11 Running a Global Organization

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Some brands seem omnipresent. Today's consumers can board a plane, travel to the other side of the planet and still find the same fast food chains, movies, clothing and perfumes waiting for them at the other end of their journey. Indeed, global organizations are ubiquitous – they probably made your breakfast cereal this morning (Kellogg's), brought you to work (Toyota) took you from the elevator to your office (Kone) and will make your lunch at the canteen (Sodexho). In this chapter we explore the challenges which flow from managing global organizations.

The firms that own these brands face a particular challenge since they must balance the desire to serve local tastes and interests with the consistency needed to maintain a global brand. For those managing a global business issues such as labour regulation, currency fluctuations, political change, transportation costs and any number of other concerns create challenges which must be overcome in a way which balances the requirements of local circumstances with the needs of the wider global organization. Today some businesses are 'born global' (Madsen & Servais, 1997) whilst others have achieved global status over time.

Both McDonald's and Skype are globally recognised brands yet their histories are very different. McDonald's has grown from a single restaurant in the 1950s to serving millions of customers via a network of 36,000 outlets globally today. The process of expansion has been relatively slow and steady when compared to global telecoms firm Skype, which is a good example of a 'born global' firm. Most 'born global' firms share some common features. Their management team has an international orientation, the firms are typically active in international markets at, or at least close to, foundation and they often start life as small, self-financed businesses focusing on a particular niche. Many such firms, like Skype, can achieve global reach through the use of technology. Whilst McDonald's is technologically sophisticated in many ways, the fact that it delivers physical products means that to internationalise it needs a presence in each market that it wishes to serve.

Even looking at one location it is clear that we operate in an increasingly international world. Fast food may seem like a relatively simple product but this would be deceptive. The burgers or pizzas that we find on our high streets may be international because they are provided by a global chain or franchise. However, they are also likely to be international in that they will use ingredients sourced from many countries. Flour from one, onions from another, meat from yet another. Almost nothing that we consume in any volume is exclusively locally sourced. Our challenge then is how best to manage organizations with a global footprint?

A useful starting point might be to revisit some classic ideas about organizations. Ronald Coase's, *The Nature of the Firm* is remarkable in many ways. For one, it was written in 1937 when Coase was just 26 years old but more importantly, it explains the role transaction costs play in the genesis of commercial businesses. Coase argues that "the main reason why it is profitable to establish a firm would seem to be that there is a cost of using the price mechanism" (Coase, 1937, p. 390). For commercial organizations this logic remains largely unchanged even by the vagaries of internationalisation or the internet. Low transaction costs are just one of the reasons that China became, and remains, a noted producer of goods for a range of Western firms. Many of Taiwan's well-known computer companies began in the 1980s as Chinese entrepreneurs in Silicon Valley sought lower cost locations for their ventures (Saxenian, 2002). In the decades since Coase shaped our thinking on commercial firms, a focus has also emerged on public, voluntary and inter-governmental organizations. These are often driven not by the desire to lower transaction costs in isolation, but rather by the desire to fulfil some obligation, offer a service or fulfil political or regulatory purposes. Organizations like the National Health Service, Unicef or the United Nations face the need to be commercially astute and yet mindful of their non-financial missions.

Today we recognise commercial, charitable, public, voluntary, inter-governmental and non-governmental organizations as being capable of global reach. Yet, global organizations differ in many ways from local organizations. Beyond the obvious statement issues of scale, scope and geography, the way in which we interact with global organizations is different. Taxation, for example, is often different for smaller and larger organizations. Take the example of State taxes in the United States; companies only need to collect a sales tax where they have a physical presence – effectively excluding e-commerce firms like Amazon from paying sales tax in many states (Ainsworth & Madzharova, 2013). This crucial legislative glitch probably pre-dates the internet revolution but it gave

Amazon a vital edge during its start up and early expansion. For global brands, office complexes may offer better rates so that they can become 'anchor tenants' for new developments. In the early 1990s, with London in the grip of the last recession, the landmark Canary Wharf office development was offering 10-year free leases to blue-chip companies to become anchor tenants (Ashworth, 2013, p. 303).

It doesn't stop there. The procedures and practices of global businesses become industry standards to follow. Take the example of Toyota's Lean Six Sigma, an efficient production system developed by the Japanese auto manufacturer (Dahlgaard & Mi Dahlgaard-Park, 2006), 'McDonaldization' (Ritzer, 1983) or Amazon's incredible logistics centres (Crandall, Crandall, & Chen, 2014), which the company are planning to augment using same-day drone deliveries (Bensinger, 2013). Global organizations are often the ones pushing boundaries within their industries. Around a third of the world's largest economies are corporations, not nation states. As a result, commercial global organizations often challenge the ability of regulators working at national or international levels to impose external control.

Running a global organization which is larger than many nation states requires the "daily assessment of opportunities, risks and trends. Corporate leaders who ignore economic, political, or social changes will lead their companies towards failure. So too will those who overreact to change and perceived risk" (Schmidheiny, 1992, p. 1). This in turn introduces new challenges such as those faced when McDonald's entered the Indian market and had to introduce non-beef choices for the local market (Kumar & Goel, 2007) or where Google experiences a different form of government regulation in countries like China (Deva, 2007).

Given these challenges, one might wonder why businesses go global at all. The traditional answer has been, "in search of new markets, cheap labour, and unrestricted production sites" or generally, when a company reaches a certain size and the growth trajectory that its revenues initially experienced begin to tail off" (Farazmand, 1999, p. 512). There are a few options to generate growth in those circumstances, for instance undertaking a merger or acquisition or diversifying to launch new products or services. None of these answers is risk free but increasing the scale and scope of the organization can mean that there are diminishing costs and effort required by those organizations which are already present in several markets when they try to enter new ones. The accumulation of experience and resources, sometimes described as 'experiential learning' is claimed by some scholars as part of the explanation of global firms operating in many countries (Zahra, Ireland, & Hitt, 2000).