The framework of a global company: A conceptualization and preliminary validation

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Abstract

Clearly, a substantial challenge for multinational corporations (MNCs), in the current environment of intensified competition and rapid industry consolidation, is one of much greater worldwide integration. Necessitated by intense competitive pressures, MNCs are integrating their disparate country operations in order to achieve economies across markets and operating units. This article integrates the motives and facilitators of the progression towards commonality in practices and metrics across subsidiaries and affiliates into a comprehensive framework of a global company. Preliminary results from a pilot study of the characteristics of common global practices among a sample of MNCs are presented as an initial validation of the conceptualization. The article also explores the benefits MNCs derive from the implementation of common practices across their worldwide operations, in pursuit of a global strategy.

Keywords: Global company; Global business practices; Metrics; Global coordination

1. Introduction

The market openness associated with globalization has increased the speed, frequency, and magnitude of access to all national markets, including all tangible and intangible aspects of commerce, by a new and more diverse set of competitors (Wolf, 2000). Corporations are evolving in response to these environmental and competitive pressures. Manufacturing, sourcing, and other value-adding activities are being coordinated and rationalized on a worldwide basis; redundancy is being eliminated; and organization-wide standards and benchmarks are being adopted. However, the worldwide alignment of the activities and processes necessary for successful implementation of global strategies is a challenging task for multinational corporations (MNCs), and realistically, the advent of the global company (GC) is by virtue of necessity, varying in degree by organization and industry.

Essentially, as put forth by Kogut (1985), the primary impetus driving the globalization of the firm is the comparative and competitive advantages that are gained by integrating the various value-added activities performed throughout the organization. Yet, inherent organizational complexity necessitates the formation of common practices and measures where independent means were once acceptable. Previously disconnected from the headquarters, and operating rather autonomously, geographically dispersed units now have to be integrated with the corporate family. Significantly, the Internet and contemporary information technology are providing the means for MNCs to create a closely connected, holistic organization. Thus, the embodiment of the geocentric firm, as originally conceptualized by Perlmutter (1969), is an emerging phenomenon. The purpose of this research is to begin to measure the degree to which an organization has achieved a global stature.

The remainder of this article is organized into five major sections. First, we begin with a brief review of the relevant literature. Then those dimensions that contribute to global nature of the corporation are identified, providing the basis for integration of the constructs into a comprehensive framework, allowing the measurement of the relative degree of globalization achieved by the firm. Preliminary results from a pilot study of the characteristics of common global practices among a sample of MNCs are presented as an initial validation of the conceptualization. Then, insights that relate...
to the degree to which a set of common value-adding processes are adopted across the subsidiaries of MNCs are offered. In conclusion, we explore the benefits MNCs derive from the implementation of common practices across their worldwide operations, in pursuit of a global strategy.

2. From multinational corporation to global company

The academic literature clearly elucidates the transformation of leading business organizations from MNCs to global companies (Kogut, 1985; Perlmutter, 1969), with much justification provided for this phenomenon (Douglas & Craig, 1989; Johansson & Yip, 1994; Levitt, 1983; Ohmae, 1989). Initial measures attempted to gauge purely quantifiable measures such as the percentage of sales occurring outside a home market, global market share, and number of foreign affiliates. Yet, more recent advances have recognized the need to measure subjective constructs such as corporate leadership's attitude towards global operations, geocentric outlook, and cross-cultural integration. The marketing literature is particularly rich with investigations of the relative degree and performance of various global marketing strategies (Birkinshaw, Morrison, & Hulland, 1995; Cavusgil & Zou, 1994; Jain, 1989; Samiee & Roth, 1992). Recent advances have coalesced the disparate measures of a global marketing strategy into a common framework (Zou & Cavusgil, 2002) and the construct of the global mindset has also been developed into a meaningful scale (Murtha, Lenway, & Bagozzi, 1998).

Although there has been much knowledge gained about these particular aspects of doing business from a geocentric perspective, a generally accepted conceptualization and measure of what constitutes a GC is a major gap in the literature. A holistic measure of the degree of a company's globalization has not yet been captured in a defined scale. This impedes the advancement of knowledge: confusion can occur since findings from different studies cannot be meaningfully compared; it makes it difficult to measure firm performance due to varying measures; and it is problematic to assess the relationship between the degree of globalization and firm performance.

The implementation of global corporate strategy remains a major challenge for corporate leadership, when trying to integrate a worldwide organizational structure (Roth, Schweiger, & Morrison 1991; Yip, 1992; Zou & Cavusgil, 2002). This implies a degree of complexity much greater than that of a company which relinquishes much autonomy and operational freedom to its subsidiaries. As illustrated in Fig. 1, organizations that aim toward globalization are required to employ radical changes in their processes and organizational structures. Dependence on global markets has fostered the increased use of standardized products (Jain, 1989). In order to rationalize the organization, planning and resource allocation needs to be considered on a global basis to facilitate worldwide manufacturing capabilities which exploit opportunities to implement a globally integrated strategy. Global leadership and culture foster a relatively centralized structure and decision-making with a high degree of coordination operationalized by uniform policies and routines.

Yet, corporate globalization occurs in degrees, by dimension, and gradually. Even firms that are regarded as being in the mature stages of the globalization process, such as ABB, Sony, Nestle, and Unilever, fail to meet all of the features required for recognition as a truly and comprehensively GC.

The necessity for worldwide coordination, involving several subordinate country operations according to an overarching global strategy, leads MNCs towards adopting common practices across subsidiaries and developing common metrics related to monitoring these practices. The motivations and drivers influencing this trend reflect and

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**Fig. 1. Dynamic characteristic changes: from national to global company.**

- **National or Multi-domestic Companies**
  - Strong national identity
  - National endowments: talent pool, skills, capabilities
  - Unique corporate governance/ownership patterns
  - National regulations on

- **Global or Transnational Companies**
  - Planning and resource allocation on a global basis
  - Dependence on global markets
  - Worldwide manufacturing capability
  - Standardized products
  - Globally integrated strategy
  - Centralized structure and decision-making with high coordination

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parallel those of globalization and include market factors, cost sensitivity, governmental factors, and competitive considerations (Yip, 1992). Certainly, the desire to create a coordinated company is influenced by the need for efficiency and the minimization of redundancy. In the past, fundamental impediments to achieving a globalized company were the geographic distance and cultural boundaries, which created an inherent disconnectedness between organizational units. The advent of facilitating factors has increased the velocity of the trend toward commonalities. These factors include the improvement of the global information technology infrastructure, together with tools like electronic data interchange (EDI), intranets, and the increased transparency of information reporting (Boudreau, Loch, Robey, & Straud, 1998). Processes such as competitive benchmarking and the standardization of financial markets have also further enhanced the ability of firms to design and disseminate common practices.

The development of common practices is an incremental and dynamic process. First, the executive management must have cognitive recognition of the need for common processes and metrics in order to integrate a global strategy. Next, it is critical for management to be committed beyond mere acquiescence, as it is necessary for the process of internalization and acceptance of the new practice to occur. Once the need for convergence has been identified and accepted, the appropriate means of facilitation must be identified with respect to the common practices, and in accordance with the corporate strategic objectives. Then, implementation throughout the multinational organization can be initiated. Finally, the performance can be assessed, both at the local and aggregated global level. In this way, corporate actions, regardless of their geographic location, will be aligned with the corporate core business philosophy and global strategy.

It is clear that successful globalization of an organization requires the adoption of a set of practices and procedures across subsidiaries in order to ensure the coordination of worldwide efforts. Therefore, the need for the identification of the factors that lead to success in the global marketplace, as well as the development of new means for assessing the relative performance of the company on a macro level, is essential.

3. The dimensions of a global company

We postulate that six primary factors contribute to a company’s degree of globalization. These are corporate strategy, marketing strategy, organizational structure, people/leadership, culture, and management processes. Fig. 2 illustrates these dimensions. First, a geocentric corporate strategy implies that the senior leadership maintains a vision which incorporates the implementation of such practices as global vision, global commitment, global leveraging, global sourcing, global resource allocation, market participation, global partnerships, competitive moves, and the location of value added activities. The literature provides ample support for the relevance of this dimension (Ghoshal, 1987; Hamel & Prahalad, 1985; Yip, 1992).

Second, global marketing strategy plays a critical role in determining a multinational company’s global performance (Cavusgil & Zou, 1994; Zou & Cavusgil, 2002). While a multidomestic strategy treats competition in each country or region on a stand-alone basis, a global marketing strategy takes an integrated approach across countries and regions (Birkinshaw et al., 1995; Yip, 1989; Zou & Cavusgil, 1996). The items related to this dimension are: standardized core products and services that require a minimum of local adaptation, uniform marketing (Jain, 1989), global product development, meeting local needs at global standards, global supply chain management, local market development, and alternative modes of entry (i.e., the most appropriate one for each market) (Zou & Cavusgil, 2002).

The third dimension, global organization/structure, relates to the extent to which the multinational company develops and implements an organizational structure that aims to merge a global strategy with a respect for local preferences (Johansson & Yip, 1994; Roth et al., 1991). While some multinationals like Matsushita and Kao prefer a strongly centralized structure, treating the world market as an integrated whole and focusing on universal customer demand, others like General Electric and Procter & Gamble are structured to adapt and transfer the parent company’s knowledge to foreign markets. The practices related to this dimension include interconnectedness (i.e., linking electronically geographically dispersed parts of the organization via

![Diagram](Fig. 2. The six dimensions of the extent of globalization.)
intranets, extranets, etc.), best practice repositories, and lead centers of excellence.

The fourth dimension, people/visionary leadership, relates to the most critical assets of any organization: human capital. At the center of any corporate globalization effort are a handful of managers who understand the world, and are prepared to manage the complexity, adaptability uncertainty, and learning that a company faces in a global marketplace (Conn & Yip, 1997; Kedia & Mukherji, 1999; Paul, 2000). Moreover, the development of human capital remains a critical constraint to the overall globalization of the firm (Bartlett & Ghoshal, 1986). Therefore, multinational companies that follow a global strategy are likely to adopt several common practices of the human dimension like the use of foreign nationals (i.e., enabling high-potential nationals to gain experience outside of their own country), multicountry careers and cross-cultural and language training in order to develop global “supermanagers” who possess advanced linguistic, cross-cultural, and people skills.

The fifth dimension, organizational culture, incorporates the values, norms of behavior, systems, policies, and procedures through which a company adapts to the complexity of the global arena. It plays a key role in the development and execution of the corporate global strategy (Yip, Johansson, & Roos, 1997). The commonalities regarding this dimension include adapting a single corporate language for business communication, and managerial performance review and compensation on the basis of contribution to global strategy.

The sixth dimension relates to those managerial processes and routines engaged by the MNC. Global companies must design new mechanisms and tools for integrating all functions without falling back on heavily centralized control. They also must employ modern information technology and communication systems to allow for free exchange of ideas, data, and best practices (Boudreau et al., 1998). Therefore, besides the adoption of common processes and best practices, the management processes of a global organization should involve global information systems, global product development, and centrally coordinated R&D. The standardization of core business processes around the world, while allowing sufficient flexibility at the manufacturing level for local adaptation, should integrate sophisticated decision-aid tools to incorporate the most recent information about customers, products, competitors, and so on.

4. Validation of the model

In order to assess the extent of the globalization among multinational companies, we carried out a survey with a small sample of MNCs. The field research was based on an instrument that was developed in accordance with the six dimensions presented in the proposed framework. The sample constituted 35 senior business executives who hold middle and top management positions in MNCs. Participants rated the relevance of each item to their company for each of the six dimensions on a seven-point Likert scale, anchored by “strongly disagree” and “strongly agree.”

A total of 38 items were used to measure geocentric corporate strategy, global marketing strategy, global organization/structure, people/visionary leadership, global organizational culture, and global management processes. These measures are presented in Table 1. The unweighted averages of these items were used in order to determine the degree of company globalization in each of the six dimensions.

Table 1
Global company scale items

<table>
<thead>
<tr>
<th>1. Geocentric strategy</th>
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<tr>
<td>1.1. Global vision</td>
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<td>1.2. Global commitment</td>
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<td>1.3. Global leverage</td>
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<td>1.4. Resource allocation</td>
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<td>1.5. Global sourcing</td>
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<td>1.6. Market participation</td>
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<td>1.7. Global partnerships</td>
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<td>1.8. Competitive moves</td>
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<td>1.9. Location of value-adding activities</td>
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<tr>
<td>2. Marketing strategy</td>
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<tr>
<td>2.1. Standardized products and services</td>
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<td>2.2. Uniform marketing</td>
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<td>2.3. Product development</td>
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<td>2.4. Customer service</td>
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<td>2.5. Channel and supply chain</td>
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<td>2.6. Local market development</td>
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<td>2.7. Alternative modes of entry</td>
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<td>3. Global organization/structure</td>
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<td>3.1. Global–local balance</td>
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<td>3.2. Centralized global authority</td>
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<td>3.3. Cross fertilization between the center and national units</td>
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<td>3.4. Business integration considerations outweigh geographic dimension</td>
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<td>3.5. Interconnectedness</td>
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<td>3.6. Lead centers of excellence</td>
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<tr>
<td>4. People/visionary leadership</td>
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<tr>
<td>4.1. Human resource commitment</td>
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<tr>
<td>4.2. Use of foreign nationals</td>
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<td>4.3. Multicountry careers</td>
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<td>4.4. Leadership development</td>
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<tr>
<td>4.5. Cross-cultural language and training</td>
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<td>4.6. Performance review and compensation</td>
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<td>5. Global culture</td>
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<tr>
<td>5.1 Global identity</td>
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<tr>
<td>5.2. Global mindset</td>
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<td>5.3. Interdependence of business</td>
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<td>5.4. Single corporate language</td>
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<td>5.5. Social responsibility</td>
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<td>6. Management processes</td>
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<tr>
<td>6.1. Global information systems</td>
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<td>6.2. Cross-country coordination</td>
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<tr>
<td>6.3. Adoption of common processes and best practices</td>
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<td>6.4. Organization of products and services</td>
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<td>6.5. Operational effectiveness</td>
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Finally, the unweighted averages of the mean scores of the six dimensions were computed in order to assess the overall extent of globalization of the multinational company.

A reliability analysis revealed Cronbach’s alpha coefficients of .898, .805, .852, .900, .824, and .857 for the corporate strategy, marketing strategy, structure, people/leadership, culture and management systems, respectively. Additionally, the mean scores of the six dimensions have a reliability coefficient of .949. This provides statistical support for each dimension, as well as the overall conceptual framework.

The exploratory analysis also involved a series of paired sample t tests in order to determine the differences between the degree of adoption of each common practice and the extent of globalization of the company. The multinational companies reported that the use of geocentric strategy is on average, higher than the extent of globalization existing in other five dimensions. This analysis is provided in Table 2. This fact is also confirmed by the paired sample t test statistics, presented in Table 3, showing that the adoption of a geocentric strategy is significantly higher than the overall extent of globalization of the companies ($t = 2.008, P = .053$).

5. Discussion

The analysis provides insights into the common practices that globally oriented organizations are adopting in order to achieve coordination, rationalization, and scale economies on a global scale. As the competitive environment propels firms farther down the path of adopting global strategies, it is clear that there will be an ever greater need for integrating and rationalizing business activities across geographic boundaries. Certainly, the Internet and information technology are providing the means by which globalizing companies acquire worldwide electronic connectedness. In other words, physical distance is being bridged by electronic connectedness. Such a capability provides firms with a powerful tool to integrate disparate parts of the corporate family, and also develop and adopt common practices.

An important empirical finding relates to the dimensions of global strategy and organizational structure. While the use of geocentric strategies is the highest rated dimension, the implementation of integrated structural principles among the MNCs studied lags behind. This difference implies that even when MNCs have a clear global vision and orientation in their corporate strategies and objectives, the development of a global organizational structure tends to lag. We would expect this to be due to the nature of the constraints, such as cost, organizational resistance, inertia, and regulatory requirements of building an integrated organizational structure.

MNCs studied also acknowledge the importance of worldwide communication across dispersed business units, both electronic interconnectedness and single corporate language being among most popular practices. This variable is clearly supported by the velocity of recent advances in technology and telecommunications. It will be interesting to see if the recent corporate governance and accounting issues, contributing to the decline in the availability of both debt and equity based capital in these industries, will result in a net decline in the degree of innovation. Nevertheless, the low rating received for the relative degree of performance review and compensation measures with respect to the contribution to global corporate goals highlights the importance of developing a structure for globally oriented organizations that will allow for the implementation and monitoring of global processes via common measures.

6. Conclusion

Globalization of markets and competition, in combination with advances in information technology and the Internet, are driving multinational companies toward integration of business processes across disparate country markets. Perhaps for the first time in their history, MNCs are achieving worldwide coordination and efficiency. The global company—one that is able to eliminate redundancy and implement common practices worldwide—will be the organization that will be the one that will sustain competitiveness. This study is meant to provide preliminary empirical support for the development of an organizational profile, based on specific characteristics and managerial attributes, of a global company. In order to substantiate the results found, this investigation should be replicated with a larger scale survey and analysis.

There are special challenges encountered in creating and managing a truly global organization. Some of these difficulties are derived from the complexity of the organizational
structure, such as the lack of congruency between local and
global strategic objectives, and contradictory short-term and
long-term orientations. Other factors such as varying cur-
cencies, accounting requirements are associated with the
complexity of the environment in which the globally ori-
cented company operates.

This study explored the common processes and practices
that globally oriented companies need to adopt in order to
leverage their core capabilities globally. Further empirical
studies are required in order to determine the degree of the
trend towards common practices in MNCs. The relation-
ships between the facilitators presented in this article, and
the motives that drive the trend toward commonalities need
further examination in order to determine the extent to
which each factor influences the process.

Correspondingly, there is a need for better metrics and
scale development to measure the performance of GC pro-
cesses. Once satisfactory measures of GCs are available, they
can be used to monitor the evolution and progress of firms. In
order to gauge the empirical value of global expansion, there
is a need to investigate whether “globality” leads to superior
performance and sustained competitive advantage over time.
Relating globality of an organization to firm performance is
especially desirable in view of the recent debate on global-
ization and shareholder value creation.

Future studies should focus on the identification of the
firms that are likely to be in the forefront of this movement,
including variables such as organization size, industry
effects, and parent company nationality along with the
moderating effects of corporate culture and national culture.
Finally, the causal relationship between the implementation
of common practices, related metrics adoption, and corpo-
rate performance should be assessed.

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