

# RUNNING A GLOBAL CORPORATION

By Tomas Hult

**Executive Briefing:** What does it take to run a global corporation? Are there too many environmental and industry forces to think about? What about the strategy and organizational factors? No worries, it can all be paired down to a manageable few.



Friedman's (2005) book "*The World is Flat*" has made executives running multinational corporations re-think their business models.

Whether the world is really flat appears to be of less importance than to figure out how a corporation can become more global. So, being a "multinational" is out and being "global" is in – but what does it mean to be global and what should a global corporation focus on?

A global corporation is not going to be everywhere in the world but it has the strategic resources to operate worldwide and, most importantly, it maximizes profits on a worldwide basis. Such corporations do not look for *differences* around the world they look for *similarities* that can be stressed in developing a global strategy. They also emphasize a small but critically important set of environmental and industry forces to research, analyze, and respond to instead of tackling all these forces that are external to the corporation.

The same goes for the corporation's strategy and organizational architecture. Attending to every problem and every aspect of the strategy and organizational factors that could potentially be issues is not effective. Instead, global corporations focus on a select few factors that can make them winners. And, best of all, the environmental and industry forces and strategy and organizational factors that trigger global success are universal across most corporations. So, start by asking:

- How global is the environment?
- How global is the industry?
- How global should the strategy be?
- How global should the organization be?

Continue by attending to the mission-critical environmental forces, industry forces, strategy factors, and organizational factors. The important elements of these "Four F's" and the relationships among them are illustrated in the figure on the next page.

## Environmental Forces

Numerous classification systems exist to describe the business environment, ranging from a few to a substantial number of forces in the environment. However, five forces

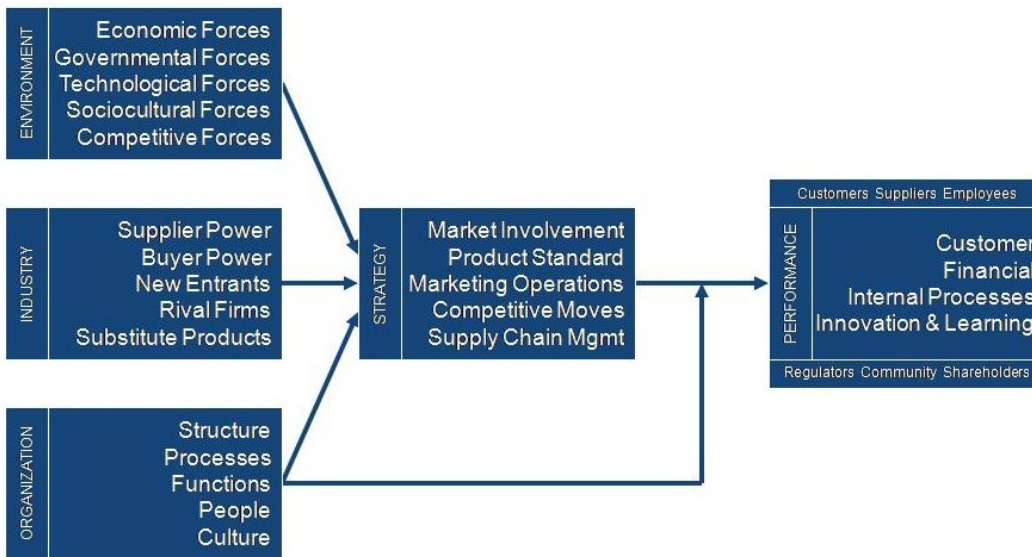
– economic, governmental, technological, sociocultural, and competitive – represent the overall environmental forces (i.e., external conditions) that determine how global the environment is and the need to compete with a global strategy. As such, these five forces cover all the critical external conditions in the environment that affect the potential for globalization.

The pharmaceutical industry makes for a good example to illustrate the environmental forces. For example, Pfizer states that "our businesses are conducted in intensely competitive and often highly regulated markets" (Pfizer 2006 annual report). Likewise, "most of Johnson & Johnson's business is subject to varying degrees of governmental regulation in the countries in which operations are conducted, and the general trend is toward increasingly stringent regulation" (Johnson & Johnson 2006 annual report). Such effects are critical given the exposure many pharmaceutical corporations have internationally. Abbott Laboratories' "sales outside the US make up more than 45% of Abbott's net sales." (Abbott Laboratories 2006 annual report). To deal with environmental forces, successful pharmaceuticals invest in a portfolio of products and rely on research and development (R&D) done by partners along with their own R&D investments to be successful.

## Industry Forces

Michael Porter's "five forces" from his 1980 book *Competitive Strategy* represent the classical way of examining industry forces. They are: determinants of supplier power, determinants of buyer power, threat of new entrants, rivalry of existing firms, and threat of substitute products. These forces span industries and the globe. As such, they work well in examining how global an industry is as well.

The energy industry, with some of its corporations, represents a unique example to illustrate Porter's "five forces." For example, ONEOK states that "despite significant consolidation in the recent past, the U.S. midstream industry remains relatively fragmented, and ONEOK partners faces competition from a variety of companies, including major integrated oil companies, major pipeline companies and their affiliated marketing companies, and national and local natural gas gatherers, processors and marketers" (ONEOK 2006 annual report).



The computer industry makes for a good example to illustrate global strategy issues. For example, Seagate states that “we expect that price erosion in our industry will continue for the foreseeable future...to remain competitive, we believe it will be necessary to continue to reduce our prices as well as introduce new product offerings that utilize advanced technologies prior to that of our competitors to take advantage of potentially higher initial profit margins and reduced cost structure on these product introductions” (Seagate 2006 annual report).

Success in this industry is a function of melting the five strategy factors into a synergistic “global offering,” but with particular attention placed on market involvement and marketing operations.

Successful energy corporations deal with industry forces by adopting as flexible of an organizational structure as is possible, engage in joint ventures, and make advances in renewable energy (e.g., bio energy).

## Strategy Factors

Strategy can be as unique as every fingerprint of every person in the world but that would be highly ineffective in maximizing global profits. Motivated by George Yip’s (2003) *Total Global Strategy II* book, with some updates for today’s global marketplace, five strategy factors are paramount in running a successful global corporation. They include: market involvement, product standardization, marketing operations, competitive moves, and supply chain management.

- **Market involvement** involves the choice of country-markets in which to conduct your business and the level of activity in each market.
- **Product standardization** involves the extent to which a worldwide business offers the same or different products in various countries.
- **Marketing operations** involves the extent to which a worldwide business uses the same brand names, advertising, type of channels, and other marketing elements in different countries.
- **Competitive moves** involve the extent to which a worldwide business makes competitive moves in individual countries as a part of a global strategy to proactively set strategy or to reactively combat competitors.
- **Supply chain management** involves the choice of where to locate each of the activities that constitute the entire global value-chain – from research to production to after-sales – and the operations of connecting the nodes in the chain.

## Organizational Factors

The final set of factors involves the organization itself. Contrary to strategy which can be changed rather frequently, assuming the corporation is nimble enough to do it, the architecture of the organization itself cannot change too often. Frequent organizational changes would result in loss of value to customers, loss of the corporation’s global position in the marketplace, and loss of motivation by employees. As such, it is important to “lock in” a preferred architecture – structure, processes, functions, people, and culture – and focus more of the effort on understanding the environmental and industry forces and what can be done with the corporation’s global strategy to maximize global profits.

The aerospace industry makes for an interesting example to illustrate some of the organizational factors in play globally. For example, Alliant Techsystems states that “we consider a diverse workforce to be essential to our success as well as an important social responsibility” (www.atk.com). Another example is Precision Castparts Corp. which states that “our emphasis on low-cost, high-quality products and timely delivery has enabled us to become the leading supplier of structural and airfoil castings for jet aircraft and IGT engines and to expand into the structural airframe and armament markets” (www.precast.com). On the other hand, Boeing simply created a “Vision 2016” where the focus is on “people working together as a global enterprise for aerospace leadership” (www.boeing.com).

## Adopt EISOF<sup>4</sup> and Succeed Globally

All corporations cannot be all things to all people at all times, and especially not in the markedly diverse global marketplace. But, should that stop corporations from running a global corporation? Of course not! Instead, be selective in tackling the environmental and industry forces – knowing more is not better, knowing effectively and efficiently is.

In the same vein, expanding the corporation's portfolio of strategic options beyond a certain point is usually a waste of effort. Stop when you have figured out the five strategy factors of market involvement, product standardization, marketing operations, competitive moves, and supply chain management. It will take all the effort and resources that your corporation can muster to master those five factors, and they account for virtually all of your global success so why bother with more investments in additional strategic factors?

The organizational factors are trickier. Here, the goal should be to "set in stone" the architecture of the corporation for some time. Changes that are made too frequently are counterproductive no matter how logical they may be at the time. Count on having the same

architecture for at least 10 years. But, keep in mind that this is not an easy task in today's high-speed time. At the same time, more frequent changes to the organization than that will cost more than it benefits you.

So, as a final word, practice the EISOF<sup>4</sup> (= EISO F-Quadratic) which refers to the four forces/factors ("F") in play internationally for global corporations and the notion that there is a **multiplicative** effect among these forces/factors (i.e., environmental forces, industry forces, strategy factors, and organizational factors). As such, synergy has to be achieved among the four F's to create an advantage in the global marketplace that is sustainable. ♦ [gBR Article 02-01](#), Copyright © 2008.

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