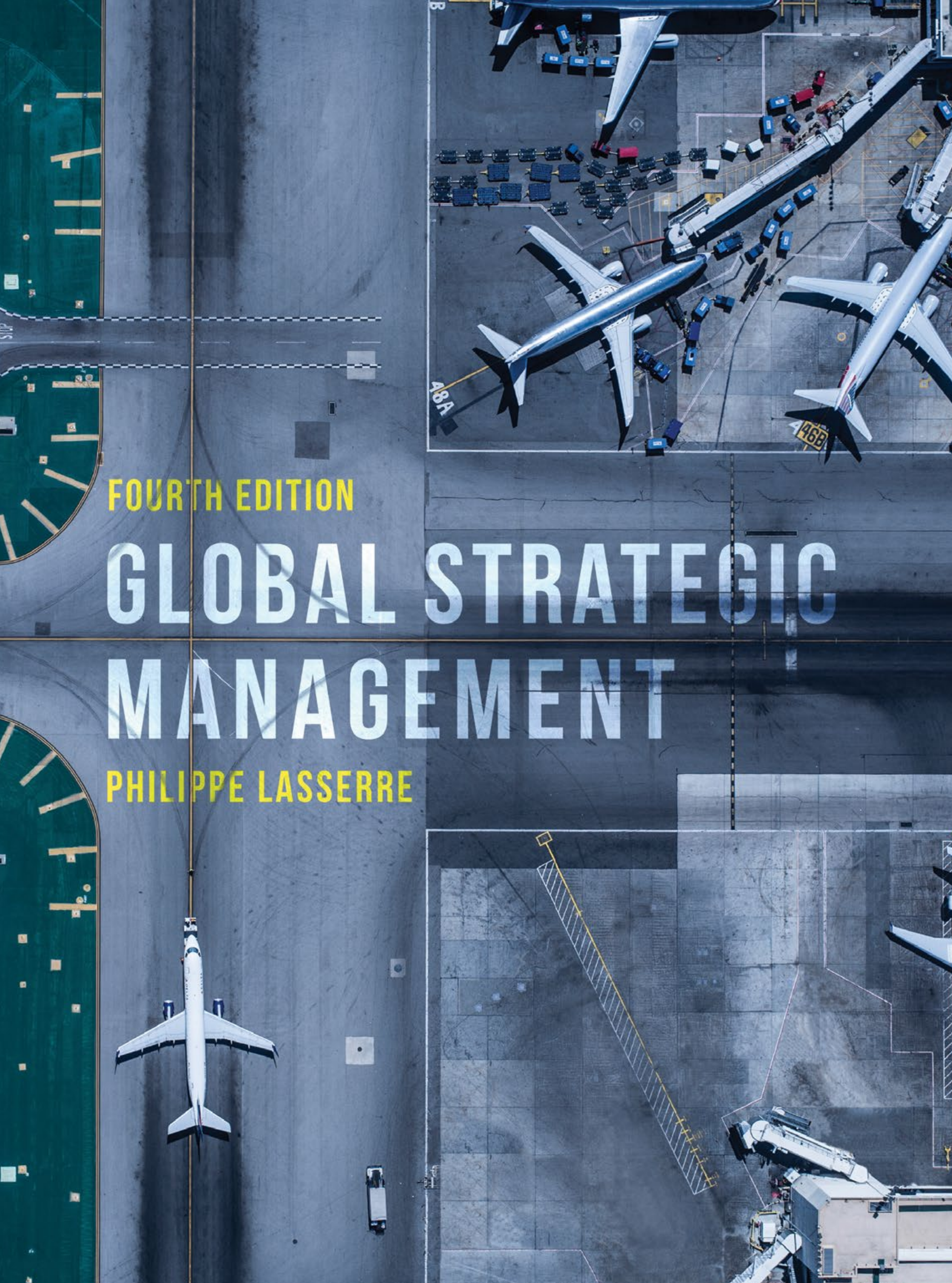

FOURTH EDITION

GLOBAL STRATEGIC MANAGEMENT

PHILIPPE LASSERRE

‘This new version of *Global Strategic Management* is uniquely instructive and the best in the market. It covers the length and breadth of issues in global business and strategy with interesting and enlightening case studies. It combines theory with practice extremely well and is therefore highly recommended for undergraduate and postgraduate studies, as well as practitioners in industry and academia.’

Helen (Huifen) Cai, *Middlesex University Business School, UK*

‘Lasserre’s book is at the very important nexus of strategic management and international business, and does an excellent job of integrating the two. He maintains a nice balance, reviewing the elements of international business before providing analyses of the both the key strategic contexts and the core disciplinary perspectives, ranging from marketing and finance to human resource management. Readers get a holistic picture of the requisites necessary for firms to leverage the global business environment and thrive within it.’

Ram Mudambi, *Fox School of Business, Temple University, USA*

‘There are many very worthwhile updates and enhancements throughout the book, most especially the excellent short case on Haier. I also particularly like the new sections in the *Designing a Global Strategy* chapter and how concepts around global metrics are handled there.’

Chris Carr, *University of Edinburgh Business School, UK*

FOURTH EDITION

GLOBAL STRATEGIC MANAGEMENT

PHILIPPE LASSERRE

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To Michelle

Pour
Virginie, Benoit, Marion,
Abigail, Noé, Hélio,
Aline
et à la mémoire de Michelle,

Voilà combien de jours, voilà combien de nuits
Voilà combien de temps que tu es reparti
Tu m'as dit cette fois, c'est le dernier voyage
Pour nos cœurs déchirés, c'est le dernier naufrage

Barbara (1962) *Dis, quand reviendras-tu?* ©

ABOUT THE AUTHOR

Philippe Lasserre is Emeritus Professor of Strategy and Asian Business at INSEAD. He obtained his Masters degree from ESSEC (Paris) and his PhD from the University of Texas at Austin. Since 1975, he has been involved in teaching, research and consulting in strategic management and international business. He is the author of various articles on strategy, business in Asia and joint ventures and he has co-authored *Strategies for Asia Pacific* (Palgrave Macmillan: 1995, 1999, 2006) and *Strategy and Management in Asia Pacific* (McGraw-Hill: 1999). He has been a visiting professor in various universities in Singapore, at the China European Business School in Beijing and Shanghai, at the University of Texas in Dallas, at Curtin University in Perth, and finally at Thunderbird University in Glendale Arizona. He currently lives in France.

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MINI-CASES AND EXAMPLES

The following grid demonstrates the geographical reach of the Mini-cases and Examples used in the fourth edition. The companies featured in these cases and examples have been chosen because they are 'transnational' and have their origins in a diverse range of countries, from China to the Philippines, and the USA to Brazil.

Mini-cases				
Chapter	**MC #**	**MC title**	**Area covered**	**Page number**
1 Globalization of Markets and Competition	1.1	Mobile telephony industry	Global	19
2 The Emerging Global Environment	2.1	Panelsol Ltd	EU	42
2 The Emerging Global Environment	2.2	BYD (Build Your Dreams)	China	44
3 Globalization, Societies and Cultures	3.1	Working across cultures: the engineering consultants' clashes	Indonesia/various	70
3 Globalization, Societies and Cultures	3.2	Brazil	Brazil	72
4 Globalization, Sustainable Development and Social Responsibility	4.1	Jack Cumberland	SE Asia	107
4 Globalization, Sustainable Development and Social Responsibility	4.2	Shell and Cosan	Brazil	108
4 Globalization, Sustainable Development and Social Responsibility	4.3	Light Up The World (LUTW)	Canada/Peru	108
4 Globalization, Sustainable Development and Social Responsibility	4.4	Etisalat's philantahropic activities	UAE	109
5 Designing a Global Strategy	5.1	HSBC: The world's local bank	China	152
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6 Assessing Countries' Attractiveness	6.1	Anatolia Electric	Turkey/Africa	184
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8 Global Strategic Alliances	8.1	General Motors' global alliances: a Sisyphus-like task	US/Global	241
9 Global Mergers and Acquisitions	9.1	The long road of global mergers in the telecoms equipment industry	Global	263

Mini-cases				
Chapter	**MC #**	**MC title**	**Area covered**	**Page number**
10 Global Marketing	10.1	Natura's international marketing expansion	Brazil	283
11 Global Operations and Digital Networks	11.1	The globalization of the sharing economy: Airbnb, Uber and BlaBlaCar	US/France/ Global	310
11 Global Operations and Digital Networks	11.2	Global value chain in apparel: Inditex, Marks & Spencer and Gap	Spain/UK/US	311
12 Global Innovation	12.1	Global giants' R&D networks – Siemens and BASF	Germany	335
13 Global Financial Management	13.1	Aguaciudad in the Philippines	Spain/ Philippines	356
14 Global Human Resource Management	14.1	Global managers – José Azular	US-Argentina	387
14 Global Human Resource Management	14.2	Global managers – Joseph Laval	France-Thailand	388
15 Designing a Global Organization	15.1	ACER's global organizational evolution	Taiwan	415
15 Designing a Global Organization	15.2	Café Britt – a Costa Rican medium-sized company	Costa Rica	417
16 Current and Future Trends in Globalization	16.1	Scenario building – the pandemic threat	South Pacific	441
17 Global Strategic Management in Action	Whole chapter	Haier	China	

Examples		
Chapter	**Example titles**	**Region**
1 Globalization of Markets and Competition	Otis Elevators	US/EU
2 The Emerging Global Environment	The multi-segment approach in emerging countries: Saurer	Germany/China, Brazil, India
2 The Emerging Global Environment	The multi-segment approach in emerging countries: Unilever Brazil	Brazil
2 The Emerging Global Environment	The multi-segment approach in emerging countries: General Electric	US/India
4 Globalization, Sustainable Development and Social Responsibility	An introduction to issues of corporate social responsibility – Shell in Nigeria	Nigeria
4 Globalization, Sustainable Development and Social Responsibility	Child labor and the global firm: Sialkot and Reebok	Pakistan/UK
4 Globalization, Sustainable Development and Social Responsibility	Child labor and the global firm: Nike	US/Global
5 Designing a Global Strategy	Samsung Electronics	South Korea
5 Designing a Global Strategy	Whirlpool	US
5 Designing a Global Strategy	Yellow Tail: a blue ocean strategy in action in the global market space	Australia

Examples		
Chapter	**Example titles**	**Region**
5 Designing a Global Strategy	Gemplus: from Marseille to the world	France
5 Designing a Global Strategy	Sunna Design: a born global start-up	France
5 Designing a Global Strategy	Cochlear, an Australian born global high-tech company	Australia
7 Entry Strategies	Carrefour's market-seeking entry strategy	France/SE Asia
7 Entry Strategies	Cargill's market- and resource-seeking entry strategies	US
8 Global Strategic Alliances	The Renault–Nissan Alliance	France/Japan
9 Global Mergers and Acquisitions	Getinge's growth via international acquisitions	Sweden
10 Global Marketing	Global/local branding – L'Oréal in China	France/China
11 Global Operations and Digital Networks	Li & Fung's 'virtual factory' concept	China
11 Global Operations and Digital Networks	E-procurement and reverse auctions	Global
11 Global Operations and Digital Networks	Apple's vs Amazon's global supply chains	US/Global
11 Global Operations and Digital Networks	Enron in India: the Dabhol Power Plant	US/India
11 Global Operations and Digital Networks	Yahoo! and antiracist legislation in France	France/US
12 Global Innovation	Nestlé – a global network	Switzerland
12 Global Innovation	Hewlett-Packard (HP)	Canada/Singapore
12 Global Innovation	Global virtual lab at Merck Sharp and Dohme (MSD)	US
14 Global Human Resource Management	Appointing a divisional manager in France	Switzerland/France
14 Global Human Resource Management	ABB's localization program in China in the late 1990s	Sweden/Switzerland/China
15 Designing a Global Organization	Evolution of two global organizations: Unilever	UK/Netherlands
15 Designing a Global Organization	Evolution of two global organizations: Procter & Gamble	US
15 Designing a Global Organization	Global functional organizational design at Apple	US
15 Designing a Global Organization	Geographical organizations: Zee Entertainment	India
15 Designing a Global Organization	Geographical organizations: ISS	Denmark
15 Designing a Global Organization	Bombadier	Canada
15 Designing a Global Organization	Matrix organizations: Olam	Nigeria
15 Designing a Global Organization	Matrix organizations: BASF	Germany
15 Designing a Global Organization	IBM and the globally integrated enterprise	US
16 Current and Future Trends in Globalization	The Millennium Project	US/Global

LIST OF ACRONYMS

APV	Adjusted Present Value
ASEAN	Association of Southeast Asian Nations
ASP	Application Service Provider
B2B	Business-to-Business
BOT	Build, Operate and Transfer
BPI	Bribe Payers Index
BPO	Business Process Outsourcing
BSR	Business for Social Responsibility
CCA	Cost of Capital Adjustments
CEO	Chief Executive Officer
CIA	Central Intelligence Agency
CPI	Corruption Perceptions Index
CSR	Corporate Social Responsibility
EDI	Electronic Data Interchange
EIU	Economist Intelligence Unit
EPP	Environmental Preferable Purchasing
EPZ	Export Processing Zone
ERP	Enterprises Resources Planning
EU	European Union
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GBU	Global Business Unit
GCI	Global Capability Index
GDP	Gross Domestic Product
GDP/Cap	Gross Domestic Product per capita
GHG	Greenhouse Gas
GNP	Gross National Product
GRI	Global Revenue Index
HRM	Human Resource Management
IFO	International Financial Organization
II	Internalization Index
ILO	International Labour Organization
IMD	International Institute for Management Development
IMF	International Monetary Fund
INSEAD	European Institute of Business Administration
IPR	Intellectual Property Rights
JV	Joint Venture
LIBOR	London Inter-Bank Offered Rate
M&A	Mergers and Acquisitions
MNC	Multinational Corporation
NAFTA	North American Free Trade Agreement
NPV	Net Present Value
NYSE	New York Stock Exchange
OECD	Organisation for Economic Co-operation and Development
OEM	Original Equipment Manufacturing
PCN	Parent-Country National
PPP	Public–Private Partnership
PPP	Purchasing Power Parity
R&D	Research and Development
RBU	Regional Business Unit
RFQ	Request for Qualification *or* Request for Quotation
RHQ	Regional Headquarters
ROI	Return on Investment
SBU	Strategic Business Unit
SME	Small and Medium-sized Enterprise
SRI	Socially Responsible Investing
TCN	Third-Country National
TI	Transparency International
TNC	Transnational Corporation
TNI	Transnational Index
UDHR	Universal Declaration of Human Rights
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
WACC	Weighted Average Cost of Capital
WTO	World Trade Organization

TOUR OF THE BOOK

1 CHAPTER INTRODUCTION AND LEARNING OBJECTIVES | provide a guide to the material in each chapter and allow progress to be checked.

CHAPTER 1

GLOBALIZATION OF MARKETS AND COMPETITION

LEARNING OBJECTIVES

By the end of the chapter you should be able to:

- Define globalization from a macro environment perspective
- Identify the forces pushing towards globalization and the forces pushing for localization
- Define what globalization means for firms

MINI-CASE 1.1

Mobile Telephony Industry

Mobile telephony expanded rapidly during the first decades of the 2000s. From 2005 to 2015 the number of mobile subscribers in the world grew from 2 billion (32% of the world's population) to 6.3 billion (86% of the world population). According to the International Telecommunication Union (ITU) the distribution of customers is: Asia Pacific 3.37 billion, Americas 1 billion, Europe 757 million, Rest of the world 808 million.

The industry is divided broadly into three major sub-industries: (1) infrastructure manufacturers, (2) mobile phone producers, and (3) mobile services operators

Infrastructure manufacturers

The industry of network equipment manufacturing generated $126 billion of revenues worldwide in 2012. It is dominated by major US, European and Asian producers: Ericsson from Sweden, Huawei and ZTE from China, Motorola and Cisco from the USA and Nokia Alcatel Lucent (Finnish, French, US).

Economies of scale and capital intensity drive the economics of this industry. Over recent years it has experienced a lot of consolidation through mergers and acquisitions

Mobile phone producers

In 2014 the industry produced 1.878 billion units of mobile phones – a 56% increase since 2009. With 41% of market share, three major companies dominate this industry; Samsung (21%), Nokia/Microsoft (10%) and Apple (10%). The smartphone segment represents 53% of that market, up from 40% in 2012, and is divided between three operating systems (Android, IOS and Windows). Smartphones are constantly upgraded to reduce weight, improve battery durability, add features, and adapt to the internet access technology (3G, 4G)

2 MINI-CASES | help students to apply key concepts in global strategy to the real world of business. They are largely based on a diverse range of 'transnational' companies which operate across the world.

Table 1.1 Globalization data

	2014 prices	
	(US$ bn)	1
World GDP	77,283	1
Trade (export of goods and services)	23,409	1
Foreign direct investment (inward stock)	26,039	1
Foreign direct investment (inflows)	1,228	1
Cross-border mergers and acquisitions	399	1
Sales of foreign affiliates of multinationals*	36,356	1

3 FIGURES AND TABLES | are used extensively to illustrate the theory.

EXAMPLE 1.1

Otis Elevators

Otis Elevator Company started in 1853 in New York and was soon selling elevators in Canada and Europe as well. In the 1960s it had many plants, service operations and sales offices all over

and service). For instance designed elevators for the factured them in French fa French sales forces and r

4 IN-CHAPTER EXAMPLES | are scattered throughout the text to reinforce how the theory is put into practice. Longer examples are highlighted and exemplify global strategy at work.

5 SUMMARY AND KEY POINTS | provide an abbreviated version of the main concepts and theories, useful for revision and checking understanding of the key points.

SUMMARY AND KEY POINTS

1 **Globalization is the process by which people, products, information and money can move freely across borders**

a Four factors are pushing globalization:

LEARNING ASSIGNMENTS

1 Among the enterprises that you know, can you identify one that qualifies as a global company? Why?
2 In Figure 1.8, why are saving accounts positioned low on global approach and high on local approach while investment banking is high on global approach and low on local approach?
3 In Figure 1.8, food retailing is positioned as a local business, with a very low globalization score. However, in the press, companies like Tesco, Wal-Mart or Carrefour are described as 'global retailers'. Explain this discrepancy.

6 LEARNING ASSIGNMENTS | test understanding of the chapter and also encourage further thought.

KEY WORDS

- Arbitrage benefits
- Comparative advantage
- Global companies
- Global industries

WEB RESOURCES

http://knowledge.insead.edu/
INSEAD

http://www.business-week-global.com/
Businessweek magazine

http://www.mckinseyquarterly.com/
McKinsey Quarterly

8 WEB RESOURCES | are included for students who want to go a little further.

7 KEY WORDS | appear at the end of each chapter and can be used as checklists for revision.

9 REFERENCES AND FURTHER READING | identify key texts for further research and include books and journal articles.

COMPANION WEBSITE

Visit the companion website at **ww** of weblinks and resources, self-test

REFERENCES AND FURTHER READING

BOOKS AND ARTICLES

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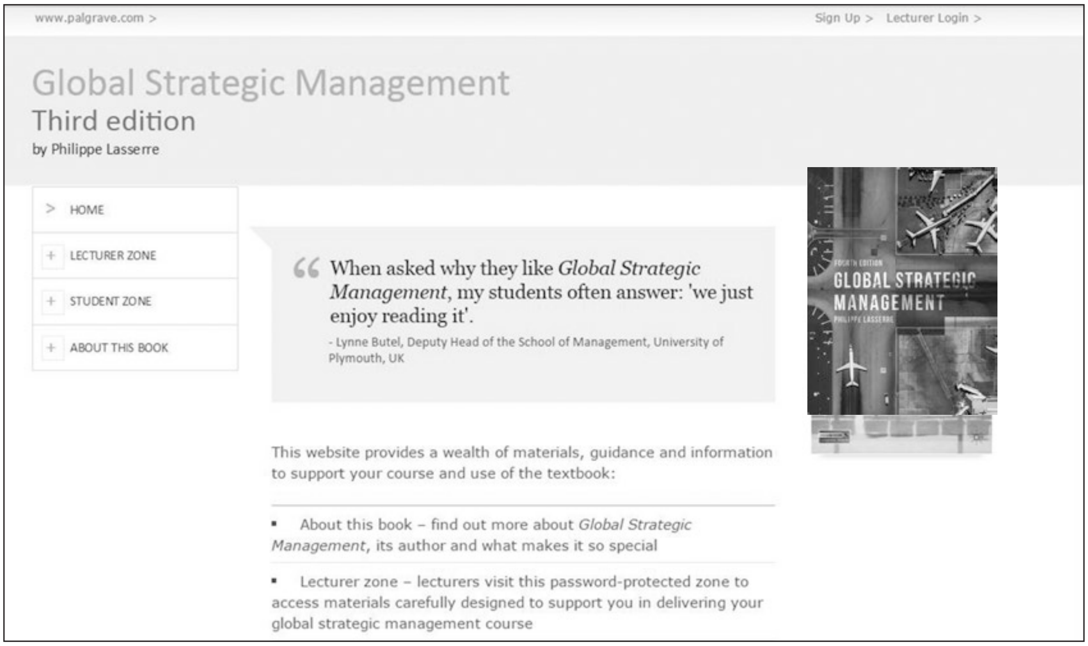
10 COMPANION WEBSITE | – **www.palgravehighered.com/lasserre-gsm-4e**

COMPANION WEBSITE

Visit the companion website (**www.palgravehighered.com/lasserre-gsm-4e**) for a range of teaching and learning resources including:



FOR LECTURERS

- Microsoft® PowerPoint presentations for each chapter
- A lecturer manual containing guideline answers to Mini-case questions; teaching notes; and answers to learning assignments
- A testbank of multiple choice and essay questions

FOR STUDENTS

- Video interviews illustrating issues covered in the chapters of the book
- Learning assignments
- Chapter-by-chapter links to suggested long case studies
- A searchable glossary of key terms
- A list of acronyms
- Web links and resources
- Multiple choice questions for revision

ACKNOWLEDGEMENTS

I would like to thank my colleagues at INSEAD who have given useful advice, as well as their blessing to use some of their work in this book: Henri Claude de Bettignies, Hellmut Schütte, Michael Witt, Jose Santos, Yves Doz, Philip Parker, Amitava Chattopadhyay, Felipe Montero, Jasjit Singh, Andrew Shipilov, Claude Viallet and Gabriel Hawawini.

I also want to thank Jon Peacock at Palgrave, in particular, for his useful assistance in the proofing and editing of the text.

INTRODUCTION TO THE FOURTH EDITION

Since the third edition of this book was published in 2012, globalization has taken another turn. After a long recovery from the global financial crisis and alongside ongoing turmoil in the Middle East, a number of further developments have emerged to put the whole concept of globalization into question. First, a resurgence of several forms of nationalism in Russia, Turkey, the UK, central Europe and the USA have given a new momentum to protectionism. The European Union itself, one of the most ambitious international integrative organizations, is showing signs of both disillusion and dissolution. Even the emerging world is experiencing some economic slowdown. In spite of those uncertain signs many corporations from all over the world have shown a willingness to pursue their quest for global markets. OECD (Organisation for Economic Co-operation and Development) firms are still looking at the emerging economies in order to capture the consumption appetite of their expanding middle classes. New champions from emerging countries are progressively planting investments outside their boundaries and developing an appetite for acquiring companies in the industrial world.

Therefore, this new edition considers that it is still important and relevant to help students and managers to put together all aspects of global strategic management in order to provide firms with the relevant skills to support their global ambition. It is still about global firms and global management. Its objective remains to help graduate and undergraduate students, as well as company executives, to understand the main issues that companies and their managers confront when they 'go global' or 'manage globally', and to cope with them. Data and narratives have been updated in light of the aforementioned new developments, and several case examples added. At the end of each chapter there are now one or two mini-cases that students may discuss in class.

The book has been designed as a support for specialized courses on strategic management for global firms or on international business, and is equivalent to a series of course notes to be read in preparation for a class or afterwards. Students will normally be assigned a case study for each of the topics covered in the book. It can also be used as a reference guide for managers and executives.

There are a number of excellent textbooks on international business already available.[1] How does this book compare with the others?

First, the focus of the book is on business firms and their employees. It has eliminated from the text the macroeconomic and political factors that traditional international business textbooks cover, such as international trade and investment flows, the problems of economic development in emerging countries, analysis of international and regional institutions (such as the World Trade Organization (WTO), the United Nations (UN), the World Bank and other development banks, the European Union (EU), the North American Free Trade Agreement (NAFTA), the Association of Southeast Asian Nations (ASEAN)), as well as geopolitical analysis of diplomacy and defence. It is assumed that students who are interested in those topics will read specialized books or attend courses taught by economists or political scientists.

Second, the book takes the view that the traditional international business paradigm, based on the study of investments in 'foreign' countries by 'home'-country firms is no longer sufficient for studying global firms. International and multinational firms controlling a vast array of 'foreign subsidiaries' have been in existence for a long time but, since the 1970s, the concept of 'global' firms has progressively imposed itself at the nexus of borderless strategic thinking. Global firms have increasingly shed their original nationality to manage a network of firms in an integrated and coordinated way out of 'centers' that are no longer necessarily located in their country of origin. Those firms 'without borders' make up the vanguard of the modern industrial architecture. More recently, the digital revolution has offered firms the boon of instant communication, giving them the ability to effectively manage complex networks at a distance. Scholars such as Chris Bartlett, Sumantra Ghoshal, Yves Doz and C.K. Prahalad, and more recently Peter Williamson, Doz and José Santos,[2] have studied this evolution: they came up with the terms 'trans-national' or 'metanational' corporations to describe these new entities. In the 1990s, George Yip analyzed what he called 'total global strategy'.[3] This edition, like the previous ones, is inspired largely by their theoretical and empirical work. Obviously, classical issues such as entry strategies or expatriate management will not be forgotten, but the overall tone of the book looks at how, ultimately, international or multinational firms become global and are managed globally.

Third, the book aims to describe and analyze the key strategic and managerial challenges for firms, but does not pretend to be exhaustive or encyclopaedic. As Michel Montaigne said, it is better '*d'avoir une tête bien faite qu'une tête bien pleine*' ('to have a well-rounded brain rather than a full one'). A lot of theoretical developments have been deliberately omitted: transaction costs theory, locational theory and agency theory, for instance, have been left out. Quotation from a multitude of articles published in academic journals, and collections of papers in the field of international business, such as the *Journal of International Studies,* the *Strategic Management Journal* or the *Academy of Management Journal*, has been strictly limited. Those who want to know more are invited to look at the list of references and further reading at the end of each chapter as well as the works quoted in the text.

Several examples and mini-cases have been inserted in the chapters in order to illustrate the points made in the text. In addition, Appendix I.1 (p. xxvi) gives a selected list of further relevant cases, which are available from various case clearing houses.

Finally, the book owes a considerable debt to the work done by professors or ex-professors at the European Institute of Business Administration (INSEAD), and has favored their works rather than others. This has been a deliberate choice, given the long-standing involvement of the author in the intellectual life of this institution.

THE STRUCTURE OF THE BOOK

As Figure 0.1 shows, the bulk of the book is organized into three parts of unequal length according to the classical strategic framework of Environment, Strategy, Implementation: which in this case translates to Global Contexts, Global Strategies, and Managing Globally. The Current and Future Trends in Globalization and the long case study on Global Strategic Management in Action (Chapter 17) tie up the arguments presented in that structure.

HOW CAN THIS BOOK BE USED?

This book can be used in three ways:

1 As background reading for a course based on case studies. To that end Appendix I.1 (p. xxvi) lists potential cases that can be used to support each chapter of the book. Those cases are available from international clearing houses such the Harvard Business School Clearing House or the European Case Clearing House. There are also some excellent casebooks available.[4]

2 As a stand-alone textbook for a course based on lectures and exercises. At the end of each chapter there are questions that can serve as learning assignments to prepare for such lectures, or to follow them.

3 As a reference book, particularly in executive programs or for individual readers who want to get acquainted with global strategic management without being burdened by too much theory and background reading.

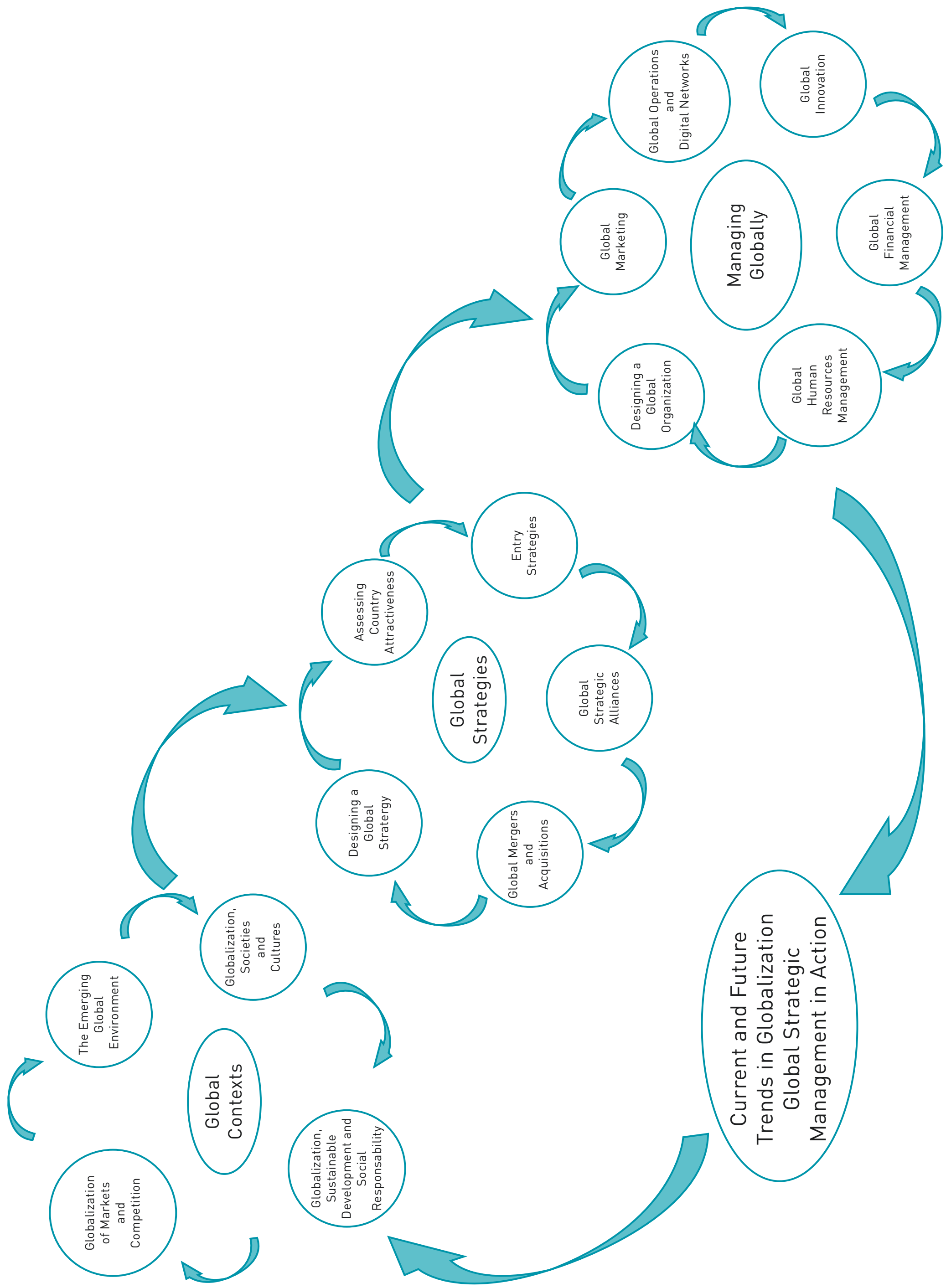


Figure 0.1 Structure of the book

NOTES

1 Peng (2014), Tallman (2009), Hill (2017), Inkpen and Ramaswamy (2006).

2 Bartlett and Ghoshal (2002), Bartlett, Doz and Hedlund (1990), Prahalad and Doz (1987), Doz, Santos and Williamson (2001).

3 Yip (2012).

4 De la Torre, Doz and Devinney (2001), Bartlett and Ghoshal (2002).

APPENDIX I.1 LIST OF FURTHER POTENTIAL CASE STUDIES TO BE USED TO SUPPORT THE BOOK

Amity = Amity Research Centre, Bangalore, India; Darden = Darden School of Business, Charlottesville, Virginia, USA; HBS = Harvard Business School, Cambridge, Massachusetts, USA; IBS = ICFAI Business School, Centre for Management Research, Ahmedabad, India; IMD = International Institute for Management Development, Lausanne, Switzerland; INSEAD = Fontainebleau, France–Singapore; ISB = Indian School of Business, Hyderabad, India; Ivey = Richard Ivey School of Business, Toronto, Canada; Thunderbird = Thunderbird School of Global Management, Glendale, Arizona, USA.

CHAPTER	CASES	REFERENCE
Chapter 1 Globalization of Markets and Competition	• The Global Oil and Gas Industry • Nordea and the European Market for Banking and Financial Services in 2015 • WPP and the Globalization of Marketing Services • AXA and the Non-Life Insurance Industry in Europe in 2010 • Pfizer and the Challenges of the Global Pharmaceutical Industry (A) , (B) • Global Strategies in the Generic Pharmaceutical Industry • McKinsey and the Globalization of Consultancy	Thunderbird SGM (2016) INSEAD (2016) IESE (2013) INSEAD (2011) Copenhagen Business School (2010) RSM Case Development Centre (2007) HBS (2005)
Chapter 2 The Emerging Global Environment	• India and the Emerging Markets • Amazon in Emerging Markets • The United Arab Emirates: An Emerging Economic Power • Development of Food Retailing in India (A) and (B) • Artecola: Building a Global Brazilian Multinational from Rio Grande do Sul • Weg (A): The Making of a Global Brazilian • Carlsberg in Emerging Markets • Marcopolo: The Making of Global Latina • Renewing GE: The Africa Project ((A) and B) • The DIFI conquest of emerging markets (A) and (B) • Mcdonald and KFC: Recipes for Success in China	Jaipura Institute of Management (2016) WDI Publishing (2014) INSEAD 2014 INSEAD 2014 INSEAD, 2013 INSEAD 2012 Ivey Publishing (2011) INSEAD, 2011 HBS (2011) INSEAD 2009 INSEAD, 2009
Chapter 3 Globalization, Societies and Cultures	• Concise Profiles Series 2017, 8 Cases: Thailand,Vietnam, South Korea, Malaysia, India, China, Indonesia, Singapore • Negotiating With Chinese Business Partners: What Are You Going To Give Us? • The Iranian Nuclear Negotiation • Camel's Milk And Lamb's Liver (A), (B), (C) • Making Sense Of India • Cross Cultural Management In Papua New Guinea: Industrial Disharmony In The Mining Sector • The Influence Of Cultural Values In Business Practice • How Are Negotiations Conducted In Spain? • Leading Across Cultures At Michelin (A), (B) ©	INSEAD (2017) HBS (2016) Essec Irene (2016) Insead (2016) Symbiosis Centre For Management Studies - Pune (2015) Dalhousie University (2015) Darden (2014) Ie Business School (2014) Insead (2009)

continued

CHAPTER	CASES	REFERENCE
Chapter 4 Globalization, Sustainable Development and Social Responsability	• Disrupting Dengue with an Emerging Markets Launch Strategy • INEOS ChlorVinyls (A), (B): A Positive Vision for PVC • SGFE Cambodia (A) (B): High-energy Char Briquettes for the Bottom of the Pyramid • Corruption In Russia: Ikea's Expansion To The East (A), (B),(C) (D)	INSEAD (2016) INSEAD (2016) INSEAD (2016) Esmt European School of Management and Technology (2016)
	• Unilever in Vietnam: The 'Perfect Village' Initiative • BASIX: Microfinance is But a Part of the Solution • The Man in the Mirror (A) (B) • GlaxoSmithKline: U.S. Sales Practices • Ziqitza Health Care Limited: Responding to Corruption • Governing the 'Chinese Dream': Corruption, Inequality and the Rule of Law • Lenhage AG: Ethical Dilemma • IKEA's Global Sourcing Challenge:	INSEAD (2015) INSEAD (2015) INSEAD (2015) INSEAD (2015) INSEAD (2015) HBS (2014) Ivey (2014) HBS (2009)
Chapter 5 Designing Global Strategy	• JBS Friboi: Building a Global Company • Uber Technologies, Inc.: Global Strategies, Local Challenges • MTM: Strategic Directions In 2014 • Novartis: Leading a Global Enterprise • Cumi India's Global Strategy: The China Puzzle • Unilever's New Global Strategy: Competing Through Sustainability • Emerging Market Strategy of Toyota • Wanxiang Group: A Chinese Company's Global Strategy (A), (B) • Grolsch: Growing Globally • Inverness Medical Innovations-Born Global (A), (B)	INSEAD (2016) HBS (2015) IMD (2014) HBS (2014) Ivey (2013) HBS (2013) IBS (2013) HBS (2013) HBS (2011) HBS (2009)
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Journal of Case Studies: https://sfcr.org/jcs/
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Business video clips can be used as a complement for case studies. See, for instance, Starbucks: https://www.youtube.com/watch?v=c-KKy-03O5A, or Oreos Cookies: https://www.youtube.com/watch?v=i29EQtnPG8U

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PART I
GLOBAL CONTEXTS

Chapter 1 Globalization of Markets and Competition | Chapter 1 defines what 'globalization' means, first from a geopolitical and economical point of view and second for business enterprises. It looks at the many political, technological, social and economic factors that have driven globalization as well as the ones restraining it. It describes how companies have over time moved from being national to international, then to multinational and finally becoming global firms. It ends by proposing a mapping of industries and firms according to the extent to which they are exposed to globalization or localization drivers.

Chapter 2 The Emerging Global Environment | Chapter 2 underlines the growing importance of emerging countries, their companies and their markets in the world since the 1980s. It describes the main characteristics of emerging countries, their development paths, and their attractiveness as markets and as offshore operational bases, as well as their competitiveness and the role of their global champions. Strategies for doing business in emerging countries will also be discussed.

Chapter 3 Globalization, Societies and Cultures | Chapter 3 discusses how in different parts of the world societies still differ in term of the ways economic activities are structured, coordinated and managed, and how cultures influence the behavior of people and organizations. It begins with a presentation of different streams of research showing international differences in business cultures and economic organizations. Various cross-cultural studies will be presented, followed by a discussion of the impact of cultural differences on management, cross-cultural teams, negotiations and business practices. The last part of the chapter deals specifically with international negotiations.

Chapter 4 Globalization, Sustainable Development and Social Responsibility | This chapter addresses some of the issues that global companies face concerning environmental and ethical challenges. Particular emphasis is put on the kind of ethical dilemma global firms and managers have to confront in their worldwide operations – issues such as corruption, tax evasion, environmental protection, human rights, labor laws and gender equality.

CHAPTER 1

GLOBALIZATION OF MARKETS AND COMPETITION

LEARNING OBJECTIVES

By the end of the chapter you should be able to:

- Define globalization from a macro environment perspective
- Identify the forces pushing towards globalization and the forces pushing for localization
- Define what globalization means for firms
- Identify the various steps of globalization for firms
- Make a distinction between multinational and global firms
- Spell out the benefits and pitfalls of globalization
- Position an industry or a business on the global/multi-local mapping

INTRODUCTION

Chapter 1 defines what 'globalization' means, firstly from a geopolitical and economic point of view, and secondly for business enterprises. It looks at the many political, technological, social and economic factors that have driven globalization, as well as those restraining it. It describes how many companies have evolved, over time, from 'national' to becoming 'international', then 'multinational' and finally 'global' firms. Based on an example, the chapter looks at how a *multinational* company having foreign subsidiaries can become *global* by extending its operations worldwide and adopting a competitive configuration through strong coordination and integration of its international activities across borders. The benefits and constraints of globalization are both described. Some factors still push towards a local approach to management, on a country-by-country basis, and the factors inducing this localization are analyzed.

Finally the global/multi-local mapping matrix is presented as a tool to position industries, companies and businesses according to the relative importance they place on global versus local approaches. The chapter ends by introducing some of the societal issues associated with globalization.

THE PHENOMENON OF GLOBALIZATION

Since the 1960s, international trade, investment and migration have all grown much faster than the world economy. Firms have multiplied their presence outside their country of origin, employing more and more people and selling and buying technology internationally (see Table 1.1). More and more products are sold in similar stores, with similar features and carrying a common brand across the globe. Factories that were prosperous in the Western world have been closed and transferred to lower-cost countries. English is now considered the *lingua franca* for major business transactions. Events happening in one location are visible in real time everywhere thanks to the internet and social networks such as Facebook or Twitter. This is what is commonly referred to as the process of 'globalization'.

In today's business world, managers, politicians, journalists and academics commonly refer to concepts such as 'globalization', 'global industries', 'global competition', 'global strategies' and so on.

Table 1.1 Globalization data

	2014 prices	Index (base 100 in 1982 at constant rate)				Average growth rate 1983–2014
	(US$ bn)	1982	1990	2000	2014	
World GDP	77,283	100	162	189	347	4.0%
Trade (export of goods and services)	23,409	100	166	217	546	5.4%
Foreign direct investment (inward stock)	26,039	100	203	553	1,723	9.3%
Foreign direct investment (inflows)	1,228	100	273	1403	1,025	7.5%
Cross-border mergers and acquisitions	399	100	497	2,880	759	6.5%
Sales of foreign affiliates of multinationals*	36,356	100	171	405	702	6.3%
Assets of foreign affiliates of multinationals*	102,040	100	234	700	2,558	10.7%
Exports of foreign affiliates of multinationals*	7,803	100	141	353	583	5.7%
Royalties	310	100	232	461	1,639	9.1%
Employment of foreign affiliates *(number)	75,075	100	136	267	430	4.7%
Daily foreign exchange transactions	5,343	NA	100	135	476	6.7%

* Multinational companies are defined as firms having more than 50% equity in wholly owned enterprises abroad or at least 10% equity in joint ventures.
Source: Data from UNCTAD (2015), Table I.5, and Bank for International Settlements (2014).

While those terms are widely used, their exact meaning is often not well understood. For some people, globalization is considered to be the intrusion of foreigners into local communities. Its effect is viewed as a destruction of the social fabric within nations. For others, it means freedom of movement, entrepreneurship, an exchange of cultures and harmonization. As far as the corporate world is concerned, some are certain it means 'to expand the company's presence abroad'; for others, it means 'standardizing a product and selling it to the world'; for others still, it denotes an approach to management in which decision making is centralized at corporate headquarters. There are many reasons for this confusion. One relates to the fact that the phenomenon of globalization describes macroeconomic changes and political change, while for the business world it denotes a strategic and managerial issue. While the concept of globalization is relatively new, the phenomenon is not. There have been periods in history when the world was without borders, and citizens, products and money could move around freely. Theories have been developed to explain and advocate free trade and globalization from the macro point of view, and to explain the process of globalization from the business point of view (Insert 1.1). As far as the business world is concerned, before the 1970s the most frequently used terminology, when referring to integrated operating across the world, was 'international', 'multinational' or occasionally 'trans-national'. Even if we ignore the East India Company, which started in the early seventeenth century, modern corporations such as Unilever, Nestlé and Procter & Gamble were operating all over the world by the end of the nineteenth century. They are known as multinational companies, but nobody would have called them global 50 years ago. The global concept appeared in the early 1970s and progressively invaded boardrooms, classrooms and editorial offices. What is the exact meaning of globalization? What forces generated it? And what are the consequences for firms?

There is no one well-established definition of globalization. Here we will posit as a working definition: 'The process by which people, products, information and money can move freely across borders'. As a consequence, markets may tend to converge, providing opportunities for the standardization of products, for production centers to be (re)located to more economical places around the world, and

INSERT 1.1: THEORIES OF GLOBALIZATION

Macro theories: free trade and globalization

The *theory of comparative advantage*, proposed in the early nineteenth century, stated that under free trade, nations will maximize wealth if they export the goods for which they have a relative advantage (Ricardo, 1967). The idea is that countries should concentrate on the production of those goods and services at which they are most efficient and export them, whilst buying in other products from abroad. The total global production of goods and services will then be higher than when separate countries try to produce everything themselves. As a theoretical example, imagine two similar industrial parks, one in Malaysia and the other based in the Philippines, both with 10,000 workers, and both producing electrical products. Both sites employ 5000 workers (half their total effort) to produce computer motherboards and 5000 workers to make videogame consoles. The Malaysian operation is able to produce 10 million motherboards per year and the Philippines' 8 million, while the Malaysians produce 200,000 consoles to the Philippines' 250,000. Malaysia has, therefore, demonstrated a comparative advantage over the Philippines for motherboards and Philippines has a comparative advantage over Malaysia for consoles. The total global output in the current situation will be 18 million motherboards and 450,000 consoles per year. For better results, Malaysia should concentrate on producing motherboards and trading them, while the Philippines should focus its efforts on consoles. In this situation the global output rises to 20 million motherboards and 500,00 consoles, marking an 11% increase in both motherboards and consoles.

World-system theories suggest that globalization is the product of nationalistic, capitalistic, colonial and international expansion (Wallerstein, 1974, 2000; Robinson, 2004). For instance, from the sixteenth century the colonial expansion of Spain, Portugal, the Netherlands, Britain and France created a global market for a certain number of commodities. Later, the USA and Japan themselves became colonial imperialistic global powers. In other words, since the appearance of modern shipping vessels and navigation systems, truly global trade has become possible.

Marxism views globalization as the result of the tendency of the return on capital to decrease, forcing capitalists to find new territories to exploit. Lenin argued that the ultimate stage of capitalism was imperialism.(Marx and Engels, 1848; Lenin, 1917). The argument is that the profits of firms tend to decrease because of intense competition. Firms react by merging and looking for markets outside their national boundaries, creating global oligopolies, for example Lafarge Holcim, Apple, Samsung.

Network society theories see globalization as the result of the vested interests of a transnational capitalistic class (managers, politicians, bureaucrats, bankers), as well as of supranational organizations such as the WTO, UN and EU (Castells, 1996; Sklair, 2000). Advances in telecommunications and the rise of the internet have made it possible for business to be done globally, both in terms of financial transactions and internationally connected production systems.

Technological cultural theories propose that information technologies have led to a convergence of culture (Robertson, 1992; Ritzer, 1993). Very similar in essence to McLuhan's 'Global Village' concept,[1] these theories state that thanks to technology, people in different countries increasingly tend to share a common culture and consumer choices, making global product design and production possible and desirable.

World 3.0 This theory, developed by Professor Pankaj Ghemawat,[2] holds that humanity has followed four stages of social, political and economic organization and trade. The first stage (World 0. 0) refers to the prehistoric period in which societies were organized into thousands of tribes surviving by hunting and gathering, and where human interactions were limited to those between the members of tribes with practically no external trade. The second stage (World 1.0) refers to the formation of political entities in the forms of cities or empires (China, Sumer, Aztec), governing several thousands to millions of peoples (mainly farmers) under a political power structure (an empire or kingdom). Mostly economically self-sufficient, these states introduced some international, but limited exchange mechanisms (such as trade via the Silk Road). World 2.0 started in the seventeenth century with the colonial expansion of European powers and the creation of nation states. The first multinationals, such as the British East India Company, extended their reach as far as Asia. During the nineteenth century, thanks to transportation and communication innovations, multinational firms from Europe, America and Japan developed. After a decline between the two world wars, global development exploded and saw the formation of the modern business juggernauts such as Nestlé, General Electric and Siemens that we see today. The driving force of World 2.0 in the post-war years was a progressive deregulation and integration of markets. World 3.0 is predicted to evolve, following the global financial crisis of 2008, as a world that is characterized by a high level of market integration but also a high level of government regulation in what has been called *semiglobalization*.

Micro theories: corporate globalization

Transaction cost theories posit that multinational firms result from the economic benefits of internalizing costs of transaction rather than relying on contracts to regulate contact with international economic agents (Buckley and Casson, 1976).

Resource-based theories suggest that firms take advantage of their proprietary assets (technology, capital) to expand their presence in international markets (Barney, 1991).

Resource seeking theories explain the global expansion of firms by their desire to obtain resources they don't have (Dunning, 1993).

for R&D laboratories to be distributed across countries. As we will see, this implies a more centralized management of firms. Before examining the many aspects of corporate life impacted by the phenomenon of globalization, we will first look at the macroeconomic, technological and political factors that have generated such a global environment, and then look at how firms have changed their operations to take advantages of the new opportunities this environment offers.

INSERT 1.2: SOME GLOBAL DEFINITIONS

Globalization is the process by which people, products, information and money can move freely across borders.

Global industries are industries in which, in order to survive, competitors need to operate in the key world markets in an integrated and coordinated way. Industries such as aerospace, computers, telecommunication equipment, appliances, power generation, large industrial projects, insurance and re-insurance and corporate data transmission are examples of what a global industry means. In these sectors it is difficult to sustain competition if one does not cover (nearly) the whole world as a market, and if one does not integrate operations to make them cost and time effective.

Multinational companies are the companies that operate in various countries outside their countries of origin.

Global companies are multinational companies that operate in the main markets of the world in an integrated and coordinated way. Companies such as HSBC, Apple, Nestlé, Unilever and Nokia are global companies.

'Born global' companies have become multinational immediately upon or soon after being founded.

Globalizing is the phenomenon whereby the competitive structure of industries changes progressively from multinational to global. Industries such as telecommunications, processed food, personal care and retail are in the process of globalization.

Global integration and coordination are the organizational structure and management processes by which various activities scattered across the world are made interdependent. As examples, global manufacturing integration implies the specialization of factories and the cross-shipment of parts between different production sites; global product development requires the coordination of various research centers and marketing teams; global account management demands that different country subsidiaries provide a service according to a plan negotiated centrally and so on.

GLOBALIZATION FROM A MACRO PERSPECTIVE

Historically the world has experienced various periods of intense trade across continents and free movement of people and capital, in particular during the nineteenth century after the Napoleonic wars. After a decrease due to the two world wars of the twentieth century, several factors generated the emergence of the new economic environment that we call 'global'.[3] During the 1950s and the 1960s the convergence of several political, technological, social and competitive factors began to shape this new environment.[4]

WHAT ARE THE FACTORS THAT PUSH FOR GLOBALIZATION?

POLITICAL FACTORS: LIBERALIZATION OF TRADE AND INVESTMENTS

The main political factor has been the stabilization of post-war peace in Organisation for Economic Cooperation and Development (OECD) countries that allowed the development of free trade among nations. Two main organizations have been the source of trade liberalization – the General Agreement on Tariffs and Trade (GATT) (replaced by the World Trade Organization (WTO) in 1995) and the European Union – to which one may add the progressive opening of emerging nations to foreign investments.

The GATT, founded in 1946 by 23 nations, initiated a series of negotiations, called 'rounds', aimed at reducing tariff concessions to encourage the liberalization of trade. The Kennedy Round in the mid-1960s, the Tokyo Round in the early 1970s, the Uruguay Round in late 1980s, and the Doha Round in 2001 created an environment that fostered international trade, as shown in Figure 1.1.

The European Community (EC) was established on 25 March 1957 by the Treaty of Rome, which was signed by Belgium, France, Italy, Germany, Luxembourg and the Netherlands. The aim was to create a common market, and economic and political integration among the six member states. As a result goods, people and financial flows could move freely across countries. During the 1970s, the EC was enlarged with the entry of the UK, Ireland and Denmark, followed by Spain, Portugal and Greece in the 1980s, Sweden, Austria and Finland in the 1990s, and Poland, Lithuania, Latvia, Czech Republic, Slovakia, Slovenia, Malta, Hungary, Estonia, Cyprus, Romania, Bulgaria and Croatia in the early 2000s. In 1993 a Single Market which eliminated most legal and bureaucratic barriers was established among the member states. In 1999 a single currency, the euro, was adopted by 19 countries, and passport-free travelling without any border controls was allowed between 26 countries as part of the Schengen Agreement signed in 1985. Companies could integrate their operations across Europe to take advantage of a market of 500 million customers and gain economies of scale by specializing and concentrating their operations.

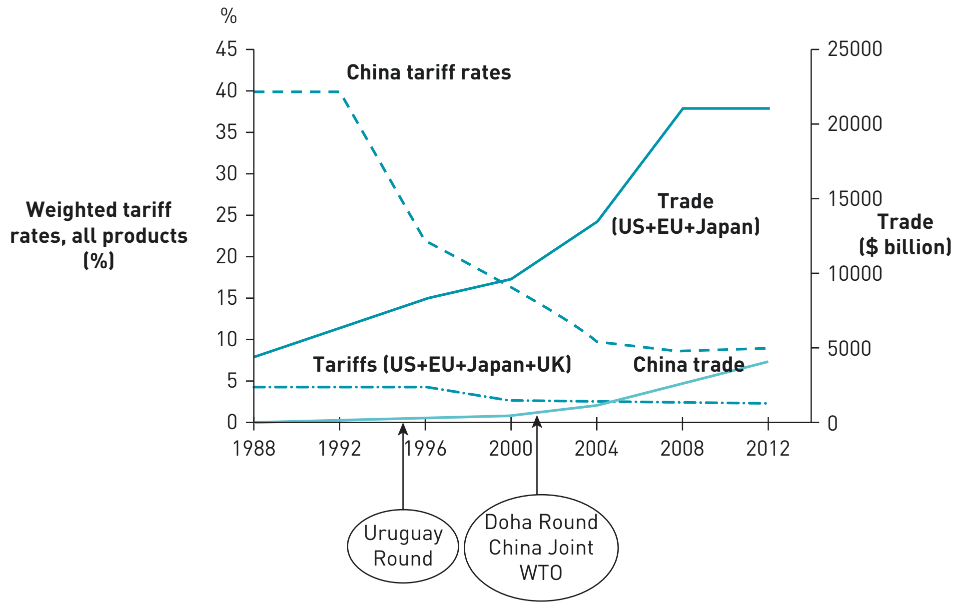

Figure 1.1 Tariff reductions and international trade

Source: Created using data from various World Bank Indicators.

In addition, from 1948 to 2008 the number of preferential trade agreements notified to the GATT/WTO increased from practically none to around 200 per year in the first decade of the twenty-first century.

Finally, in parallel with what was happening in the industrialized countries, the developing nations progressively adopted more positive attitudes towards foreign direct investment (FDI). At first, investment laws were designed to attract foreign investors in order to induce them to produce locally, but over the years the legislation has evolved toward a more open stance, favoring cross-border investments. Between 1992 and 2012, 2592 regulatory changes favorable to FDI were introduced worldwide, compared to 359 unfavorable changes.[5]

TECHNOLOGICAL FACTORS: TRANSPORT, COMMUNICATION, EDUCATION, SCIENCE AND PRODUCTION TECHNOLOGY

Another set of ‘push factors’ for globalization are related to technological progress that lowered the cost of transport and communication as well as the unit cost of production through economies of scale or the localization of productive capacities and sourcing in low-cost economies.

Air, rail and road transport and the use of containers in maritime transport have reduced the cost of shipping goods from country to country as well as, in the case of air transport, enabling the travel of managers. The development of telecommunications has reduced the cost of information exchange between business units scattered around the globe (Figure 1.2). On the scientific front, from 2000 to 2007 the number of international students in the OECD countries increased by 59% to reach 2.5 million while the number of international co-authored scientific articles increased by 50%.[6]

Progress in manufacturing technology gave tremendous impetus to the need to concentrate production in world-class factories benefitting from huge economies of scale, thus encouraging the rationalization and integration of production systems. Besides manufacturing concentration, companies have been able to source components or services from low-cost countries, either by setting up their own operations or by purchasing locally.

Another source of economies of scale comes from the need to quickly amortize research and development (R&D) expenditure. Companies are confronted with dual pressures: R&D budgets are increasing

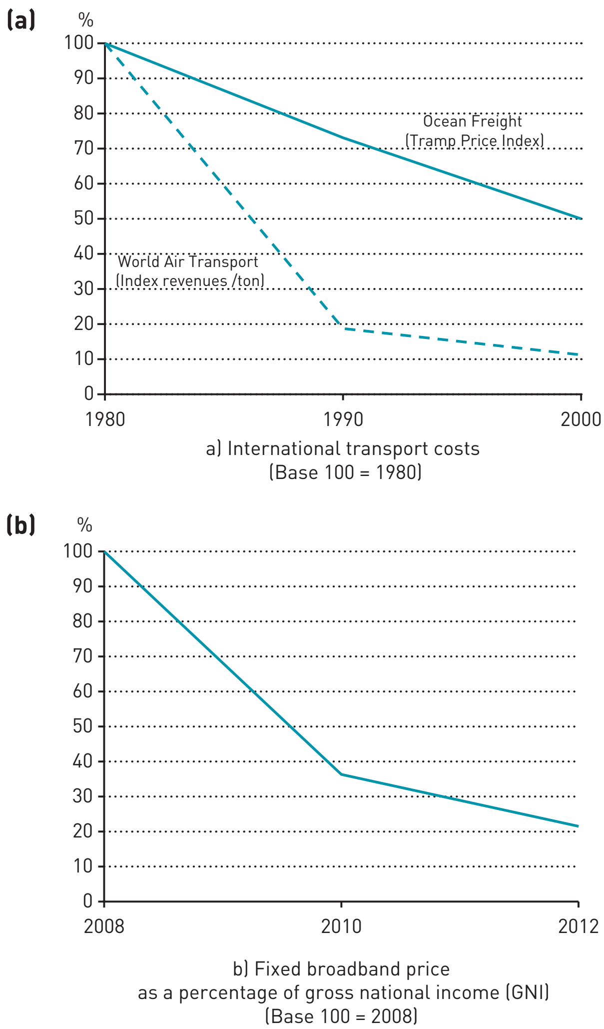

Figure 1.2 International transportation and communication costs

Sources: Author's own, using data from United Nations, World Trade Report 2008; International Telecommunication Union, Measuring the Information Society Report, 2014.

and the time elapsing between invention and commercialization is becoming shorter. For instance, it took 52 years for television to move from invention to large-scale commercial adoption and production, but the same step took nine years for the first personal computer (IBM 610) and just three years for the iPhone. For major appliances, it took seven years in the 1950s and 1960s to introduce a new model versus two years in the 1970s. The life cycle of Intel's 286 microprocessor was seven years while the 486 lasted five years.[7] As a consequence, companies need to launch products and services at the same time in all major markets in order to be able to recoup their investments.

Finally the advent of the internet has fostered the immediate transfer of media, social networking, and the long distance communication and on-line transactions that constitute the backbone of global communities today.

SOCIAL FACTORS: CONVERGENCE OF CONSUMER NEEDS

International air transport and the diffusion of lifestyles by movies and TV series have increased the brand awareness of consumers worldwide. Brands like Sony, Nike, Levi or Coca-Cola are known nearly everywhere. Kenichi Ohmae,[8] in his book *Triad Power*, has discussed the 'Californization of society' – teenagers in São Paulo, Bombay, Milan or Los Angeles listening to the same music, using the same iPhone or iPad and wearing the same pair of blue jeans and using Facebook, Instagram and YouTube. The convergence of customer behavior and needs is also facilitated by the urbanization and industrialization of societies. The less cultural and the more technical the product, the more likely that it can be standardized and appeal to consumers in all countries: smartphones, PCs, elevators, cranes, robots and internet platforms are products for which national differences do not matter much.

COMPETITIVE FACTORS

The 1960s saw the emergence of Japanese competitors in markets that traditionally had been dominated by American or European companies. Japanese firms, and later Korean firms, adopted a global approach at the very beginning of their international expansion. One of the reasons was that they did not have many national subsidiaries and their international expansion coincided with the opening of trade barriers. Right at the beginning they designed products for the world market, creating global brands such as 'Sony', 'Panasonic' and 'Hyundai', and their efficient production systems gave them a cost advantage in electronics and automotive parts. Competitors had to adopt a similar strategy to survive. During the 1990s emerging competitors from China, India and Brazil also entered the global game. China became 'the factory of the world' by offering offshore low-cost production sites. In other parts of the emerging world, local manufacturers in Thailand, Indonesia, Vietnam, Turkey and Mexico provided OECD industries and retailers with low-cost garments, toys, tools and furniture.[9]

Another competitive force that pushed companies to globalize was the globalization of customers. During the 1970s, Citibank created a Global Account Management Unit to service corporate customers with international subsidiaries. Similar phenomena developed in the IT, telecom and consulting sectors, and also in the luxury segment of fashion and perfumes.

Figure 1.3 summarizes these political, technological, social and competitive 'push factors' that have fostered globalization.

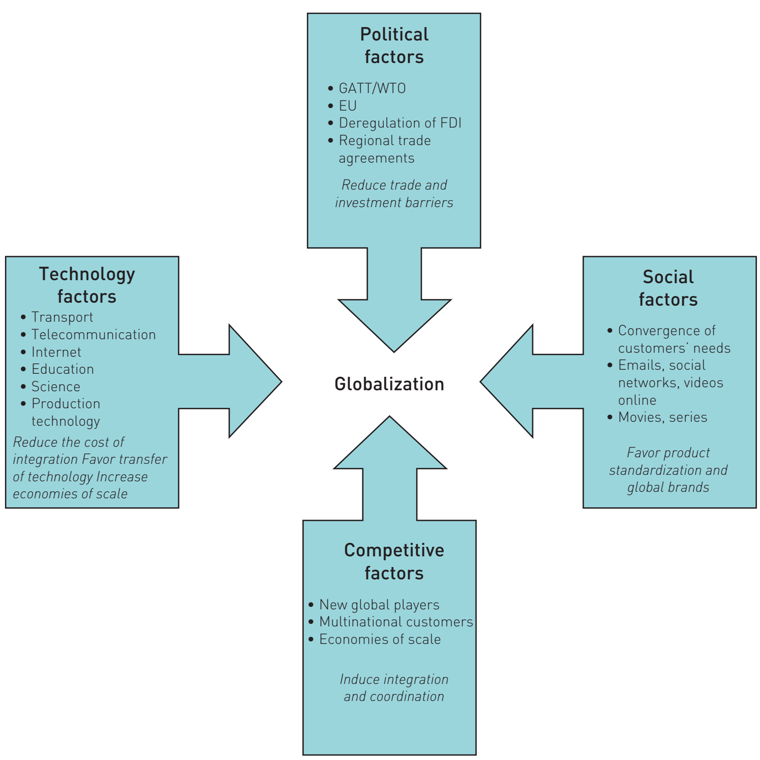

Figure 1.3 Globalization push factors

WHAT ARE THE FACTORS THAT WORK AGAINST GLOBALIZATION? THE LOCALIZATION PUSH

As mentioned earlier, globalization is associated with some degree of standardization of products and practices plus a high level of coordination and integration of activities in a company's value chain. Factors that oppose standardization, coordination and integration therefore work against globalization. One can group those factors into four main categories: cultural, commercial, technical and legal.

1 CULTURAL FACTORS: ATTITUDES, TASTES, BEHAVIOR AND SOCIAL CODES

When the consumption of a product or a service is linked to traditions and national or religious values, global standardization is not effective. Some products – for instance, Kretek (tobacco and clove) cigarettes in Indonesia or the Pachinko (pinball) game in Japan – are unique to one society and their globalization is nearly impossible, although one can argue that with innovative marketing it may not be. For example, Beaujolais nouveau wine, the arrival of which was typically a Burgundian and Parisian bistro event before the 1970s, is now available in Tokyo, Paris or New York on the same day; while Halloween (trick or treat) masquerades, a traditional US festivity, are now common in Europe. This shows that even highly culture-specific items can be appreciated by customers all over the world. However, it remains true that food and drink tastes, social interactions in business negotiations, attitudes towards hygiene, cosmetics or gifts vary from culture to culture, thus hampering a global product design or approach. In the Asia Pacific region, for instance, personal relationship building rather than legal contracts is the normal way to conduct business. One has to spend time and effort in building these personal ties, which in a US context would be largely considered a waste of time.

Religion may play an important role in limiting the effects of globalization, particularly in the domains of national cuisine or cultural products (such as films).

Nationalism can also be considered as an obstacle to globalization to the extent that it promotes a return to trade protectionism and a retreat from international agreements in certain societies (as shown by Brexit).

2 COMMERCIAL FACTORS: DISTRIBUTION, CUSTOMIZATION AND RESPONSIVENESS

In some sectors, distribution networks and practices differ from country to country and as a consequence the ways of managing the network, motivating dealers and distributors, pricing, and negotiation are hardly amenable to global coordination. For instance, the marketing and distribution of pharmaceutical products differs according to the country's health system. In some countries, such as Japan, doctors sell medicine, while in other countries pharmacists sell to patients who get a refund (or not) from their insurance company, while in yet other cases pharmaceutical products are delivered freely to the patient.

Responsiveness to customers' demands, as well as customization, are other factors which almost by definition defeat standardization. Private savings or current accounts to individuals, loans to small and medium-sized enterprises (SMEs), mortgages, consulting activities and individual architectural designs are activities in which a local presence and a fast reaction to customers' requirements are needed for competitive success. Although some practices, processes or methodologies can be standardized on a worldwide basis (consulting, engineering, architecture or auditing, for example), specific customer requests have to be taken into consideration, thus limiting globalization.

3 TECHNICAL FACTORS: STANDARDS, SPATIAL PRESENCE, TRANSPORTATION AND LANGUAGES

Technical standards in electrical, civil, chemical or mechanical engineering can create a burden for global companies. The economies of scale and cost benefits of global integration and standardization cannot be exploited fully when technical standards vary greatly. In certain cases, standards can be changed without major modification – for instance, mobile telephony does not represent a major hurdle for global manufacturing. In other instances, standards are not that easy to accommodate and require a specific local production line. This is mainly the case for beer or foods, for instance.

Spatial presence is a requirement for those industries which need to occupy a physical space in order to create and distribute their products and services. Retail banking, retailing, hotels, local telephones services, hospitals, entertainment, car dealerships are examples of industries where the services have to be produced locally. There are still some advantages in globalizing certain tasks (such as the back office functions of accounting, data processing, global sourcing, transfer of best practices), but the location constraint still limits globalization benefits. In the future, e-commerce is likely to reduce the spatial constraint considerably, particularly when it comes to non-physical services such as banking or movies on demand. E-commerce in physical products can also eliminate the spatial constraint as far as the customer interface is concerned, but it is still hampered by logistical constraints. The example of Amazon demonstrates that it is possible for a customer in Paris or in Rio de Janeiro to order a book but the customer will have to bear shipping costs that may eliminate the basic cost advantage of the e-bookstore. This is the reason why Amazon has established 82 fulfillment centers outside the USA, thus moving toward a more multinational business design.

The impediments of transportation are important if the cost of transport cancels out the benefits of concentrating production. Bulk commodities such as cement or basic chemicals are more economically produced in local plants than in global centralized units, despite the scale economies that could be gained: the cost and the risks of transport cancel out the benefits of centralized production. Similarly, when production systems are not scale-intensive and small productive units can achieve similar costs to large plants – in plastic molding, for instance – there are no major benefits in building a global production system.

Finally, language can be an additional constraint to global approaches. This can be significant when it comes to customer services, of which training services, personal banking, personal telecommunication and retailing are examples. However, there are two major trends that can reduce language constraints. English has become more and more the 'global language', and industries such as graduate business training or high-level consulting can use English without bothering with translation.

4 LEGAL FACTORS: REGULATION AND NATIONAL SECURITY ISSUES

Governments impose regulatory constraints that often work against globalization, either because they limit the free flow of personnel (regulation on working permits), cash (exchange controls, tax), goods (customs duties, quotas), or data (censorship, the internet and controls on electronic data interchange), or because they impose localization constraints (local content, local ownership and joint venture policies).

Over the years, thanks to the GATT/WTO, multilateral agreements (EU, ASEAN, NAFTA and so on), and International Monetary Fund (IMF) requests, government legislation is leaning towards more open contexts that favor globalization. However, some constraints still exist. Some sectors such as telecommunications, media, banking and insurance are still tightly controlled and some countries (such as China and India) or regional blocks (EU) still impose local content requirements.

Finally, governments are deeply concerned with national security and will prevent foreigners gaining too much control of their defence or strategic sector industries. In the defence sector, for instance, where R&D costs are huge and economies of scale significant, globalization would appear to be fully justified, but is in fact limited because of national security constraints. Since the 2001 Twin Towers destruction in

New York followed by a series of terrorist attacks in London, Madrid, Moscow, Beirut, Nairobi and Paris, governments have adopted measures that constrain the movement of people and products. Security becomes priority.

Figure 1.4 summarizes these localization push factors.

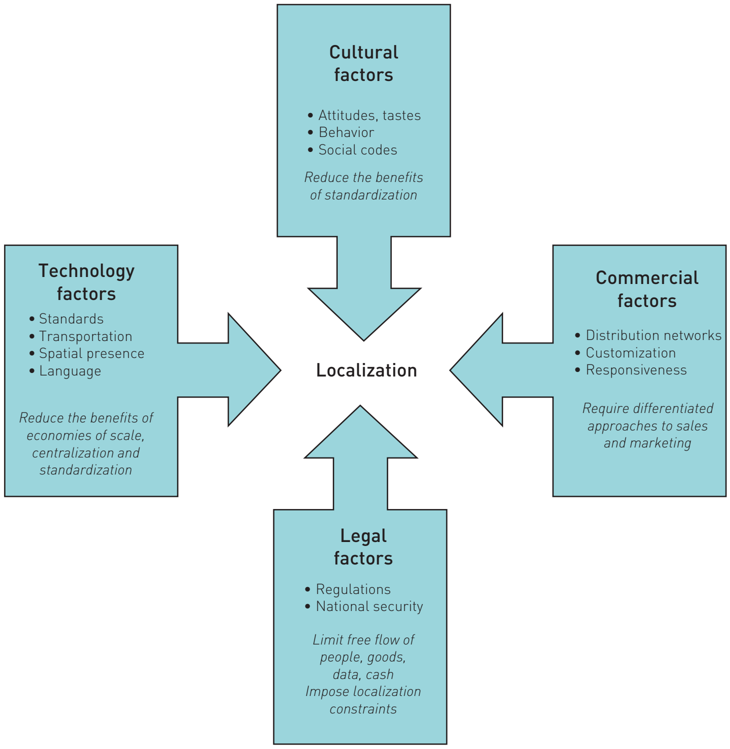

Figure 1.4 Localization push factors

THE BENEFITS OF LOCALIZATION

The benefits of localization, instead of a global integrated and coordinated approach, are essentially customer-oriented benefits that give firms increased market power and ultimately an increased market share. Those benefits are proximity, flexibility and quick response time.

- **Proximity** is the capability to be close to the market, to understand the customer's value curve.
- **Flexibility** is the capability to adapt to customer demands in the various dimensions of the marketing mix: product/service design, distribution, branding, pricing and services. Ultimately, flexibility leads to customization.
- **Quick response time** is the ability to respond at once to specific customers' demands.

These three benefits are closely interrelated: proximity provides the basis for flexibility and flexibility provides the basis for a quick response time. All three give a competitive advantage when local cultural, technical, commercial and legal contexts vary so much from country to country.

THE BENEFITS AND PITFALLS OF GLOBALIZATION: THE MACRO PICTURE

In 1817, David Ricardo in his theory of comparative advantage[10] showed that it was beneficial to nations to specialize and trade goods in which they had a comparative advantage. This laid the foundation of trade theory, which itself is the underlying foundation of globalization: in a perfect global setting where goods, people, data and money flow freely, companies can adopt an integrated and coordinated approach to their operations and the competitive battlefield would be the world. Since Ricardo's time, partisans and adversaries of free trade have exchanged heated debates about the pro and cons of globalization for society. Table 1.2 summarizes those arguments.

Table 1.2 The societal benefits of globalization

Arguments in favor of globalization	Arguments against globalization
Creates overall wealth for all nations because specialization increases trade	Imposes a massive strain on labor forces both in developed countries (job destruction) and developing countries (sweatshops, child labor)
Reduces inflation because of cost efficiencies	Standardizes customer tastes. Reduces diversity
Benefits customers because of price reductions arising from cost efficiencies	Induces concentration of power in a few global corporations Introduces a 'law of the jungle' leading to domination by the strongest multinational
Better allocation of natural, financial and human resources	Harms the environment because of unrestrained exploitation of natural resources such as forests
Reduces corruption because of free-market trade	Reduces the capacity for nations to protect their national interests, cultures and values

The globalization debate gained political visibility during the 1990s. In Europe, the Treaty of Maastricht (signed in 1992) adopted the euro as a single currency, generating a heated debate on the loss of sovereignty and the advantages of further political and economic integration. In 1995, the North America Free Trade Agreement (NAFTA) created similar discussion. In Asia, after the 1997 financial crisis, globalization was questioned and, at the end of that decade, the WTO at the Seattle ministerial conference could not set up an agenda for launching another trade round because of public criticism of the whole concept of globalization. Since 2000 and particularly after the world 'subprime' crisis of 2008, there has been growing debate about the future of globalization. Some, such as Alan Rugman and others, have announced the 'end of globalization',[11] a concept that will be discussed in Chapter 15.

Despite all this political turmoil, some analysts think that the world is becoming progressively more integrated. According to the consulting firm McKinsey,[12] by 1997 the value of truly global markets represented approximately $6 trillion out of a total world output of $28 trillion (21%). In 1999, the firm anticipated that by 2030 the proportion of global markets would amount to $73 trillion out of $91 trillion (80%). However, as will be seen in Chapter 15, this forecast may be challenged.

GLOBALIZATION AT THE LEVEL OF THE FIRM

As mentioned previously, many firms from Western Europe extended their operations outside their country of origin into the Americas, Asia or Africa, most of them in the form of colonial implantations, from the seventeenth century onwards. Arab merchants penetrated the Southeast Asian region in order to organize trade. Following the industrial revolution, large corporations started the capitalistic movement of international investments in infrastructure projects and in the setting up of subsidiaries. The first wave of modern multinational expansion began in 1880 and declined after the First World War. This wave was made of 'free-standing' firms, legally incorporated in their native country but extending rapidly internationally via the creation of local subsidiaries. Except for the resource-based multinational, each local subsidiary was self-standing. By the end of the nineteenth century, firms such as Nestlé, Lever Brothers (Unilever), General Electric and Bayer were representative of this generation of multinational corporations. A second wave of corporate international expansion through local subsidiaries took place after the Second World War, launched by US and European companies and augmented later by Japanese companies. In the 1960s local subsidiaries were extended to more and more countries but started to progressively lose their autonomy and become part of an integrated global network.[13] Classically, over time firms have followed a sequential evolution, from being exporters, to the setting up of foreign subsidiaries, to the integration of operations across the world. From local, they became international, then multinational and now global. More recently, 'born global' companies have assumed a global setting from the beginning,[14] a development that will be discussed in Chapter 5.

To illustrate the traditional phenomenon of globalization let us take the simplified example of Otis Elevator Company.

EXAMPLE 1.1

Otis Elevators

Otis Elevator Company started in 1853 in New York and was soon selling elevators in Canada and Europe as well. In the 1960s it had many plants, service operations and sales offices all over Europe, where the company grew organically as well as by acquisition. Each subsidiary fought for a share of local markets. Competitors were either local national companies or subsidiaries of rival multinational companies. The Otis subsidiaries managed all the activities of the value chain (marketing, design, production, installation and service). For instance, the French subsidiary designed elevators for the French market, manufactured them in French factories, sold them with French sales forces and maintained them with a French after-sales organization – the management was essentially French. In Germany, Otis designed, manufactured, sold, installed and serviced elevators for the German market; and the same applied in nearly every major country – see Figure 1.5. In smaller countries, products or components were exported from major countries'

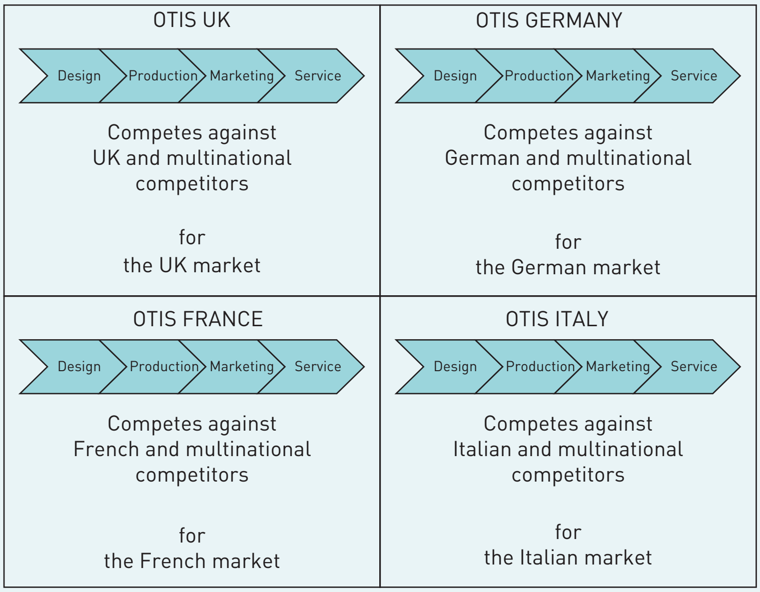

Figure 1.5 A multinational competitive configuration – Otis Elevators in the 1960s

subsidiaries. The operations were self-contained in each country and the results were evaluated on a country-by-country basis. Such a situation had prevailed since the early 1900s. It corresponds to what was referred as a multinational or multi-domestic world, in which multinational companies like Otis were competing in each main market of the planet.

By the end of the 1960s several key elements played a role in changing this competitive structure. One country manager at Otis perceived that the European business context was changing. First, the Treaty of Rome in 1957 had created the European Economic Community (EEC), at that time called the Common Market. This meant that tariff barriers across Europe were coming down; it became viable to produce components in one country and export them to other countries. This allowed the company to concentrate on the production of components in a network of specialized factories across Europe, each of them making one product category or one component. Components could be cross-shipped for ultimate installation in the various client countries. In 2015 Otis operated all over the world as 6 regional organizations, with 200 factories and 12 engineering facilities.

The benefits of such a system were obvious – by concentrating production the company could benefit from economies of scale, and some of the reduction in costs could be passed to the customers in the form of lower prices, leading to higher market share. Products could be designed for an entire market (standardized). Instead of having country segmentation one would have pan-European segmentation based on utilization, that is, high-rise buildings, low-rise buildings and so on.

Standardization would be possible only if customers in Europe – architects, engineers, real estate developers, housing departments and so on – shared a common view about what an elevator should be. Despite the differences in housing organization across countries, elevators were essentially technical products with very little cultural content and therefore able to be standardized. Only selling methods would vary from country to country. The Otis management perceived this as an opportunity to gain market share in Europe and engaged in the pan-European strategy depicted in Figure 1.6 in which design centers and factories were specialized and interdependent.

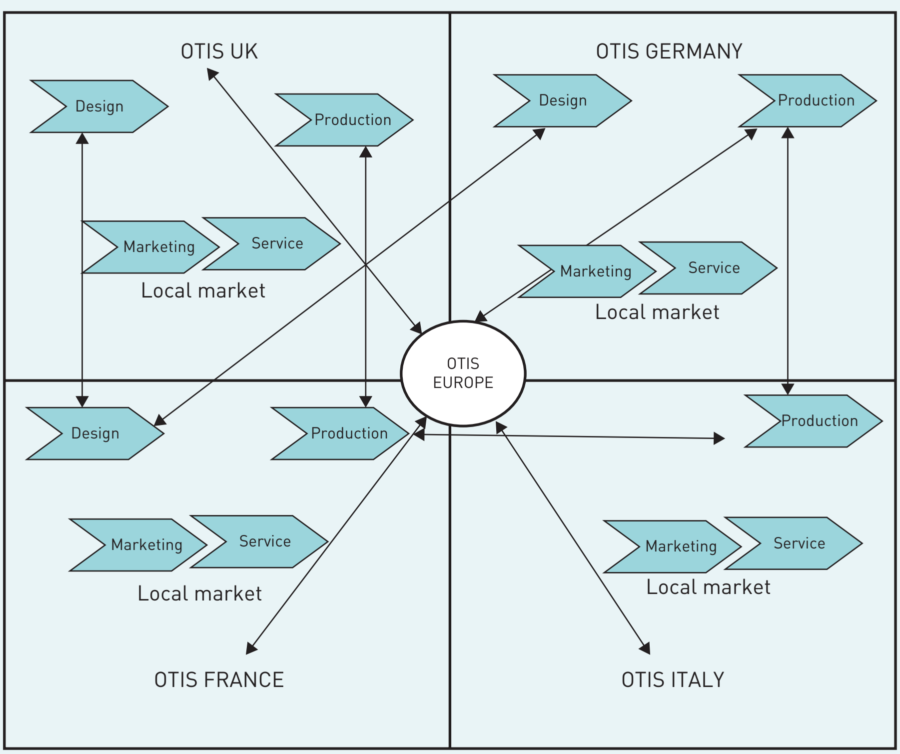

Figure 1.6 A global competitive configuration – Otis today

From a management point of view this was a radical change: country managers were no longer responsible for the whole value chain, but only for part of it. They were obliged to coordinate with other countries through the European headquarters. This led to a very successful story. By 1975, Otis had captured 40% of the European market, while containing Japanese penetration, and competitors were obliged to adopt a similar strategy if they wanted to survive. This concept was further expanded and today Otis is organized by product line on a worldwide basis. There are still country subsidiaries, which take care of installation, maintenance, public relations and personnel, but product development and manufacturing are coordinated globally by product line. From being a 'multinational', Otis has become the 'global' company shown in Figure 1.6.

The phenomenon of an active coordinated and integrated presence in the main regions of the world is what 'global company' means. It is important to observe that this change gave Otis a competitive advantage and that competitors were obliged to adopt a similar approach if they wanted to survive. Globalization is neither a consultant's fad nor a management buzzword, it is a competitive imperative in an increasing number of industries. The development of information technologies, the fluidity of capital markets, the advent of megamergers in the telecoms, computer, oil, pharmaceutical, power and car industries – all of these demonstrate that business firms are increasingly behaving as if they were already living in a global world. (See Insert 1.2, Some Global Definitions.)

Historically, the globalization process, according to the stage theory of internationalization,[15] can be best described as shown in Figure 1.7. It has evolved in three steps: (1) international trade: export and sourcing; (2) multinational investments: setting up value-adding activities in different countries; and (3) integration and coordination of activities across region and countries.

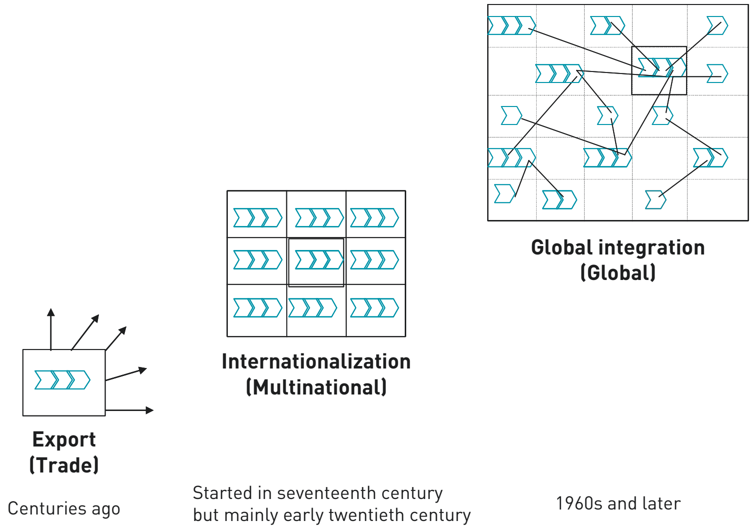

Figure 1.7 The three steps in globalization

THE BENEFITS AND PITFALLS OF GLOBALIZATION FOR BUSINESS

The benefits of globalization can be assessed from two points of view: the business or competitive perspective and the macro, socioeconomic perspective.

The benefits viewed from the macro/socioeconomic perspective have been discussed earlier, so this section will focus on the benefits to a corporation of adopting a global strategy.