian companies are shying away from global integration. 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. 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? 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 com-

The message is simple: what managers can do strategically depends on where they are located. The authors are right to highlight the national influences on multinational companies—they do 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? *The Myth of the Global Corporation* suggests that companies cannot escape their national

traits, making international mergers difficult. And there certainly is evidence for such pessimism. A fine example is the investment banking industry, in which the so-called Anglo-Saxon system appears to excel. 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 com-

penetration 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. Chrysler demonstrates typical American strengths in managing new product develop-



The free movement of trade and people allows companies to compete globally without straying far from headquarters.

petitive 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.

ment, 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 the work 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, U.S. companies in a number of industries already invest a good deal in Germany. 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, the authors 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.

Indeed, globalization can actually strengthen national differences, not erode them. DaimlerChrysler presumably will shift some of its product development to Detroit, further encouraging the U.S. 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. Multi-

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**George P. Baker and
George David Smith**

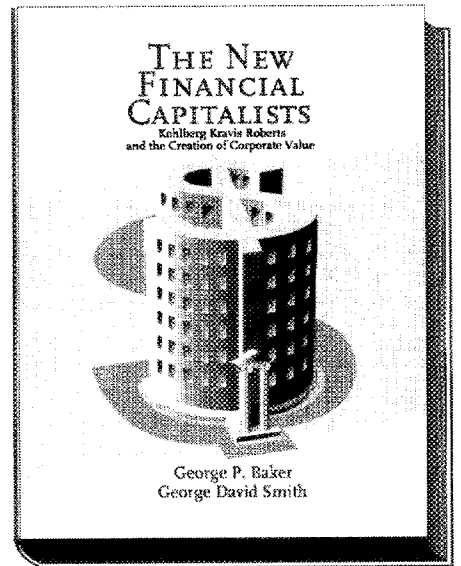
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national companies will be eager to support national practices that promote global competitiveness.

We can already see this integration gaining momentum with global alliances. The authors point out that most technological alliances still take place among companies from the same nation. But the situation is not so simple. A study I carried out with two colleagues 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—one that isn't addressed specifically in this

book. Although the current financial crisis may be reviving some doubts about globalization, there is still enormous cultural momentum for economic convergence. In the 1980s, political critics wanted every country to imitate Japan. Now, the thriving United States has become the standard-bearer of the increasingly pervasive global economy. The authors of *The Myth of the Global Corporation* are 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 U.S.-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? 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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