



# Global Strategy & Organization

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Class 3-a

# Nations Matter!

Technology  
Physical P.I.T.C.H. History  
Institutions Culture

# Nations matter!

- 1) *Nations are different.* This is evident the moment you get to know two “nations”\* – and you may not even need to leave your country: just ask the Belgium, the Spanish, the Swiss, or the Indian. Or recall that the British even have four different national teams in soccer. There is nothing new in national diversity. It has always been so, and it will always be so. Sure, many may believe that nations are all alike or will one day be so. “We are all humans, aren’t we?”, is a common argument. Wrong argument. It is exactly because we are all human that nations are different. Because, as humans, our environment, the context we live in, matters a lot – and environmental differences carve our national differences over time.
- 2) *Human beings are local beings.* We are fully dependent on the immediate surroundings for life. Without a number of vital material and energetic exchanges with our surroundings, we simply die. We can’t feel at a distance, as most of our senses are very limited in physical scope. Our technical achievements mitigate some of these boundaries, but that does not change our nature. Emotions decay quickly. When we see a huge disaster in some distant country on TV, it will not normally affect us as intensely as an accident on our street.
- 3) *As human beings, we have a physical nature as well as a social nature.* Both are *natural* to us. We are shaped by both “nature” and “nurture”. Where we are born and raised matters a great deal. People born and raised near the sea are different from people inland. Perhaps it is the “salt” in the air or the smell of the sea that we love to inhale, or that since a very young age we see such an uneven, physical world around us, or that our child wonders about the “other side” of the sea, or even being accustomed to sailors from distant lands. And, an island people is different from a continental people.
- 4) Smaller nations or peoples, such as the Slovenes or the Catalans, are different from larger nations, such as the Americans or the Brazilians. It is both the size of the national community and the extension of their homelands. The exposure to a different people is much more likely when you belong to a small nation. Many Americans will never leave the US, and never truly be exposed to a different nation; one can live and work in very different places in such large country, one can do almost all kinds of tourism, and one can retire to a welcoming climate – and the rivalry among cities and regional differences are enough to fuel several great sports. There are of course local differences within a large country such as the US, but a unique language and common, country-wide institutions matter a lot.

\* It is not always clear what one means by “nation” – which I will take as a “People” and their territory. However, when we use the expressions “international”/“multinational” we tend to mean across/multiple “countries”. “Nation” and “country” are most often used interchangeably. To confuse matters, countries may comprise one or more nations or Peoples, and be formally organised as one or more “states”. And this matters too...

# Nations matter! (cont.)

- 5) Our national communities are shaped by the local natural resources, by the local climate, by the local geographic position, and by the surrounding communities. As local collective entities, we found the solution of recurring problems by shaping *institutions* – and recurring problems are not the same in all locales. And we found collective meaning and motivation by shaping our *local culture* over long stretches of time. Our national *history* is there. There is nothing we can do to transform our past, and even the shadow of the future shapes our collective feelings and will.
- 6) National differences matter in many respects. A nation shapes each business there: the needs of customers and users, the expectations of shareholders, the behaviour of competitors, the available technology, and so on.
- 7) *Nations matter for company performance*. This is of great relevance for managers and investors. Nations shape company performance in three ways: nations directly affect a company's organization and strategy (product and market choices, business models, expectations and skills of employees, beliefs and values of managers, and so on); nations shape the international performance of their local companies; and more visibly, nations cause foreign companies to adapt to their peculiar features when such companies cross borders to become MNCs.
- 8) The fact that one company is successful, even very successful, in its nation (country) of origin does not mean that the company will be successful elsewhere, or everywhere. So, your company success at "home" does not mean that you will succeed abroad, at "host". Retailers such as Wal-Mart and Carrefour or nationally acclaimed Natura and Starbucks provide first-class instances.
- 9) The fact that your company is successful abroad does not mean that the company itself is the primary cause of such success. Such primary cause may simply be its origin: "home" is the key success factor of the company's success abroad. IKEA's success in furniture is primarily because it is ... Swedish.
- 10) The fact that your company is unable to achieve world-class performance may also be caused by its "home" attributes. If management is capable of freeing the company from geography, its performance may dramatically improve. Acer, AmBev and STMicroelectronics provide evidence of such "homeless" or a-centered performance.
- 11) Because nations evolve, time matters too. IKEA's prized business model was developed in Sweden during the 50s and 60s (the period after WWII). Counterfactual history tells us that the same is unlikely to happen now. The "home" effect also varies as industries evolve over time; GM is a case in point.

# P.I.T.C.H.

- 1) Every nation (or people) constitutes a specific context or “environment”.
- 2) Every company’s performance is the result of the dynamic interaction between its *environment* (where it is), its *organization* (what it is) and its *strategy* (what it does). Therefore, every national context will have a definite impact on a company’s performance there. This is true for local companies (companies that originate there) and for local units of foreign companies.
- 3) One of the major challenges in international business and international management is to recognize such national context specificity. Such recognition would allow managers to know which elements of the organization and strategy of their company are “local” (peculiar to the local national context) and which ones are “strictly local” (valuable *only* in the local national context).
- 4) I propose a simple model of national (local) context or environment, made of five related pieces: P.I.T.C.H. Each nation has its own “pitch”, so to speak.
- 5) The P. stands for the local *physical* environment (“geography” or “nature”). It is the most visible piece. Is it an island or a vast continental space? Near the sea or inland? In the north or in the south? Cold or warm? A fertile ground? With minerals? With oil? And so on. The local P. determines the relative presence of natural resources, the extent of certain businesses, and the importance of certain needs and preferences in its population.
- 6) The I. is the *institutional* context, the set of local institutions. Examples of local institutions, formal or traditional, are the local laws, government, political system, judicial system, education and training, the national innovation system, financial markets, economic and business systems, and so on. Institutions are “visible”, namely to the trained eye: political scientists, lawyers and economists are good sources of information on local institutions and on how they shape business and companies.

# P.I.T.C.H. (cont.)

- 7) The T. is the local *technological* environment, which refers to the ways in which locals do what they do and the proficiency with which they do it. We may distinguish the scientific and the technical contexts. The local craftsmanship and technological knowledge are not just about designing and making things, but also about using things (be it goods or services). The T. is often in direct relation with P. (for example, natural medicine, “flex” car engines, or deep sea drilling), cultural traditions (for example, culinary), and institutions (for example, universities, research institutes, or arts and crafts schools).
- 8) The C. stands for *cultural* context, or local (national) culture. Culture is our collective “*view of the world*”. National culture, following Ed. Schein, is a set of *basic assumptions* that defines what we – as members of a nation – pay attention to, what things mean, how to react emotionally to what is going on, and what actions to take in various kinds of situations. Culture is collective (note that one individual does not “have” a culture, one “belongs” to a culture) and implicit. Culture is mostly invisible and it can only be inferred. Certain collective values and beliefs can be revealed and cultural artifacts and behaviours can easily be observed. Anthropologists and other specialists are trained to observe and study local cultures. National culture has a pervasive effect on organization and on management itself – and, unsurprisingly, such effect is mostly invisible to its managers and employees.
- 9) H. is of course the *historical* context, or simply history. It is the piece that we cannot experience nor see unless for recent history or for some figments of the past. We can only hear or read about it. In this sense, the H. is the other extreme compared to the P. The H. has a significant impact on C., but it also shapes T. and I.
- 10) P. and H. are crucial pieces of local context in the sense that they are both real (that is, outside current human will). However, for the first time in human history, current T. in selected nations (nuclear power, carbon production) can, or may, have a very relevant impact on P., not just locally but elsewhere, even everywhere. Or, put otherwise, a single nation or a small number of nations can destroy the whole world.

# Metaphors, Metaphors ...

- 1) National languages are different, so much so that we find ourselves easily lost in translation. There isn't even such thing as a "universal English". This is not good news for managers when they cross national borders.
- 2) We frequently use metaphorical language for it can greatly improve communication. *Local* communication, that is. Metaphors may be very dysfunctional in international communication, as they are often highly local and context-specific, their meaning particularly confusing for a foreigner.
- 3) The book title *The World is Flat* presents a nice paradox. *The World is Flat* caused an outburst of counter-arguments from Europe and elsewhere, claiming that it was wrong and that the world was "not flat". By this, it was meant that the world is not the same everywhere, that differences subsist even after "globalization." What is interesting is that the main thesis of *The World is Flat* is not that the world is becoming the same everywhere. Its author is an American writing for his fellow Americans. The title metaphor must therefore be understood in the American context (again, a national difference altogether). Part of the so-called "American dream" is the equality of opportunities, a "level playing field." What the author means (an insight from a conversation with an Indian CEO) is that in today's world the opportunities of a company created in Bangalore or in Silicon Valley are the same, or quickly becoming the same. It is not that the world does not have differences and barriers, but that such barriers no longer constrain *definitively* the entrepreneurial ability and technical skills of distant people in less developed countries, nor do they protect the advantage of those in developed ones. Interdependence, no less.
- 4) What do you make of the head of the Boeing 777 project team stating that the plane was going to be designed as "a Fisher Price toy"? Or the English colleague who utters, "that's not cricket," after you decided to offshore an activity? Think twice before using metaphors or analogies with foreigners. Or if you really have to, try using universal or quasi-universal metaphors – but check them out, just in case. What about "pitch" for a nation?
- 5) You may hear that all words are metaphors. Most are *dead metaphors* indeed. But that is besides the point. The point is about the crucial differences *in* language and the *use* of language across nations. If all words were metaphors, you just had one more incentive to learn another language – namely if your native language is English.



## Different Nations, different geography and history, different businesses/markets

<u>Finland</u>	10.1
<u>Iceland</u>	9.1
<u>Norway</u>	9.0
<u>Denmark</u>	8.1
<u>Sweden</u>	7.9
<u>Switzerland</u>	7.4
<u>Netherlands</u>	6.8
<u>Germany</u>	6.6
<u>Italy</u>	5.7
<u>Austria</u>	5.5
<u>France</u>	5.4
<u>Belgium</u>	5.0
<u>Brazil</u>	4.7
<u>United States</u>	4.2
<u>Canada</u>	4.0
<u>Spain</u>	4.0
<u>Costa Rica</u>	3.9
<u>Japan</u>	3.2
<u>Australia</u>	2.7

Photographs of windmills, solar panels, bicyclists, and car removed due to copyright restrictions.

## Different Nations, different geography, different businesses/markets

- 1) The point here is that the P., the physical context of each nation, matters. The table on previous slide exhibit differences in the consumption per capita, in kilos per year, of a very mature beverage: coffee. Such differences can't be attributed to newness in different markets. In all the countries listed (and even not in the list, such as the UK), coffee has been a common beverage for decades if not centuries. A major explanation of the large differences in consumption is climate (and average amount of sun light). When we consume a cup of coffee, we are consuming hot water (a very efficient intake of energy), and tasty water for that matter (apart from caffeine). People in warm countries don't really need that: Italian and Brazilian solved the matter with very small cups of coffee (and a lower consumption per capita, despite the love for espresso in Italy and the fact that Brazil is the world's largest producer of green coffee).
- 2) Some differences in the consumption of coffee remain unexplained with P.. Japan is cold and low in coffee, but it addressed the same needs with the consumption of tea (caffeine is also present in many sorts of tea). Likewise with the UK, which turned into a tea-drinking kingdom by historical accident during the reign of Charles II. Japan and the UK here show that not only P. but also H. and C. matter in the differences of local tastes and preferences, and therefore of perceived value by local customers, users, or consumers.
- 3) It is not just consumption rates. With different tastes and preferences come different products and eventually different technologies, different local competitors, different businesses. The business of coffee in Finland, Italy and the US are quite different, and so are the companies that exhibit the larger market shares in each national market: a Finish company in Finland, an Italian company in Italy, and an American company in the US – despite the fact that the business of coffee has been under international consolidation for decades and is highly concentrated. And all three national market leaders are multinational companies too. Indeed, we should say “businesses of coffee” and not “business of coffee”.
- 4) Other businesses (such as “green electrical power” or ethanol for cars) are highly shaped by local geography and local regulations, which tend to follow nature too. It should not be surprising that Brazil produces a lot of hydroelectric power or that its excess sugar cane turned first into ethanol for cars – and the “flex” car engine (P. shapes T. too, and T. shapes business). One should not be surprised that American homes and cars are large, and that Japanese homes and cars are small. After all, size, population density, and the vastness of land matter – and more so when energy prices were low.

# Different Nations, different Institutions ...

Images of U.S. Senate chamber; statue of justice; MIT Building 10 and Killian Court; gross national product; symbols for English pounds; U.S. dollars, Japanese yen, and the Euro; a sign of Wall Street removed due to copyright restrictions.

# Different Nations, different "business systems" ...

- 1) Different nations exhibit different institutions (I.), among which the institutions of business (such as competition, both as a practice and as a law) and forms of capitalism. Indeed, one can argue that the power of capitalism is that there isn't one: American and British capitalism may be similar, but French capitalism, German capitalism, Japanese capitalism, Chinese capitalism, and so on, are all local and different. Different culture and institutional contexts foster different patterns of company ownership, different systems of relation among companies, and different kinds of management: different "national business systems" in a global world, as Gordon Redding put it.
- 2) There are differences in how competition works in different countries. In Japan we find a practice of intense competition among local companies, exemplified by the forceful retail of competing consumer electronics in Akihabara, Tokyo. In Canada, for example, we find an institutionalized oligopoly among banks, which many have identified as the cause of stability in the recent global financial debacle of 2008. In Brazil, we find a company such as AmBev, created in 2000 by an authorized merger that led to an impressive position of market dominance, which was unfair and unacceptable by most other national standards. Anti-trust is not universal either: GE was authorized by Washington to acquire Honeywell, only to be blocked by Brussels ... much to the surprise and chagrin of Jack Welch, who so discovered that even "being first" is not advantageous everywhere.
- 3) Different national business systems and regulatory institutions have an impact on the performance of local companies and on the performance of local units of foreign companies. Company acts, labour law, tax systems, pricing rules, competition law, and government procurement policies are among the more obvious elements of the local administrative and economic regimes that shape company choices and results. A foreign company will be affected by the local directives on cross-border transfer of funds and profits, double taxation treaties, and visa permits. Local ownership and governance rules may well determine the entry mode of a willing foreign investor (for example, by imposing a joint-venture with local partners).
- 4) The local institutional context may have "voids," as is regularly argued about "emerging markets" or "underdeveloped economies." Though "voids" are in the eye of the beholder, the fact remains that the institutional context is largely visible from the outside, even in that in which it may be less transparent. If a company chooses to enter a country, it should not complain later on the negative effect of some local rule or practice that it could and should have known before it entered. Google's "surprises" in China are, well, surprising.

# Different Nations, different technical performance ...

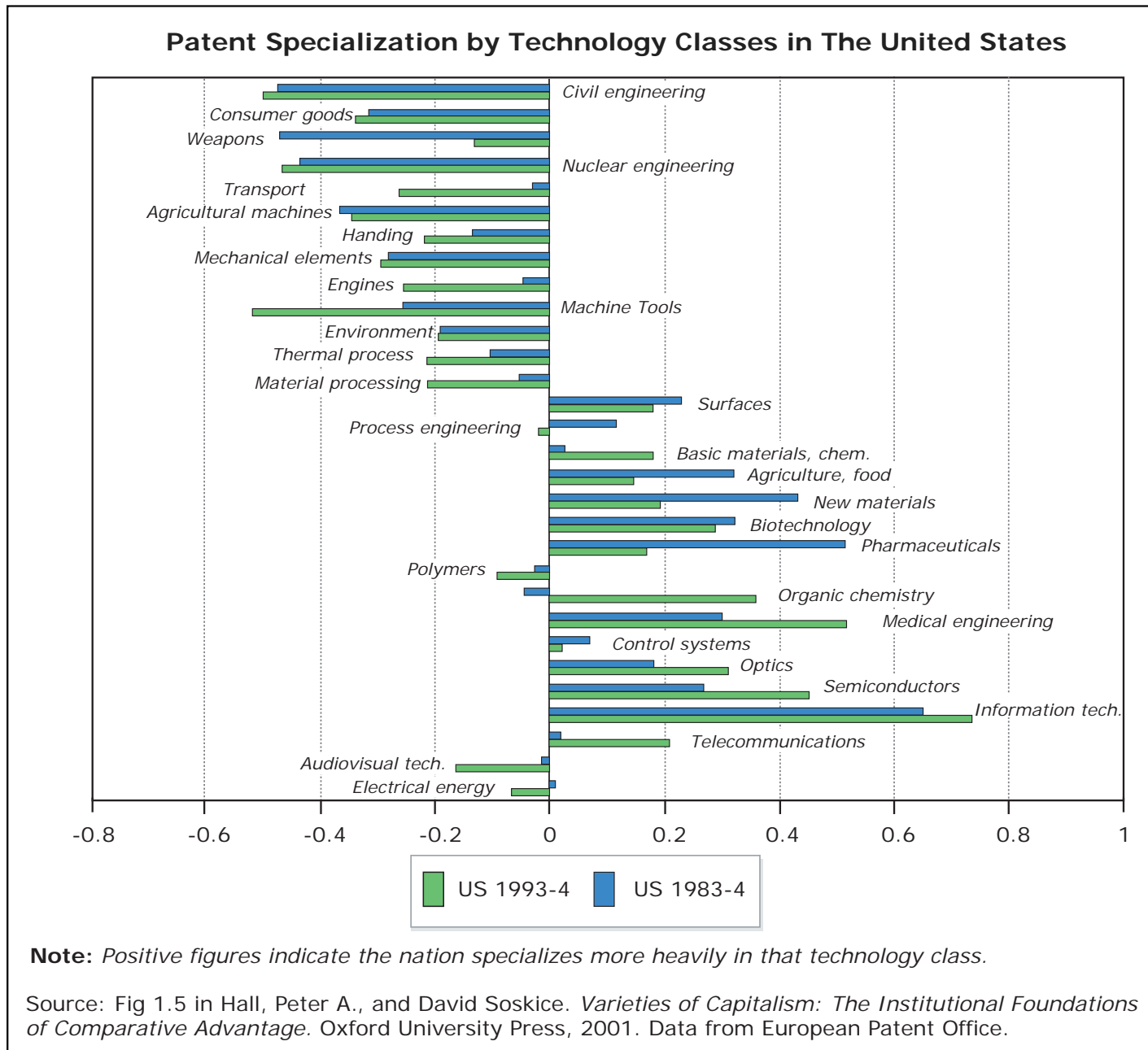


Image by MIT OpenCourseWare.

# Different Nations, different technical performance ...

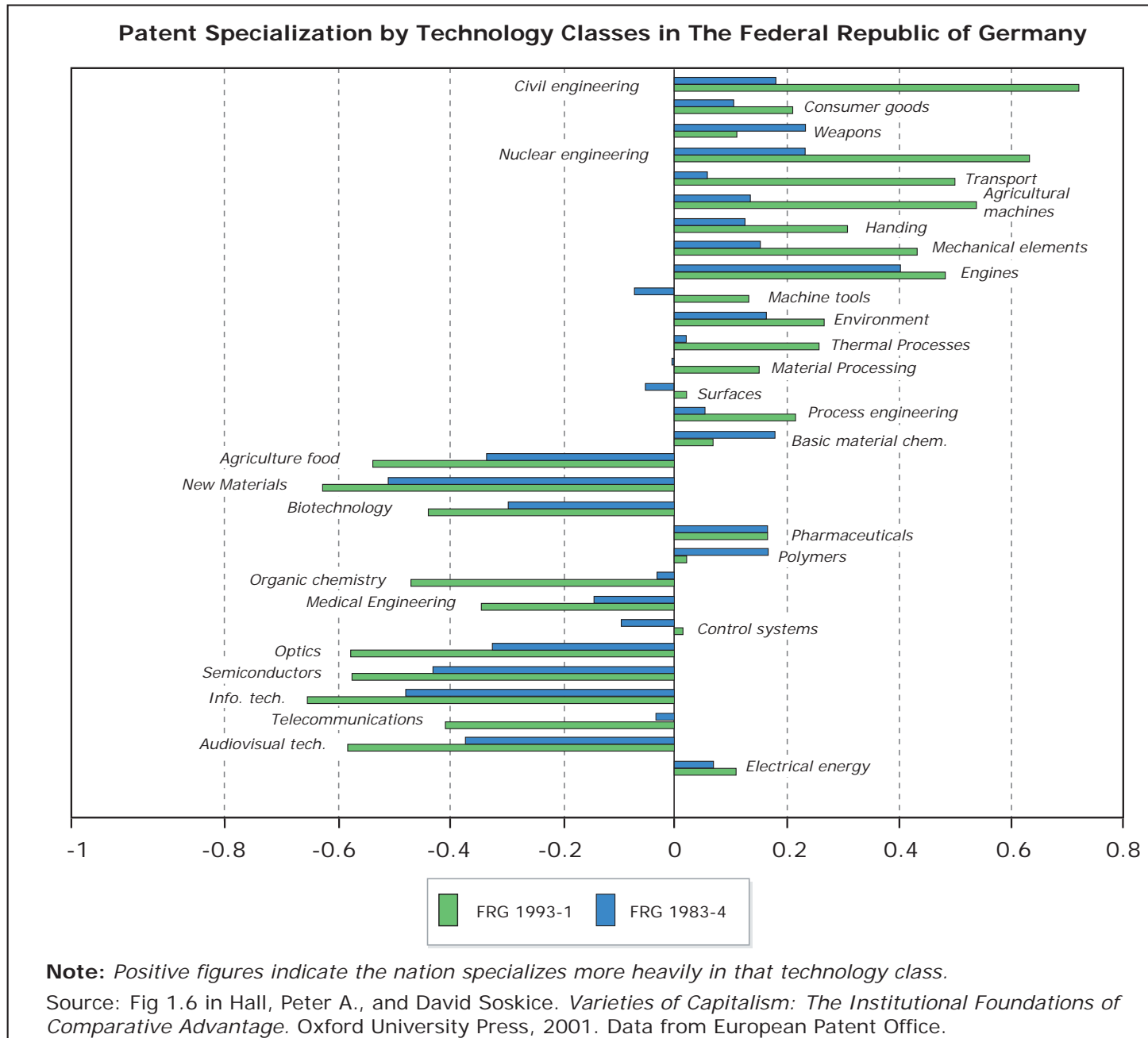


Image by MIT OpenCourseWare.

(Source: Hall & Soskice, 2001)

## Different Nations, different technical performance ... ... and different skills

- 1) Different nations constitute different technological environments (the T. in the local “pitch”). This implies a differentiated access to technical efficiency and innovation by companies in different countries.
- 2) Anecdotal evidence is all around us – as in the news about SAP and its finding of local specialist skills. Financial markets knowledge is concentrated in places such as New York and London; wine technology in France; design skills in Italy; TV production skills in Hollywood or Rio de Janeiro; scientific knowledge in the US or Russia; and so on.
- 3) The evidence provided by Hall and Soskice is telling. National patent specialisation is a proxy for technical proficiency and innovation in different industries. What the evidence shows is that a statement about the general superior innovation capability of the US is false: there are many industries in which Germany is more innovative than the US. In some industries (such as semiconductors, information technologies, medical engineering, biotechnology), US companies are relatively more technically savvy and innovative than their German counterparts. But in industries such as agricultural machines, mechanical elements, or engines, German companies lead technically. The same is surely valid for other countries – if only we had comparable evidence.
- 4) Note that, broadly put, the industries where Germany exhibits high patent specialization have heavy products (metals, for most part), call for skills that take long to master, have long product development cycles, require large factories, and tend to have incumbents as innovators. Those where the US leads are light products (even immaterial), are science-based, have fast development cycles, can be made in a lab, require relatively small sums to start up and promise fast returns.
- 5) Why such differences in technical aptitude? National history and culture, on one side, and the natural and institutional contexts on the other, are very relevant here. A serendipitous invention by a local individual or company may turn into a big thing and start a stream of technical specialization and innovation. If we look into the history of science and technology, the history of different industries in different countries, the respective education systems, company ownership structures, financial markets, government intervention, and so on, we can start to explain and perhaps even predict the differences of technological performance across nations.

# National Culture: Mapping Differences

**Power Distance** is the extent to which the less powerful members accept and expect that power is distributed unequally.

**Individualism** is the degree to which ... ties between individuals are loose: everyone is expected to look after him/herself and his/her immediate family.

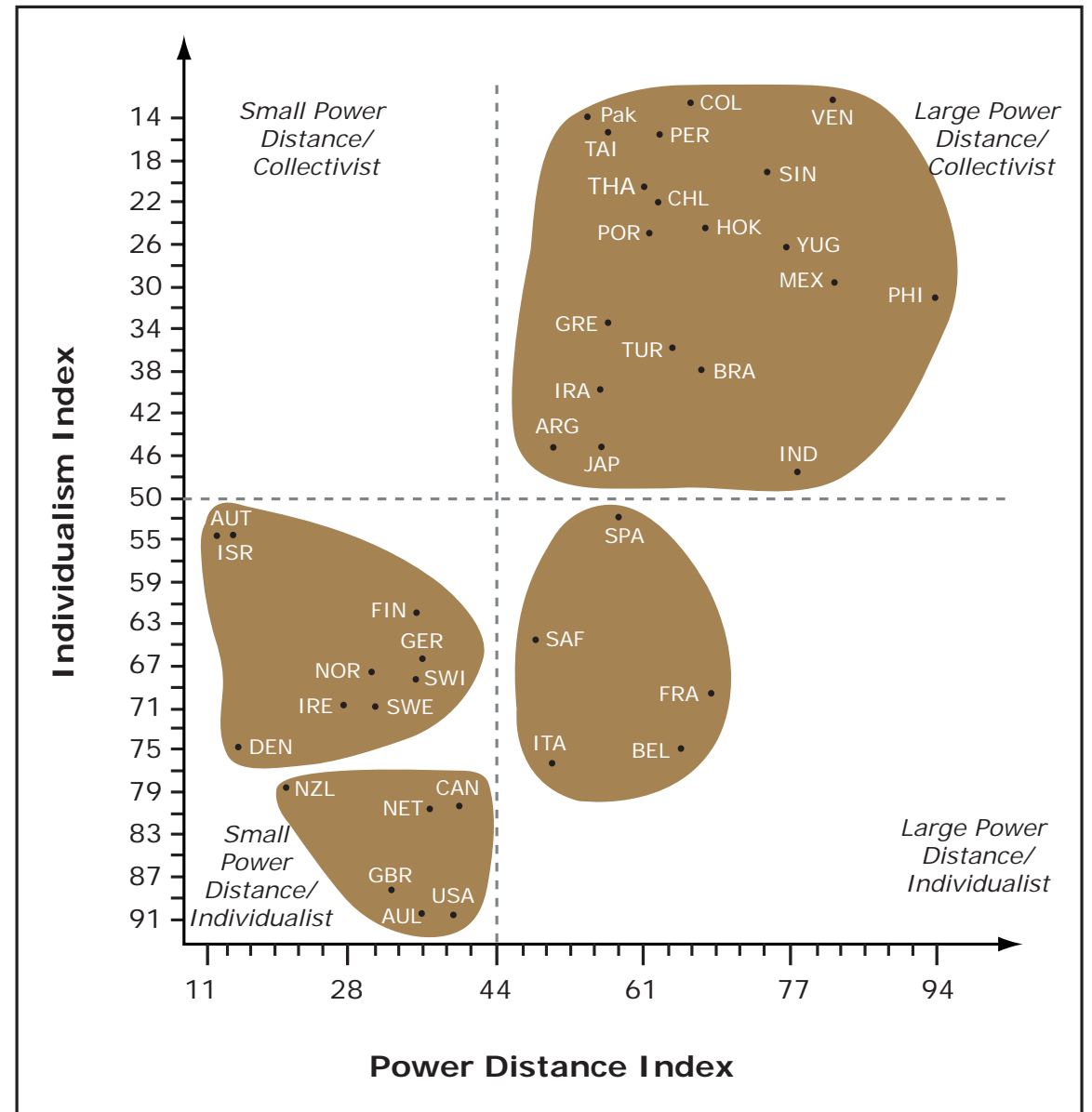


Image by MIT OpenCourseWare.

(Source: Hofstede, 1980 and later)

For the Sloan Fellows - © Jose Santos, 2012



## Different Nations, different culture ...

- 1) Different nations have different national culture (the C. in the “pitch”). Such differences will impact elements of company strategy, organization, and management.
- 2) The work of Hofstede and others has attempted to map differences across cultures as well as provide some indication of the beliefs and values held by a nation (people). Schneider and Barsoux’s book *A UbU[ ]b[ '5V#cgg 7i `h fYg* is a very good reference on these matters.
- 3) As an example, take the cultural factor that Hofstede called “Power Distance”: the (positive) acceptance by a people of power inequalities in an orderly society. In low PD nations, such as the Scandinavian countries (in which power differences have a negative connotation and call for a justification) one may expect, for example, that organizations exhibit a lower number of hierarchical levels than in countries such as Japan or Brazil, other things being equal.
- 4) When a company such as IKEA exhibits a “flat organization” in which those in lower levels may often request an explanation following a given instruction, in which people of different levels treat each other as equals, and in which some symbols of power (such as a loftier office or a named parking space) are rare or nonexistent, all this is not because the leaders of IKEA made particular choices about such features of their organization – but simply because they were Swedes in Sweden. IKEA is, in this respect, a normal Swedish company. It was just socially natural to be so. Indeed, the “corporate culture” of local companies is, by and large, a representation of local (national) culture. Please note that there is nothing universally superior in having a “flat” organization structure. IKEA’s superior performance is not due to being “flat”, but to a number of features in its organization and strategy, one of which is being “flat.” Just that. The belief that “flat” is better because IKEA and other companies succeed with being “flat” is, well, superstition.
- 5) “Individualism,” another of Hofstede’s cultural factors, impacts work processes (teamwork, for example, is more natural in Japan than in the US where so much has to be written and taught about being a “good team player”) or the effectiveness of incentive systems (for example, expect bonuses based on individual level performance not to be equally effective in Japan as in the US); “uncertainty avoidance” impacts investment decisions and entrepreneurship; “masculinity” shapes how we measure success; and so on. If you want a quick overview of Hofstede’s findings, “there is an app for that”: google “culture gps” and you will find it.

## Different Nations, different customers and users ...

- 1) The differences across nations are also visible in the qualities of local demand. Local tastes and preferences are shaped by local geography, culture, and history. The expectations and behaviour of local customers and consumers are guided by local regulations and other institutions, such as education, health organizations, or consumer activists. User proficiency is affected by the overall stage of local technology. The perceived and actual value of a product, good, or service in different countries is different.
- 2) Suffice to drive a car in different places around the world ... and one has little doubt about how local traits shaped car drivers, pedestrians, police officers, and so on – let alone cars. Japanese cars were not smaller because of some grand vision of fuel efficiency, but rather because space is one of the scarcest resources in Japan. Try to buy a dedicated parking space or have a private garage for your car there, and you'll quickly find out why it makes sense to have a small car and a good anti-corrosion finish.
- 3) The local “pitch” effects customers, clients, prescribers, consumers and users in other relevant ways. Two are worth noting: *exigency* and *lead-use*.
- 4) Not all customers are equally demanding. That is true in any country, and especially true *across* countries. It is not just cultural beliefs (such as universalism or particularism) and values (such as fairness) that shape such differentiated national exigency, it is also institutional practices and their effectiveness (such as local warranty regulations or consumer rights activism). Such cultural and institutional differences create different expectations about the quality of goods and the level of services.
- 5) One of my observations, anecdotal as it may be, is that a detrimental difference between the “North” and the “South” of the world is the level of customer exigency, more so than technology gaps. Companies in the “South” are often poorer in quality and higher in relative price simply because their local customers do not demand too much of them or have learned over time that claiming for better value is simply ineffective. A particularistic bias and a relationship-oriented culture (two common traits in many “Southern” cultures) do create more passive customers. “The product is in bad shape, but it was the higher temperature during transport; you know, it was not their fault. We've known them (the supplier) for long and they are very nice people. Let's use the product anyway. Our customers won't complain either and if they do we will explain that the alternative was to wait quite a while for a new shipment.”

## Different Nations, different customers and users (cont.)

- 6) Customers and consumers across borders are therefore not just different in expectations and preferences on product features and functionalities, but also in their expectations on product quality, delivery terms, pre- and after-sales service, and so on. Customers with exacting wants are relevant as they continuously press their suppliers into better products and lower prices, let alone making them comply with agreed-upon quality and service levels. High customer exigency leads to incrementally improving company performance – or to customers and consumers who will be easily dissatisfied and who will not be silent or passive about it.
- 7) Some users and consumers are also particular in that they tend to have today the needs that the rest of the market has tomorrow. They are referred to as “lead users”, following von Hippel. A lead user may also be demanding, but these are two different things. A lead user cares for the functionality that the product brings about, namely the new functionality or features that existing products do not have. Lead users tend to be “early adopters” of a new product, as they will not mind substituting the solution of their unmet needs for an yet imperfect product or a relatively high price. Because they use the new apparatus, the new service, or the new good earlier than other users, they will accumulate more knowledge about such use than what others can – namely tacit knowledge. Their motivation for using a new product early on, learning about it and eventually improving it, overwhelm any costs of such endeavours. Lead users are instrumental to companies in bringing about innovative and improved products when they launch them into the wide market. Lead users hold valuable amounts of user knowledge of particular products or applications; they are a cause of local industry leadership.
- 8) Lead users are not equally distributed in the world. Different countries, with different “pitch”, will produce lead users of some product categories but not others. So, though you may know the lead users in your country, they may be “followers” of lead users in another country. Some examples: Italian men are lead (and demanding) users of high-fashion. It should not be surprising that Italian companies are leading the world of high-fashion for men, though it was not always so. Until the 60's, British men were lead users of fashion and Savile Row, in London, was the symbol of British industry leadership in men's clothes. But, as Italian men surpassed British men with bright colors, looser cuts and lighter materials, so did Italian fashion designers and companies.

## Different Nations, different customers and users (cont.)

- 9) The lead users of PC chips were American for long. Companies such as IBM, HP, Compaq or Dell were the forefront of innovation in PCs and challenged and were challenged by Intel with the ever evolving x86 chips. A matter of history (IBM invented what came to be the PC) and national scientific and technical leadership in semiconductors and IT. American users of computers, be it in military or business applications, were also lead users relative to other countries. The growth of the laptop PC and the internet were going to change that for a while. Suddenly, the lead users of Intel chips were not American companies but Taiwanese companies (such as Acer and Asus), as Taiwan became the dominant origin of laptop production and engineering. Asus even invented a new kind of laptop, the “netbook”. The new lead customers of chips wanted extended battery life, not fast computing. And another kind of lead user came up: the users from “emergent economies” who required a much, much lower price level even if at the expense of some features less desired. The “zero-segment” that Intel had successfully addressed with the Celeron was now replaced by a “below-zero” and altogether different kind of demand.
- 10) It is not yet easy to predict when the attributes of a country's “pitch” will produce demanding or advanced users of a particular product class. History and culture are good points to start. Japanese women were demanding and leading users of skin cosmetics long ago, and probably still are for some kinds of products. French women seem to be most advanced and knowledgeable consumers of perfumes ... which Japanese women will rarely use, if ever, on traditional and cultural grounds. Brazilian are very demanding and advanced consumers when it comes to entertainment, and the prime time TV soap opera better begin on time every day (interesting, that suddenly even Brazilians value punctuality). In some businesses, spotting demanding and lead users internationally is not trivial. Where in the world are the most exigent and innovative users of retail? And why?

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