GLOBALIZATION:
WHAT THE HECK IS IT?

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Farok J. Contractor

The term “globalization” has been a buzzword in the business literature since the 1980s. Once upon a time, “foreign,” as in “foreign business,” was sufficient. Then came “international,” followed by “multinational,” and even “transnational,” as in “transnational corporations.” Starting with Theodore Levitt’s 1983 article entitled “The Globalization of Markets,” the term “global” became popular in the business lexicon, to be tortured by countless luncheon speakers into so many meanings that one hardly knows its precise significance.

Business persons run the risk of creating confusion when they interchange the term “global,” which has a specific and distinct meaning, with the words “multinational” and “international.” One purpose of this article is to clarify the terminology. But its larger purpose is to discuss investment, marketing, and political trends in the world that are, to some extent, leading to greater integration of national economies (as in the case of the European Union), as well as to growth in foreign investment and trade to unprecedented levels. International trade in 2011 crossed the $ 22,400 billion mark, while the sales of all multinational company foreign affiliates (i.e., outside their home country) exceeded $ 35,000 billion. A company may export to foreign customers, or it can invest in production facilities in that nation and sell to customers from factories there. Exports and foreign direct investment are substitutes in that sense. Licensing of knowledge and intellectual property is a third method of reaching foreign markets and international licensing is the fastest growing method of International Business.

CURRENT TERMINOLOGY

The terms "international," "multinational," and "global" have assumed separate meanings.

INTERNATIONAL—This term generally refers to a company that mainly exports or imports goods and services, or arbitrages between markets in different nations. Companies that reach foreign customers primarily by exports fall into this category. The term is also sometimes used for companies that have just begun their international expansion.

MULTINATIONAL—This word literally means "many nations," but it does not simply imply doing business in many countries. The term refers to a company that has one or more foreign subsidiaries that add value, or produce, in the foreign location, as opposed to merely trading.

In the management -strategy literature, "multinational" also signifies a company whose operations in each nation are relatively decentralized or autonomous. Each country subsidiary manages its own affairs, focusing mainly on local production, marketing in the country, and other country-specific issues. Such a multinational company is little more than the sum of its worldwide parts. (Note: This type of organization is also sometimes called "Multi-domestic," or "Geographic" or "National").

GLOBAL— This term now often refers to a company that takes advantage of the synergies between its various affiliates, rationalizes activities according to the comparative advantage of each country location, and utilizes the commonalities of production and markets into a standardized larger-scale operation spanning several countries to derive economies of global scale and scope. A global company's strategic purview is a search for global optimization, cost reduction, efficiency and synergy, as opposed to running several parallel, but separate, multinational operations. (Note: Firms that try and optimize their global operations are also sometimes called "Transnational").

Several Companies May Be Closer to Multinational Rather Than Global Strategies

Today, several firms that have direct investments outside their home countries may be described as "multinational" rather than "global" (although this is beginning to change). Take companies such as Unilever. Jan Kaas of Unilever was quoted as saying that there are almost no Europe-wide products[1]. For example, their Magnum ice-cream, despite the same brand name, is formulated to taste very different from one European or Asian country to another. The reason is simple. Varying the taste increases local appeal, and such variation in the recipe can be done at very low incremental adaptation costs in the factories. For the most part, the strategy followed by consumer marketing firms tends to be more adaptive to local conditions in each country (multinational) than it is towards standardization (global).

But large producers of household soaps and laundry detergents, such as the US-based Proctor & Gamble (P&G), or Henkels of Germany are constantly torn between the pressure to cut costs by standardizing the design of products and manufacturing across nations, versus the pressure to increase sales by adapting products to local preferences and use conditions. In the European market for laundry detergents, environmental, labeling, and commercial laws forced many of the companies to have different content and packaging. Even today, differences in national laws across the EU nations are not "harmonized" or identical. Local regulatory differences have persisted. Water hardness and mineral content continue to vary, necessitating different chemical formulations for detergent. In Italy, Spain, and other Mediterranean nations, pure cotton garments are more common than in the northern countries, where synthetic fiber content is greater. (This may be a slight difference but R&D chemists in P&G or Unilever have to take the water quality into account for the best washing experience for the consumer). The washing machines themselves vary, with different designs, capacities, and washing water temperatures. Considering the average life of a washing machine to be 15 years, it will take a long time before the installation of the machines themselves will

[1] *The Economist*, Euro Brief: Faster Forward, November 28, 1998.

converge in design across the EU. Distribution methods also vary. Some European nations have large grocery chains that can move large quantities and demand deep discounts. Other regions are characterized by small, independent stores necessitating more costly and fragmented distribution of products. Add to this the variation in advertising practices across nations. Some nations restrict television commercials to a maximum number of minutes per year Other channels show advertisements back-to-back (as opposed to the presumably more effective American practice that allows interruption of the program). Finally, advertising costs vary dramatically across countries.

All of this adds up to a collection of national markets rather than to a global or uniform detergents market. So adapting the product formulation, the advertising, and the distribution to local conditions can still pay off more than a pan-European uniform policy. That is to say, despite the higher costs of a country-by-country approach, total sales for all countries are also much higher. Thus, a locally adaptive and organizationally fragmented strategy – a "multinational" strategy -- can sometimes produce superior overall regional profits.

The Allure of Global Standardization

The notion of global standardization, however, has continued to increase in allure in recent years. One objective of this paper is to ask why. What social, political, or economic trends are luring companies to reassess their historical nation-by-nation strategies and go in for a global approach?

One can easily think of several examples, from Rolex watches to Benetton clothing, where the products are similar, if not identical, all over the world; where the advertising is standard (except for translations); and, in Benetton's case, where the retail outlets are also similar. Most of these goods are items aimed at affluent customers whose tastes are presumed to transcend national differences. On the other hand, examples that appear superficially to be globally standardized are, in fact, not so. Marlboro cigarettes may be advertised worldwide with the same American cowboy and horse. But the cigarettes themselves vary somewhat in flavor, and the price and methods of distribution are localized. McDonald restaurants in India have adapted to the local aversion to beef, by substituting chicken in their hamburgers. Drinks such as Coca Cola or Pepsi are adapted to the local sweet tooth, water conditions, and climate—despite often using similar advertising campaigns in various nations. Thus, products may appear to be global and yet exhibit degrees of variation along different marketing-strategy dimensions.

However, there are enormous pressures that tempt companies to erase the differences and try and standardize. There are three principal reasons:

1. The potential cost savings. (Since competing firms may be doing so, our company had better think along these lines as well);
2. The escalating R&D costs that are forcing companies to amortize them over a larger global market, as opposed to a few nations; escalating scale requirements in manufacturing are also providing a push in some industries; and
3. The belief that the world's customers are indeed getting more homogeneous in tastes, and so differences in consumer preference have narrowed.

<u>Cost Savings from Globalization</u>

When markets are small -- and most of the countries of the world are pretty small markets -- manufacturing or distribution may not be large enough to reach economic scale. The planet has 186 nations tracked by the IMF. For the year 2012, the 20th size economy, Switzerland was only 4 percent the size of the biggest, the United States. The 40th ranked economy, the Philippines, was only 1.6 percent the size of the US. The 60th ranked economy, Angola, was just over 1 percent the size of the US. And behind Angola there are as many as 126 even smaller economies, whose combined GDP added up to no more than 2.5 percent of the world total. Yes, the world consists of a collection of small, culturally fragmented markets. So what does this mean for "globalization"?

Table 1: Relative Size of Countries' Economies, 2012

Rank	Country Name	GDP In $ Trillions (PPP adjusted)	Size of Economy as % of the World	Size of Economy as % of the USA
1	USA	15.68	21.87 %	100.00 %
20	Switzerland	0.63	0.88 %	4.02 %
40	Philippines	0.25	0.35%	1.59 %
60	Angola	0.19	0.26 %	1.22 %
61 – 186 Combined	126 Lower Ranking Countries Taken Together	2.53	3.53 %	16.14 %
--	WORLD TOTAL	71.70	100 %	--

Calculated by the author from International Monetary fund data

Of course, the size of the market depends on the product as well as the stage of manufacture. Aluminum production up to the ingot stage requires a huge scale, larger than the demand of most Asian or small European countries; but the rolling operation can be done efficiently at a much smaller scale. Pharmaceutical research requires centralized expenditures involving hundreds of millions of dollars per drug, but the production of millions of pills in the *final* stage can be done by a few machines, each the size of a desk.

For some companies, substantial savings can also be realized by combining advertising. Instead of hiring separate agencies to design separate campaigns, one global agency devises a common theme (and hopes it goes over well with customers of different cultures). The savings can be huge in companies whose annual advertising outlay exceeds $500 million worldwide. In 2011, Unilever spent more than $ 8 Billion. For a prime show on American television networks, advertising rates often exceed $ 1 million per minute, forcing the agency to come up with a common mass-appeal theme for a wide audience. Megastations in Europe or Asia will also force some companies into a region-wide advertising content. [2]

R&D costs in some industries have escalated to the point where firms are forced to look at the entire world market, not just at a few countries, to amortize the expenditures. A new drug may average $800 million to launch; a digital telecommunications switch costs more than $2,000 million; and a completely new car design costs more than $3,500 million. With a standard design at the heart of the product, manufacturers then look to adapt some superficial aspects for particular markets. This can extend even to "low-tech" items. Instead of the dozen different shampoo bottles Colgate-Palmolive formerly used in Western Europe, only one style may be used. This will save considerably on the design, tooling, and packaging costs in Europe. However, the labeling and content of the shampoo may vary in different nations. Why? Because these are features easy (meaning relatively cheap) to adapt. In cosmetics and food preparations, changing the formula or recipe to suit local tastes is sometimes virtually costless, involving nothing more than changing some temperature settings or other process parameters on a standardized manufacturing line.

Standardize or Adapt? A Decision Criterion

> *"You can't sell the same car in different markets. You always have to tune it*
> -- Carlos Ghosn, Nissan Motor (Wall Street Journal, 12 – 5 - 2004).

What is called "globalization" in many companies, therefore, means judiciously combining those stages of production or distribution where efficient scale cannot be obtained by entirely localized operations. The trick then, in corporate strategy terms is to make decisions on

- Local adaptation *versus* global standardization, and
- Centralization vs. decentralization

[2] Interestingly, the television industry now also offers a countertrend. The economics of cable and other "narrow-casting" technologies offer the advertiser the opportunity to target small groups, or market segments, at a cost per viewer not substantially higher than that for the broadcasting channels. This would help perpetuate locally-adaptive marketing.

with a mix that varies (within the same firm) depending on the stage of the value chain. For example, in one firm the R&D may be highly centralized and concentrated in just two or three nations because the economics of R&D may dictate clustering of personnel and equipment. Depending on the minimum economic scale of production, there may be several factories in each region, closer to the end customer. Finally, in some firms, marketing may be completely decentralized to the country level.

Global production strategy involves two basic analytical steps: (1) Break down the production process into its constituent parts. (2) For each part, or for each adaptation, apply the following decision criterion: "How much will this engineering adaptation cost for this market—and how much, in turn, will our customers reward us by purchasing that much more of the specifically adapted product?" Undertake the adaptation to the extent that the potential incremental revenues exceed the adaptation costs in that region (such as ASEAN or Europe).

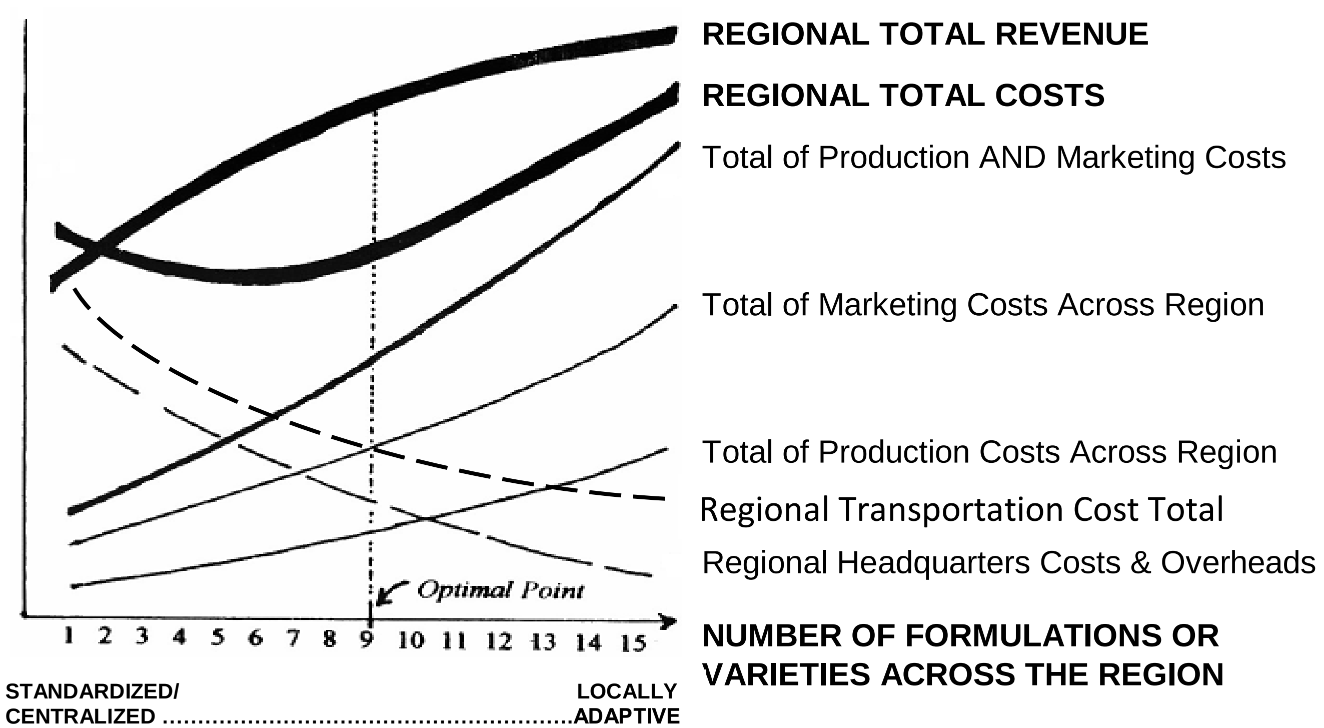

Figure 1: **Seeking the Optimum Balance Between Standardization and Local Adaptation**

This is illustrated in Figure 1 above. Consider a laundry detergents company, such as Proctor & Gamble, or Henkels, formulating a regional strategy in South-East Asia or Western Europe.

Focusing just on the issue of how many different formulae for their powdered detergents would be optimal across the region, the analysis reveals (in this hypothetical example) that even though there are 15 nations in the region, having 9 different formulations, or recipes, would be best. The analysis is done by estimating Costs and expected Sales Revenues (for each nation, as well as added up cumulatively across the region) for one variety, two varieties, three varieties and so on, up to a maximum number of varieties equal to the number of countries in the region[3]. There are four aspects to consider, the change in (1) Production Costs, (2) Marketing Costs, (3) Transportation Costs totaling across the region and (4) Regional Overhead and Regional Headquarters Costs -- as a function of the number of varieties.

In terms of production and supply chain costs, as the number of varieties or formulations increases, more separate batches have to be produced, perhaps in more factories, and the economies of scale would be hurt. The number of factories in the region overall, and their location will depend on economies of scale, transportation costs, tariffs, inventory costs and risk. (Since the number of factories is typically less than the number of countries or markets within the region, this inevitably necessitates shipments from one nation to another in the region, and holding inventories in various locations. This is therefore an analysis that is best performed by a multinational team consisting of Production, Supply Chain and Finance persons drawn from different subsidiaries in the region).

But this is only the production side of the story. In marketing terms, as the number of varieties increases, (i.e., as we move from left to right in the graph in Figure 1) there is a simultaneous

- Increase in Sales Revenue in each nation and therefore for the region as a whole, since locally-adapted recipes attract more customers in each nation who better appreciate a locally adapted variety "tuned" to the local taste and culture.

[3] Such as ASEAN, or South-East Asia, or the EU.

- Increase in Marketing Costs in each nation and for the region as a whole since the marketing message will also be more localized and fine-tuned locally, with additional varieties.

Hence as we move from left to right in Figure 1, both Sales Revenues, Production and Marketing Costs increase, in general -- although not in a uniform fashion. A cost component that *decreases* from left to right (i.e. with increasing local adaptation) are is the Costs of Regional Central Overheads. These costs are low towards the right side because a locally-adaptive strategy does not need too much Regional Headquarters central control. On the other hand, towards the left side of the graph, with a high degree of standardization, a greater degree of centralized control is needed from the Regional Headquarters, in order to decide on the optimal location of factories, region-wide inventory, supply chain coordination, pan-regional marketing campaigns, etc. A second cost that can *decrease* from left to right (i.e., with more varieties) is the total region-wide transportation cost. This can reduce because, with more varieties there is a greater likelihood that there will be more factories for the detergent, producing locally-tuned varieties closer to their intended country markets. Greater proximity between point of production and consumer necessarily means lower transportation costs, just as a few large factories trying to serve the whole region necessarily entails shipments over longer distances.

Globalization Does Not Necessarily Mean Standardization: Seeking the Optimum for Each Piece of the Value Chain

Globalization strategy in many companies therefore amounts to seeking the best "middle ground" or in between position between the extremes of complete standardization and centralization on the one hand, *versus* complete local adaptation and local autonomy, on the other. Moreover, the optimum number of varieties in a region will be a different number for different elements of the company's value chain. There will be a different optimum for the desirable number of product varieties, another for factories in the region, a different optimum for the number of advertising campaigns across the region, the number of R&D locations, or the number of brand names across the region and so on. For example, some companies, such as Coca Cola, may have a more or less standardized approach for some elements of the marketing mix, but not for others. An absolutely identical brand image, and they may 'tweak' the taste or recipe of their drink from country to country only slightly (at virtually little or zero engineering adaptation cost). There is also a standardized core advertising campaign which is adapted only by using local actors and language. However, price and distribution methods for Coca Cola vary greatly across nations. Others may standardize the product design but drastically vary the advertising message. Budweiser beer in the USA is positioned at the lower end of the mass market. American advertising often features college boys playing pranks with animals, or rabid sports fans. Decidedly downscale. By contrast, Budweiser ads in China feature tuxedo-clad connoisseurs listening to cool jazz. Products also have to be adapted because of technical standards such as voltage, mobile phone transmission standards, or because the product is used in a different way in some nations. In Germany or the US where cars are driven by owners, and the occupancy averages from 1.10 – 1.50 persons per vehicle, the back seat is rarely occupied. By comparison, in China or India, BMW and Buick have had to stretch the leg room of the rear seats (or redesign and lengthen the entire car) because affluent owners are driven by chauffeurs. China is already the biggest automobile market in the world, and with Indians joining in car purchases luxury vehicles are being redesigned accordingly. In Japan, where houses are small, and where their aesthetic sense values the small and beautiful object, appliances and household goods tend to be favored when they are efficient, compact, understated, and elegant. Hence some degree of local adaptation, of some elements of the value chain is necessary, despite the higher costs of such adaptation and the loss of scale efficiencies.

The dangers of a rigid, overly-standardized global approach are illustrated by a German chocolate company called 'Ritter Sport'. Some say that Ritter Sport makes some of the tastiest mass-produced chocolate in the world and their product itself does not need adaptation. But despite universally appreciated good taste, their inflexible policy that does not adapt their prices[4], or packaging, or slogan, has left them with indifferent sales outside of German speaking countries. For many decades until 2009, their globally used slogan was "Quadratisch, Praktisch, Gut". Besides the fact that outside Germany few consumers can read German, the translation of the slogan into other languages is "Square, Practical, Good" – a blurb that is either inscrutable or laughable. The term "square" actually has a negative connotation in American cultural. And it hardly excites anyone outside Germany to call a chocolate "practical". On the other hand, the "Quadratisch, Praktisch, Gut" slogan resonates with the soul of German culture, which places great importance on lean design and practicality[5]. The failure to adapt their slogan or their pricing means that sales outside Germany are meager, considering how tasty the product actually is.

Globalization does not, therefore, mean complete standardization or complete adaptation. For many firms a strategic overview will, in fact, recommend combining and standardizing *some* particular aspects of manufacturing and marketing that were hitherto fragmented over different countries or adapting others that were overly standardized across nations.

Rather, I would define globalization as the continuous *search* for selective optimization of each stage of the value-added chain, from R&D to distribution[6]. One company may standardize and centralize its research and advertising functions while deciding to adapt and decentralize to the country level its manufacturing, pricing, and distribution practices. Another company may decide to have standardized production in a few, large-scale, rationalized manufacturing centers from which it

[4] Ritter Sport, in an exhibition of Teutonic rectitude, appears to not only uniformly price in Euros, but add on transportation and foreign distribution costs, with the results that the retail price of a chocolate bar in the US is near $ 3. By contrast, the German price can be below € 1. Unsurprising, US sales are negligible.
[5] The slogan reflects the firm's excessive engineering pride in designing a square chocolate bar which can be opened with one snap of the wrist. But outside German culture consumers do not place much emphasis on these attributes.
[6] A firm that tries to globally optimize, and whose strategy also seeks to actively manage cross-border learning and accumulation of knowledge, has been labeled as "Transnational" by Bartlett and Beamish (2013).

serves many nations, but have very localized advertising and selling methods in each country. It is a question of finding the optimum balance for each business function.

The optimal balance is affected by the business environment. The next section of this paper discusses changes in the global environment that are impelling several companies to consider changing their strategies from "multinational" to "global."

Are Changes In the Environment Leading to Globalization?

Was Spain's national identity and its culture threatened when the EU committee on computer standards proposed dropping the tilde (˜) from computer keyboards? Outside Spain, the tilde is an anachronistic diacritical mark. But to the Spanish, it is part of the distinctiveness of their culture, their peninsularity. Indeed, the tilde is part of their country's official name, España. However, we should remember that the nation-state as we know it today is not more than about 200 years old. Fixed boundaries, non-overlapping governmental control, and people's identification with large colored splotches on a world map are relatively recent notions in human history. India, Italy, Germany, and the US are all little more than a century old in their present geopolitical state.

There is no guarantee that this national identification will last. The identification of a person as "Yugoslavian" has been replaced by "Montenegran" or "Slovenian." Will the cry, "I am a European!" replace the call, "I am a Spaniard!"? Not if I am a Basque, Catalonian, or Corsican nationalist. Everywhere, small groups, from the Danes who voted "no" to the Maastricht Treaty, to conservative British Tories, to the Danes and French who voted "*non*" on the EU Constitution in 2005, feel greatly threatened by a supranational identification.

Identity in the future can go either way. In the EU, the attempted unification of markets can be seen, by nationalists, as a diminution of local identity. When a country joins a supranational association such as the WTO, or signs a multinational treaty, this signifies a withdrawal or abdication of state power at the national level, over tariffs, trade barriers, independent economic policies, and separate national technical standards in favor of the supranational agency. When China joined the WTO, it was with great reluctance and fear on the part of some in the Chinese government. The many benefits of joining the WTO are offset, in the eyes of many, by having "outsiders" determine the country's policies, by having foreign inspectors visit and snoop, and in general having local control eroded. Countries that have joined the Euro zone have similarly completely given up their previously independent monetary policy to six old persons in Frankfurt that comprise the European Central Bank's Executive Board.

Whether the nation-state in its present form will strengthen, fragment, or wither away is still open to debate. However, current trends make this political question less crucial for business than in the past. To some degree, politics has already loosened its grip on economic matters. First, there has been a virtually global liberalization of policies. Over the past 30 years, virtually every government on the planet has partially deregulated economic affairs and slackened its grip on commerce. Second, the international mobility of capital, information, and even people, has rendered less effectual the ability of the state to intervene, even if it were ideologically predisposed to do so. Money and facts move across borders virtually costlessly (or at very negligible cost). The growth of world trade and Foreign Direct Investment over the past 50 years, at rates much higher than the growth of domestic economies, means that greater economic interdependence between nations follows, axiomatically. From this followed the need for realistic exchange rates that were best realized by a convertible and floating market exchange rate. But a convertible currency reduces the economic power of a government internally. Even formerly socialist countries such as India, with a relatively small ratio of foreign trade in relation to the gross domestic product, found they could not escape this logic. India made the rupee partially convertible in the 1990s, and the number of permissions needed from the bureaucracy has steadily dropped.

Add to the above the continuing lowering of trade barriers and transport costs, the adoption of supranational technical standards such as ISO 9000 or ISO 14000, and the freer movement of people with so-called international lifestyles, and some pundits are led to propose that markets are converging. Logically, then, business strategies should also converge. But have they?

<u>Factors Preventing Market Convergence</u>

The convergence hypothesis may already be true for some companies (McDonald's, Rolex, or H&M). It may even be true for the majority of items and businesses at some distant time in humanity's future. But at the moment, strong local pressures and differences persist. The persistence of cultural memory among the Spanish Basque, the Montenegrans, the South Moluccans, and a thousand other groups will perpetuate a fragmented marketing strategy for culturally sensitive products such as food preparations (but extending even to the so-called industrial products such as computer keyboards and blood-clot analyzers). For instance, the Spanish who do not believe in breakfast consume only around 0.4 pounds of breakfast cereal per capita compared with a whopping 12 pounds or more per capita in Britain and Ireland.

Other "localizing" factors include non-tariff protectionist barriers that WTO negotiators are unsuccessful in removing; resource dependencies on locally grown or locally made raw materials; and the great variation in marketing and promotional practices from one nation to another. In television and other advertising media, availability, cost, and effectiveness vary widely. Distribution methods often reflect local tradition. For example, in Japan the government and business associations often favor small "mom-and-pop" retail establishments over more efficient high-volume outlets—despite the higher price paid by consumers. An unwritten social contract in Japan says that higher prices are paid in return for personalized service (both during the purchase and after sales) and to maintain employment in retail distribution. However, such practices do serve to limit foreign chains such as giant American stores whose executives cannot fathom the cultural and social underpinnings of Japanese distribution.

Local concerns will, to different degrees, always persist in areas such as job creation, military matters, infrastructure projects, and service-intensive endeavors that require local labor.

Summary and Conclusions for Company Strategies

The market convergence hypothesis proposed by Professor Levitt is very far from being a reality for all but a few products. The term "globalization" (often confused with the terms "multinational" and "international") does not necessarily mean standardization or centralization of all company practices worldwide. Globalization, in the corporate-strategy literature, merely refers to a worldwide management process, a search for global optimization.

For most companies, "globalization" refers to the attempt to pull together and rationalize only *some* business functions that were hitherto decentralized to the country level. At the same time, it refers to a search for commonalities and combinations of national markets that were hitherto treated separately. As a result of this strategy-planning process, one firm may decide to rationalize its manufacturing globally, while leaving marketing and distribution very different in each country market. Another firm may find that adapting the product design and content are easy and relatively inexpensive, but that marketing had best be uniform across markets.

This paper proposed an optimization rule or criterion for each business function or for each market: to assess the costs of adaptation to local conditions against the size of the benefit derived by increased sales, if any, as a result of the adaptation. Conversely a company may assess the cost reduction or efficiency gain from combining or standardizing certain functions against the drop in revenues, if any, resulting from a less locally-tailored approach. Such an analysis should be done incrementally for *each* piece of the value-added chain (R&D→manufacturing→distribution→after-sales service) in *each* country market, and then added up for the region as a whole, in order to find the best intermediate optimum point for the region as a whole.

Globalization, then, is the optimum combination or standardization of *some* functions in some nations, and locally adaptive practices in other functions and countries.

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Appendix

Organization Structures That Fit Different Strategies

As we have seen above, the strategic mission of firms range on a spectrum, from being very locally responsive (in the case of products related to the body or sensitive to local culture, such as prepared foods or cosmetics) to rather globally standardized (in the case of technology-driven products such as telecommunication devices). Unilever products are far more locally adapted compared to Samsung's. But how does each firm's strategic mission determine its organizational structure? We discuss below two archetypes, the multinational versus the global product firm[7].

[7] In classroom teaching, models are necessarily simplified. In realty, few companies conform exactly to the archetypes presented here. In real life, compromises, CEO whims, and organizational history, typically make

A multinational or "multi-domestic" company's emphasis is on customization, because customers reward such local adaptation by buying more, while costs per unit may not increase very much because production switch-over or technical modification can be done easily. Minimum efficient scale and experience curve effects may be small. Each national affiliate therefore can run its own show, and need not engage in much coordination with other country subsidiaries or central administration.

A global or "transnational" firm's emphasis, on the other hand, is on lowering costs and seeking efficiency by cross-border rationalization. By "rationalization" is meant that, not only are various parts of the value chain (R&D→sourcing→manufacturing→distribution→after-sales service) spread over different countries, but even within the "production" piece of the chain, some components may be made in one nation, and the assembly in another. Hence a high degree of central coordination and downward direction is needed across the globe or region. Often, such firms are high-technology oriented and have a large R&D overhead which has to be spread and coordinated over all the country units. Why this emphasis on lowering costs? Because many such companies are driven by relentless downward price pressures as each product goes through its product cycle.

According to Bartlett and Beamish 's (2013) terminology, firms that seek efficiency and cost reduction through global rationalization, and then, in addition, also actively manage learning and knowledge-transfer across affiliates worldwide, are called "transnational." (This is only their terminology, and it is not universally used).

Multinational/Multi-Domestic/Geographic Structures

A typical multinational or multi-domestic organization structure is depicted below in Figure 2.

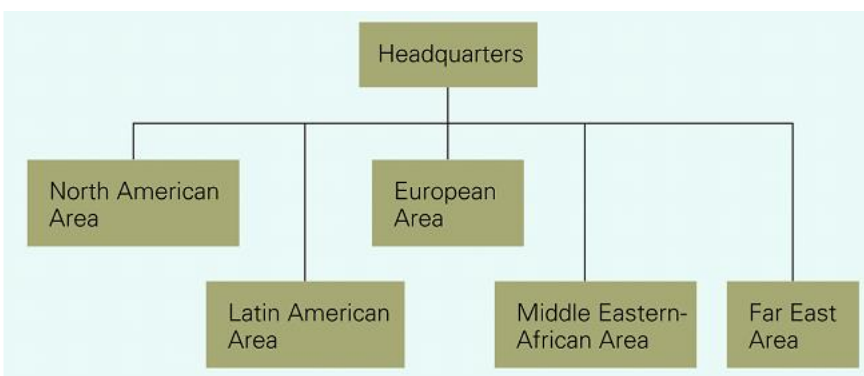

Figure 2: Multinational or Geographic Structure

Source: Charles Hill, International Business, McGraw Hill

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the actual organization structures of firms appear to be hybrids or a hodge-podge. However, models serve to powerfully guide managerial thinking and improvements.

Under each region may be found country-level subsidiaries and affiliates operating in a decentralized fashion, with very loose coordination. Such companies develop deep local knowledge, especially in their market, which enables them to fine-tune products to local requirements and maximize sales within each nation (and therefore worldwide). Country manager morale is generally higher than in centralized or globally-standardized companies.

Table 2

GEOGRAPHIC OR NATIONAL ORGANIZATION	
ADVANTAGES	**DISADVANTAGES**
▪ Local/National Expertise	▪ Proliferation of Product Designs Worldwide
▪ Clear Focus	▪ Small/Inefficient Scale at Country Level
▪ Low Interference from MNC Homeoffice	▪ Good Ideas May Be Bottled Up in Subs.
▪ Marketing Emphasis	▪ Duplication of Functions at Each National Organization
▪ Low Vulnerability to Political/Foreign Exchange/Logistical Disruptions	▪ R&D and Other Functions Fragmented Worldwide
▪ Local Responsiveness/Adaptation Ensures **High National and Global Total Sales Revenue**	▪ Parochialism
	▪ Weak Headquarters Control -- Power at National Units
	▪ **Global Total Costs High**

But there are drawbacks, as shown in Table 2. With only a local focus, products are developed for each nation, and some geographically structured companies may end up with a bloated product line with a proliferation of models across a region or worldwide. With a country-by-country focus, the scale of operations (production or marketing) may sometimes be small and inefficient. Each country unit may act as a fiefdom. Lack of coordination across country units often results in duplication of efforts and functions in each national unit. Good ideas developed in one subsidiary may not be shared with others. As a result, costs per unit, as well as cumulative worldwide total costs in the multinational or geographic firm tend to be high (compared with a globally organized company).

However, companies that adopt this organization structure feel that the higher total costs are more than offset by the higher total sales revenue that such an organization type also enables.

Global and Transnational Structures (Global Product Division)

Global, or Global Product Division, structures tend to have a product rather than country-market focus. Country distinctions are minimized, if not eliminated. When a firm, such as General

Electric (GE) has several disparate products, each product division runs its own show, and runs it with a globally-centralized mandate. This is illustrated in Figure 3.

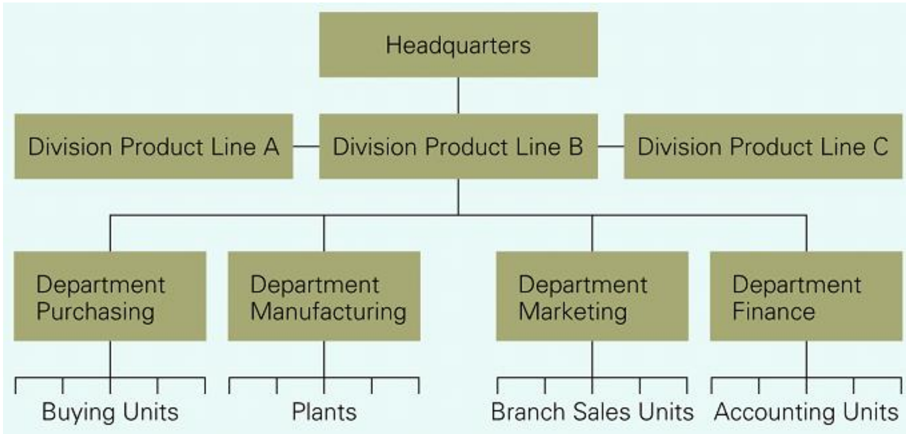

Figure 3: Global Product Division Structure

Source: Charles Hill, International Business, McGraw Hill

Under each product division may be found functionally-organized departments such as purchasing, manufacturing, marketing and other support functions such as finance and global supply-chain coordination. Indeed global coordination and cost reduction – within each division -- are main strategic drivers. This mandate results in a continuous search for cross-border rationalization, synergies and aggregated scale. There is not much emphasis on local adaptation, either because the products in question have a technologically standardized design that is invariant to cultural differences (e.g., aircraft engines or wind turbines), or because the costs of incremental adaptation to a country's requirements are not justified by the resultant increase in local sales.

The relentless product and efficiency focus leads to lower costs overall. With the high degree of cross-border coordination and transfer of ideas and personnel, there is not much country loyalty. Managers specialize by function, not by country or market, and are willing to be assigned anywhere. Good ideas developed in one location travel quickly through the worldwide system – especially if the company actively manages acquisition of knowledge and promotes the internal transfer of learning.

But there are drawbacks. If there are several independent product divisions of the same company in one country, they may duplicate country-specific functions. The product focus may lead to a neglect, or blindness, to local marketing issues. While the company's product designs may be technology driven, nevertheless some degree of country adaptation could result in higher sales. As Carlos Ghosn of Nissan Motors observed[8], "*You can't sell the same car in different markets. You always*

[8] Wall Street Journal, 12 – 5 - 2004

have to tune it." Since production and marketing functions tend, in such companies to be separate, there are inevitable conflicts over a range of issues, from product design to internal transfer pricing.

Table 3

GLOBAL PRODUCT DIVISION ORGANIZATION

ADVANTAGES	DISADVANTAGES
▪ Product Focus and Specialization	▪ Possible Duplication at Country Level if Several Product Divisions Present
▪ Global Rationalization and Standardization Emphasized	▪ Weaker Understanding of Country Markets
▪ Economies of Global Scale	▪ Dampens Country-level Initiative
▪ Good Ideas Shared Across Nations	▪ Can Create Production - Marketing Tensions
▪ Easier to assign best personnel to foreign operations	▪ System More Vulnerable to - Supply Chain Disruptions - Over-capacity - Under-capacity - Foreign Exch. Risk
▪ Efficiency in Production and **Low Global Costs Per Unit**	▪ Global Standardization/Mass Production **Reduces Global Total Sales** (Compared to a Locally-Adaptive Strategy)

Moreover, since globally-rationalized companies produce parts in different countries from where they are assembled, such firms are far more vulnerable to international business risks -- from strikes or floods in one component factory affecting the entire system, to increases in fuel and transportation costs, to fluctuations in currency values, to overcapacity and under-capacity[9].

Without a doubt, a globally-standardized approach lowers costs. It also lowers sales revenue in each nation. However, companies adopt this structure (as more and more are doing) because they feel that the reduction in country and worldwide sales will be more than offset by the reduction in global total costs, thereby increasing global total profits.

[9] By comparison, in the multi-domestic firm, relatively autonomous at the country level, a disruption in one location only affects that one nation's operation, and the risk does not spread worldwide.