PART I

Understanding Globalization

Part I of this book, Understanding Globalization, has four chapters:

Chapter 1 assesses what global the world economy has become and what implications that has for companies.

Chapter 2 looks at globalization at the industry level. It asks questions such as "What is a global industry?" "What are the driving forces behind the globalization of industries?" and "What explains the dominance of particular countries or regions in global industries?"

Chapter 3 looks at generic strategies for creating a global competitive advantage ranging from adaptation to aggregation to arbitrage.

Chapter 4 introduces the concept of a business model to define global strategy formulation as changing or adapting a company's core (domestic) business model to achieve a competitive advantage as it globalizes its operations or presence.

CHAPTER 1

Competing in a Global World

To most of us, globalization—as a political, economic, social, and technological force—appears all but unstoppable. The ever-faster flow of information across the globe has made people aware of the tastes, preferences, and lifestyles of citizens in other countries. Through this information flow, we are all becoming—at varying speeds and at least in economic terms—global citizens. This convergence is controversial, even offensive, to some who consider globalization a threat to their identity and way of life. It is not surprising, therefore, that globalization has evoked counter forces aimed at preserving differences and deepening a sense of local identity.

Yet, at the same time, we increasingly take advantage of what a global economy has to offer—we drive BMWs and Toyotas, work with an Apple or IBM notebook, communicate with a Nokia phone or BlackBerry, wear Zara clothes or Nike sneakers, drink Coca-Cola, eat McDonald's hamburgers, entertain the kids with a Sony PlayStation, and travel with designer luggage. This is equally true for the buying habits of businesses. The market boundaries for IBM global services, Hewlett-Packard computers, General Electric (GE) aircraft engines, or PricewaterhouseCoopers consulting are no longer defined in political or geographic terms. Rather, it is the intrinsic value of the products and services that defines their appeal. Like it or not, we are living in a global economy.

How Global Are We?

In 1983, Theodore Levitt, the late Harvard Business School professor and editor of the *Harvard Business Review*, wrote a controversial article entitled "The Globalization of Markets." In it, he famously stated, "The globalization of markets is at hand. With that, the multinational commercial world nears its end, and so does the multinational corporation . . . The multinational operates in a number of countries, and adjust its products and processes in each, at high relative cost. The global corporation operates with resolute constancy . . . it sells the same things in the same way everywhere"[1]

Levitt both overestimated and underestimated globalization. He did not anticipate that some markets would react against globalization, especially against Western globalization. He also underestimated the power of globalization to transform entire nations to actually embrace elements of global capitalism, as is happening in the former Soviet Union, China, and other parts of the world. He was right, however, about the importance of branding and its role in forging the convergence of consumer preferences on a global scale. Think of Coca-Cola, Starbucks, McDonald's, or Google.[2]

More than 20 years later, in 2005, Thomas Friedman, author of *The World is Flat: A Brief History of the Twenty-First Century*, had much the same idea, this time focused on the globalization of production rather than of markets. Friedman argues that a number of important events, such as the birth of the Internet, coincided to "flatten" the competitive landscape worldwide by increasing globalization and reducing the power of states. Friedman's list of "flatteners" includes the fall of the Berlin Wall; the rise of Netscape and the dot-com boom that led to a trillion-dollar investment in fiber-optic cable; the emergence of common software platforms and open source code enabling global collaboration; and the rise of outsourcing, offshoring, supply chaining, and in-sourcing. According to Friedman, these flatteners converged around the year 2000, creating "a flat world: a global, web-enabled platform for multiple forms of sharing knowledge and work, irrespective of time, distance, geography and increasingly, language."[3] And, he observed, at the very moment this platform emerged, three huge economies materialized—those of India, China, and the former Soviet Union, and "three billion people who were out of the game, walked onto the playing field."[4]

Taking a different perspective, Harvard Business School professor Pankaj Ghemawat disputes the idea of fully globalized, integrated, and homogenized future. Instead, he argues that differences between countries and cultures are larger than is generally acknowledged and that "*semiglobalization*" is the real state of the world today and is likely to remain so for the foreseeable future. To support his contention, he observes that the vast majority of all phone calls, web traffic, and investment around the world remains local; that more than 90% of the fixed investment around the world is still domestic; that while trade flows are growing, the ratio of domestic to international trade is still substantial and is likely to remain so; and, crucially, that borders and distance still matter and that it is important to take a broad view of the differences they demarcate, to identify those that matter the most in a particular industry, and to look at them not just as difficulties to be overcome but also as potential sources of value creation.[5]

Moore and Rugman also reject the idea of an emerging single world market for free trade and offer a regional perspective. They note that while companies source goods, technology, information, and capital from around the world, business activity tends to be centered in certain cities or regions around the world, and suggest that regions—rather than global opportunity—should be the focus of strategy analysis and organization. As examples, they cite recent decisions by DuPont and Procter & Gamble to roll their three separate country subsidiaries in the United States, Canada, and Mexico into one regional organization.[6]

The histories of Toyota, Wal-Mart, and Coca-Cola provide support for the diagnosis of a semiglobalized and regionally divided world. Toyota's globalization has always had a distinct regional flavor. Its starting point was *not* a grand, long-term vision of a fully integrated world in which autos and auto parts can flow freely from anywhere to anywhere else. Rather, the company anticipated expanded free-trade agreements within the Americas, Europe, and East Asia but not across them. This reflects a vision of a semiglobalized world in which neither the bridges nor the barriers between countries can be ignored.[7]

The globalization of Wal-Mart illustrates the complex realities of a more nuanced global competitive landscape (see Minicase 1.1). It has been successful in markets that are culturally, administratively, geographically, and economically closest to the United States: Canada, Mexico, and the United Kingdom. In other parts of the world, it has yet to meet its profitability targets. The point is not that Wal-Mart should not have ventured into more distant markets, but rather that such opportunities require a different competitive approach. For example, in India, which restricts foreign direct investment in retailing, Wal-Mart was forced to enter a joint venture with an Indian partner, Bharti, that operates the stores, while Wal-Mart deals with the back end of the business.

Finally, consider the history of Coca-Cola, which, in the late 1990s under chief executive officer Roberto Goizueta, fully bought into Levitt's idea that the globalization of markets (rather than production) was imminent. Goizueta embarked on a strategy that involved focusing resources on Coke's megabrands, an unprecedented amount of standardization, and the official dissolution of the boundaries between Coke's U.S. and international organizations. Fifteen years later and under new leadership, Coke's strategy looks very different and is no longer always the same in different parts of the world. In big, emerging markets such as China and India, Coke has lowered price points, reduced costs by localizing inputs and modernizing bottling operations, and upgraded logistics and distribution, especially rurally. The boundaries between the United States and international organizations have been restored, recognizing the fact that Coke faces very different challenges in America than it does in most of the rest of the world. This is because per capita consumption is an order of magnitude that is higher in the United States than elsewhere.

Minicase 1.1. The Globalization of Wal-Mart[8]

In venturing outside the United States, Wal-Mart had the option of entering Europe, Asia, or other countries in the western hemisphere. It realized that it did not have the resources—financial, organizational, and managerial—to enter all of them simultaneously and instead opted for a carefully considered, learning-based approach to market entry. During the first 5 years of its globalization (1991 to 1995), Wal-Mart concentrated heavily on establishing a presence in the Americas: Mexico, Brazil, Argentina, and Canada. This choice was motivated by the fact that the European market was less attractive to Wal-Mart as a first point of entry. The European retail industry was already mature, which meant that a new entrant would have to take market share away from an existing player. There were well-entrenched competitors such as Carrefour in France and Metro AG in Germany that would likely retaliate vigorously. Moreover, European retailers had formats similar to Wal-Mart's, which would have the effect of reducing Wal-Mart's competitive advantage. Wal-Mart might have overcome these difficulties by entering Europe through an acquisition, but the higher growth rates of the Latin American and Asian markets would have made a delayed entry into those markets extremely costly in terms of lost opportunities. In contrast, the opportunity costs of delaying acquisition-based entries into European markets were relatively small. Asian markets also presented major opportunities, but they were geographically and culturally more distant. For these reasons, as its first global points of entry, Wal-Mart chose Mexico (1991), Brazil (1994), and Argentina (1995), the countries with the three largest populations in Latin America.

By 1996, Wal-Mart felt ready to take on the Asian challenge. It targeted China, with a population of more than 1.2 billion inhabitants in 640 cities, as its primary growth vehicle. This choice made sense in that the lower purchasing power of the Chinese consumer offered huge potential to a low-price retailer like Wal-Mart. Still, China's cultural, linguistic, and geographical distance from the United States presented relatively high entry barriers, so Wal-Mart established two beachheads as learning vehicles for establishing an Asian presence. From 1992 to 1993, Wal-Mart agreed to sell low-priced products to two Japanese retailers, Ito-Yokado and Yaohan, that would market these products in Japan, Singapore, Hong Kong, Malaysia, Thailand, Indonesia, and the Philippines. Then, in 1994, Wal-Mart formed a joint venture with the C. P. Pokphand Company, a Thailand-based conglomerate, to open three Value Club membership discount stores in Hong Kong.

Once Wal-Mart had chosen its target markets, it had to select a mode of entry. It entered Canada through an acquisition. This was rational because Canada was a mature market—adding new retail capacity was unattractive—and because the strong economic and cultural similarities between the U.S. and Canadian markets minimized the need for much learning.

For its entry into Mexico, Wal-Mart took a different route. Because there were significant income and cultural differences between the U.S. and Mexican markets about which the company needed to learn, and to which it needed to tailor its operations, a greenfield start-up would have been problematic. Instead, the company chose to form a 50-50 joint venture with Cifra, Mexico's largest retailer, counting on Cifra to provide operational expertise in the Mexican market.

In Latin America, Wal-Mart targeted the region's next two largest markets: Brazil and Argentina. The company entered Brazil through a joint venture, with Lojas Americana, a local retailer. Wal-Mart was able to leverage its learning from the Mexican experience and chose to establish a 60-40 joint venture in which it had the controlling stake. The successful entry into Brazil gave Wal-Mart even greater experience in Latin America, and it chose to enter Argentina through a wholly owned subsidiary. This decision was reinforced by the presence of only two major markets in Argentina.

Global Competition's Changing Center of Gravity

The rapid emergence of a number of developing economies—notably the so-called BRIC countries (Brazil, Russia, India, and China)—is the latest development shaping the global competitive environment. The impact this development will have on global competition in the next decade is likely to be enormous; these economies are experiencing rates of growth in gross domestic product (GDP), trade, and disposable income that are unprecedented in the developed world. The sheer size of the consumer markets now opening up in emerging economies, especially in India and China, and their rapid growth rates will shift the balance of business activity far more than did the earlier rise of less populous economies such as Japan and South Korea and their handful of "new champions" that seemed to threaten the old order at the time.

This shift in the balance of business activity has redefined global opportunity. For the last 50 years, the globalization of business has primarily been interpreted as the expansion of trade from developed to emerging economies. Today's rapid rise of emerging economies means this view is no longer tenable—business now flows in both directions and increasingly from one developing economy to another. Or, as the authors of "Globality," consultants at the Boston Consulting Group (BCG), put it, business these days is all about "competing with everyone from everywhere for everything."[9]

The evidence that this latest shift in the global competitive landscape will have seismic proportions is already formidable. Consider, for example, the growing number of companies from emerging markets that appear in the *Fortune* 500 rankings of the world's biggest firms. It now stands at 62, mostly from the BRIC economies, up from 31 in 2003, and is set to rise rapidly. What is more, if current trends persist, emerging-market companies will account for one-third of the *Fortune* list within 10 years.

Look also at the recent sharp increase in the number of emerging-market companies acquiring established rich-world businesses and brands, proof that "globalization" is no longer just another word for "Americanization." For instance, Budweiser, the maker of America's favorite beer, was bought by a Belgian-Brazilian conglomerate. And several of America's leading financial institutions avoided bankruptcy only by being bailed out by the sovereign-wealth funds (state-owned investment funds) of various Arab kingdoms and the Chinese government.

Another prominent example of this seismic shift in global business is provided by Lenovo, the Chinese computer maker. It became a global brand in 2005, when it paid around $1.75 billion for the personal-computer business of one of America's best-known companies, IBM, including the ThinkPad laptop range. Lenovo had the right to use the IBM brand for 5 years, but dropped it 2 years ahead of schedule, such was its confidence in its own brand. It just squeezed into 499th place in the *Fortune* 500, with worldwide revenues of $16.8 billion last year and growth prospects many Western companies envy.

The conclusion is that this new phase of "globality" is creating huge opportunities—as well as threats—for developed-world multinationals and new champions from developing countries alike.

Globalization Pressures on Companies

Gupta, Govindarajan, and Wang identify five "imperatives" that drive companies to become more global: *to pursue growth, efficiency, and knowledge; to better meet customer needs; and to preempt or counter competition*.[10]

Growth

In many industries, markets in the developed countries are maturing at a rapid rate, limiting the rate of growth. Consider household appliances: in the developed part of the world, most households have, or have access to, appliances such as stoves, ovens, washing machines, dryers, and refrigerators. Industry growth is therefore largely determined by population growth and product replacement. In developing markets, in contrast, household penetration rates for major appliances are still low compared to Western standards, thereby offering significant growth opportunities for manufacturers.

Efficiency

A global presence automatically expands a company's scale of operations, giving it larger revenues and a larger asset base. A larger scale can help create a competitive advantage if a company undertakes the tough actions needed to convert scale into *economies of scale* by (a) spreading fixed costs, (b) reducing capital and operating costs, (c) pooling purchasing power, and (d) creating critical mass in a significant portion of the value chain. Whereas economies of scale primarily refer to efficiencies associated with supply-side changes, such as increasing or decreasing the scale of production, *economies of scope* refer to efficiencies typically associated with demand-side changes, such as increasing or decreasing the scope of marketing and distribution by entering new markets or regions or by increasing the range of products and services offered. The economic value of global scope can be substantial when serving global customers through providing coordinated services and the ability to leverage a company's expanded market power.

Knowledge

Foreign operations can be reservoirs of knowledge. Some locally created knowledge is relevant across multiple countries, and, if leveraged effectively, can yield significant strategic benefits to a global enterprise, such as (a) faster product and process innovation, (b) lower cost of innovation, and (c) reduced risk of competitive preemption. For example, Fiat developed Palio—its global car—in Brazil; Texas Instruments uses a collaborative process between Indian and U.S. engineers to design its most advanced chips; and Procter & Gamble's liquid Tide was developed as a joint effort by U.S. employees (who had the technology to suspend dirt in water), the Japanese subsidiary (who had the cleaning agents), and the Brussels operations (who had the agents that fight mineral salts found in hard water). Most companies tap only a fraction of the full potential in realizing the economic value inherent in transferring and leveraging knowledge across borders. Significant geographic, cultural, and linguistic distances often separate subsidiaries. The challenge is creating systematic and routine mechanisms that will uncover opportunities for knowledge transfer.

Customer Needs and Preferences

When customers start to globalize, a firm has little choice but to follow and adapt its business model to accommodate them. Multinationals such as Coca-Cola, GE, and DuPont increasingly insist that their suppliers—from raw material suppliers to advertising agencies to personnel recruitment companies—become more global in their approach and be prepared to serve them whenever and wherever required. Individuals are no different—global travelers insist on consistent worldwide service from airlines, hotel chains, credit card companies, television news, and others.

Competition

Just as the globalization of customers compels companies to consider globalizing their business model, so does the globalization of one or more major competitors. A competitor who globalizes early may have a first-mover advantage in emerging markets, greater opportunity to create economies of scale and scope, and an ability to cross-subsidize competitive battles, thereby posing a greater threat in the home market. The global beer market provides a good example of these forces at work. Over the past decade, the beer industry has witnessed significant consolidation, and this trend continued during 2008. On a pro forma basis, beer sales by the top 10 players now total approximately 65% of total global sales, compared to less than 40% at the start of the century. In recent major developments, the division of Scottish and Newcastle's business between Carlsberg and Heineken was completed during the first half of 2008, while InBev acquired Anheuser-Busch in November 2008. SABMiller and Molson Coors combined their operations in the United States and Puerto Rico on July 1, 2008, to form the new MillerCoors brewing joint venture.

Minicase 1.2. Chocolatiers Look to Asia for Growth[11]

Humans first cultivated a taste for chocolate 3,000 years ago, but for India and China this is a more recent phenomenon. Compared to the sweet-toothed Swiss and Brits, both of whom devour about 24 lbs (11 kg) of chocolate per capita annually, Indians consume a paltry 5.8 oz and the Chinese, a mere 3.5 oz (165 g and 99 g, respectively).

Western chocolate makers hungry for growth markets are banking on this to change. According to market researcher Euromonitor International, in the past 5 years, the value of chocolate confectionery sales in China has nearly doubled, to $813.1 million, while sales in India have increased 64%, to $393.8 million. That is a pittance compared to the nearly $35-billion European chocolate market. But while European chocolate sales are growing a mere 1% to 2% annually, sales in the two Asian nations show no sign of slowing.

European chocolatiers are already making their mark in China. The most aggressive is Swiss food giant Nestlé, which has more than doubled its Chinese sales since 2001 to an estimated $91.5 million—still a relatively small amount. It is closing in on Mars, the longtime market leader, whose sales rose 40% during the same period to $96.7 million.

Green Tea Kisses

Nestlé's Kit Kat bar and other wafer-type chocolates are a big hit with the Chinese, helping the Swiss company swipe market share from Mars. Italy's Ferrero is another up-and-comer. It has boosted China sales nearly 79% since 2001, to $55.6 million, drawing younger consumers with its Kinder chocolate line, while targeting big spenders with the upscale Ferrero Rocher brand. Indeed, its products are so popular that they have spawned Chinese knock-offs, including a Ferrero Rocher look-alike made by a Chinese company that Ferrero has sued for alleged counterfeiting. Despite those problems, the privately owned Ferrero has steadily gained market share against third-ranked Cadbury Schweppes, whose China sales have risen a modest 26% since 2001, to $58.6 million.

Until now, U.S.-based Hershey has been a relatively small player in China. But the company has adopted ambitious expansion plans, including hooking up with a local partner to step up its distribution and introducing green-tea-flavored Hershey Kisses to appeal to Asian tastes.

Attractively Packaged

Underscoring China's growing importance, Switzerland's Barry Callebaut, a big chocolate producer that supplies many leading confectioners, opened a factory near Shanghai to alleviate pressure at a Singapore facility that had been operating at capacity. The company also inaugurated a nearby Chocolate Academy, just 1 month after opening a similar facility in Mumbai, to train local confectioners and pastry chefs in using chocolate.

Unlike China's chocolate market, India's is dominated by only two companies: Cadbury, which entered the country 60 years ago and has nearly 60% market share, and Nestlé, which has about 32% market share. The two have prospered by luring consumers with attractively packaged chocolate assortments to replace the traditional dried fruits and sugar confectioneries offered as gifts on Indian holidays, and by offering lower-priced chocolates, including bite-sized candies costing less than 3 cents.

The confectionary companies have been less successful, though, at developing new products adapted to the Indian sweet tooth. In 2005, Nestlé launched a coconut-flavored Munch bar, and Cadbury introduced a dessert called Kalakand Crème, based on a popular local sweet made of chopped nuts and cheese. Both sold poorly and were discontinued.

What Is a Global Corporation?

One could argue that a global company must have a presence in all major world markets—Europe, the Americas, and Asia. Others may define globality in terms of how globally a company sources, that is, how far its supply chain reaches across the world. Still other definitions use company size, the makeup of the senior management team, or where and how it finances its operations as their primary criterion.

Gupta, Govindarajan, and Wang suggest we define corporate globality in terms of four dimensions: a company's market presence, supply base, capital base, and corporate mind-set.[12] The first dimension—*the globalization of market presence*—refers to the degree the company has globalized its market presence and customer base. Oil and car companies score high on this dimension. Wal-Mart, the world's largest retailer, on the other hand, generates less than 30% of its revenues outside the United States. The second dimension—*the globalization of the supply base*—hints at the extent to which a company sources from different locations and has located key parts of the supply chain in optimal locations around the world. Caterpillar, for example, serves customer in approximately 200 countries around the world, manufactures in 24 of them, and maintains research and development facilities in nine. The third dimension—*globalization of the capital base*—measures the degree to which a company has globalized its financial structure. This deals with such issues as on what exchanges the company's shares are listed, where it attracts operating capital, how it finances growth and acquisitions, where it pays taxes, and how it repatriates profits. The final dimension—*globalization of the corporate mind-set*—refers to a company's ability to deal with diverse cultures. GE, Nestlé, and Procter & Gamble are examples of companies with an increasingly global mind-set: businesses are run on a global basis, top management is increasingly international, and new ideas routinely come from all parts of the globe.

In the years to come, the list of truly "global" companies—companies that are global in all four dimensions—is likely to grow dramatically. Global merger and acquisition activity continues to increase as companies around the world combine forces and restructure themselves to become more globally competitive and to capitalize on opportunities in emerging world markets. We have already seen megamergers involving financial services, leisure, food and drink, media, automobile, and telecommunications companies. There are good reasons to believe that the global mergers and acquisitions (M&A) movement is just in its beginning stages—the economics of globalization point to further consolidation in many industries. In Europe, for example, more deregulation and the EU's move toward a single currency will encourage further M&A activity and corporate restructuring.

The Persistence of Distance

Metaphors such as "the world is flat" tend to suggest that distance no longer matters—that information technologies and, in particular, global communications are shrinking the world, turning it into a small and relatively homogeneous place. But when it comes to business, that assumption is not only incorrect; it is dangerous.

Ghemawat analyzes distance between countries or regions in terms of four dimensions—*cultural*, *administrative*, *geographic*, and *economic (CAGE)*—each of which influences business in different ways.[13]

Cultural Distance

A country's culture shapes how people interact with each other and with organizations. Differences in religious beliefs, race, social norms, and language can quickly become barriers, that is, "create distance." The influence of some of these attributes is obvious. A common language, for example, makes trade much easier and therefore more likely. The impact of other attributes is much more subtle, however. Social norms—the set of unspoken principles that strongly guides everyday behavior—are mostly invisible. Japanese and European consumers, for example, prefer smaller automobiles and household appliances than Americans, reflecting a social norm that highly values space. The food industry must concern itself with religious attributes—for example, Hindus do not eat beef because it is expressly forbidden by their religion. Thus, cultural distance shapes preference and, ultimately, choice.

Administrative or Political Distance

Administrative or political distance is created by differences in governmental laws, policies, and institutions, including international relationships between countries, treaties, and membership in international organizations (see Appendix A for a brief summary). The greater the distance, the less likely it is that extensive trade relations develop. This explains the advantage that shared historical colonial ties, membership in the same regional trading bloc, and use of a common currency can confer. The integration of the European Union over the last half-century is probably the best example of deliberate efforts to reduce administrative distance among trading partners. Bad relationships can increase administrative distance, however. Although India and Pakistan share a colonial past, a land border, and linguistic ties, their long-standing mutual hostility has reduced official trade to almost nothing.

Countries can also create administrative and political distance through unilateral measures. Indeed, policies of individual governments pose the most common barriers to cross-border competition. In some cases, the difficulties arise in a company's home country. For companies from the United States, for instance, domestic prohibitions on bribery and the prescription of health, safety, and environmental policies have a dampening effect on their international businesses. More commonly, though, it is the target country's government that raises barriers to foreign competition: tariffs, trade quotas, restrictions on foreign direct investment, and preferences for domestic competitors in the form of subsidies and favoritism in regulation and procurement.

Geographic Distance

Geographic distance is about more than simply how far away a country is in miles. Other geographic attributes include the physical size of the country, average within-country distances to borders, access to waterways and the ocean, topography, and a country's transportation and communications infrastructure. Geographic attributes most directly influence transportation costs and are therefore particularly relevant to businesses with low value-to-weight or bulk ratios, such as steel and cement. Likewise, costs for transporting fragile or perishable products become significant across large distances. Intangible goods and services are affected by geographic distance as well, as cross-border equity flows between two countries fall off significantly as the geographic distance between them rises. This is a direct result of differences in information infrastructure, including telephone, Internet, and banking services.

Economic Distance

Disposable income is the most important economic attribute that creates distance between countries. Rich countries engage in proportionately higher levels of cross-border economic activity than poorer ones. The greater the economic distance between a company's home country and the host country, the greater the likelihood that it must make significant adaptations to its business model. Wal-Mart in India, for instance, would be a very different business from Wal-Mart in the United States. But Wal-Mart in Canada is virtually a carbon copy of the U.S. Wal-Mart. An exception to the distance rule is provided by industries in which competitive advantage is derived from economic arbitrage, that is, the exploitation of cost and price differentials between markets. Companies in industries whose major cost components vary widely across countries, like the garment and footwear industries, where labor costs are important, are particularly likely to target countries with different economic profiles for investment or trade. Whether or not they expand abroad for purposes of replication or arbitrage, all companies find that major disparities in supply chains and distribution channels are significant barriers to business. This suggests that focusing on a limited number of geographies may prove advantageous because of reduced operational complexity. This is evident in the home-appliance business, for instance, where companies—like Maytag—that concentrate on a limited number of geographies produce far better returns for investors than companies like Electrolux and Whirlpool, whose geographic spread has come at the expense of simplicity and profitability.

Minicase 1.3. Computer Keyboards Abroad: QWERTZ Versus QWERTY

Anyone who has traveled to Austria or Germany and has used computers there—in cybercafes, offices, or at the home of friends—will instantly recognize this dimension of "distance": *their keyboards are not the same as ours*. Once-familiar letters and symbols look like strangers, and new keys are located where they should not be.[14]

Specifically, a German keyboard has a QWERTZ layout, that is, the "Y" and "Z" keys are reversed in comparison with the U.S.-English QWERTY layout. Moreover, in addition to the "normal" letters of the English alphabet, German keyboards have the three umlauted vowels and the "sharp-s" characters of the German alphabet. The "ess-tsett" (ß) key is to the right of the zero ("0") key. (But this letter is missing on a Swiss-German keyboard, since the "ß" is not used in the Swiss variation of German.) The u-umlaut (ü) key is located just to the right of the "P" key. The o-umlaut (ö) and a-umlaut (ä) keys are to the right of the "L" key. This means, of course, that the symbols or letters that an American is used to finding where the umlauted letters are in the German version turn up somewhere else. All this is enough to bring on a major headache.

And just where the heck is that "@" key? E-mail happens to depend on it rather heavily, but on the German keyboard, not only is it NOT at the top of the "2" key but it also seems to have vanished entirely! This is surprising considering that the "at" sign even has a name in German: *der Klammeraffe* (lit., "clip/bracket monkey"). So how do you type "@"? You have to press the "Alt Gr" key plus "Q" to make "@" appear in your document or e-mail address. Ready for the Excedrin? On most European-language keyboards, the right "Alt" key, which is just to the right of the space bar and different from the regular "Alt" key on the left side, acts as a "Compose" key, making it possible to enter many non-ASCII characters. This configuration applies to PCs; Mac users will need to take an advanced course. Of course, for Europeans using a North American keyboard, the problems are reversed, and they must get used to the weird U.S. English configuration.

Global Strategy and Risk

Even with the best planning, globalization carries substantial risks. Many globalization strategies represent a considerable stretch of the company's experience base, resources, and capabilities.[15] The firm might target new markets, often in new—for the company—cultural settings. It might seek new technologies, initiate new partnerships, or adopt market-share objectives that require earlier or greater commitments than current returns can justify. In the process, new and different forms of competition can be encountered, and it could turn out that the economics model that got the company to its current position is no longer applicable. Often, a more global posture implies exposure to different cyclical patterns, currency, and political risk. In addition, there are substantial costs associated with coordinating global operations. As a consequence, before deciding to enter a foreign country or continent, companies should carefully analyze the risks involved. In addition, companies should recognize that the management style that proved successful on a domestic scale might turn out to be ineffective in a global setting.

Over the last 25 years, Western companies have expanded their activities into parts of the world that carry risks far greater than those to which they are accustomed. According to Control Risks Group, a London-based international business consultancy, multinational corporations are now active in more than 100 countries that are rated "medium" to "extreme" in terms of risk, and hundreds of billions are invested in countries rated "fairly" to "very" corrupt. To mitigate this risk, companies must understand the specific nature of the relationship between corporate globalization and geopolitics, identify the various types of risk globalization exposes them to, and adopt strategies to enhance their resilience.

Such an understanding begins with the recognition that the role of multinational corporations in the evolving global-geopolitical landscape continues to change. The prevailing dogma of the 1990s held that free-market enterprise and a liberal economic agenda would lead to more stable geopolitical relations. The decline of interstate warfare during this period also provided a geopolitical environment that enabled heavy consolidation across industries, resulting in the emergence of "global players," that is, conglomerates with worldwide reach. The economy was paramount; corporations were almost unconstrained by political and social considerations. The greater international presence of business and increasing geopolitical complexity also heightened the exposure of companies to conflict and violence, however. As they became larger, they became more obvious targets for attack and increasingly vulnerable because their strategies were based on the assumption of fundamentally stable geopolitical relations.

In recent years, the term "global player" has acquired a new meaning, however. Previously a reference exclusively to an economic role, the term now describes a company that has, however unwillingly, become a *political* actor as well. And, as a consequence, to remain a global player today, a firm must be able to survive not only economic downturns but also geopolitical shocks. This requires understanding that risk has become an endemic reality of the globalization process—that is, no longer simply the result of conflict in one country or another but something inherent in the globalized system itself.

Globalization risk can be of a *political, legal, financial-economic*, or *sociocultural nature. Political risk* relates to politically induced actions and policies initiated by a foreign government. Crises such as the September 11, 2001, terrorist attacks in the United States, the ongoing conflict in Iraq and Pakistan, instability in the Korean peninsula, and the recent global financial crisis have made geopolitical uncertainty a key component of formulating a global strategy. The effect of these events and the associated political decisions on energy, transportation, tourism, insurance, and other sectors demonstrates the massive consequences that crises, wars, and economic meltdowns, wherever and however they may take place, can have on business.

Political risk assessment involves an evaluation of the stability of a country's current government and of its relationships with other countries. A high level of risk affects ownership of physical assets and intellectual property and security of personnel, increasing the potential for trouble. Analysts frequently divide political risk into two subcategories: *global* and *country-specific risk*. *Global risk* affects all of a company's multinational operations, whereas *country-specific risk* relates to investments in a specific foreign country. We can distinguish between *macro* and *micro* political risk. *Macro risk* is concerned with how foreign investment in general in a particular country is affected. By reviewing the government's past use of *soft* policy instruments, such as blacklisting, indirect control of prices, or strikes in particular industries, and *hard* policy tools, such as expropriation, confiscation, nationalization, or compulsory local shareholding, a company can be better prepared for potential future government action. At the *micro* level, risk analysis is focused on a particular company or group of companies. A weak balance sheet, questionable accounting practices, or a regular breach of contracts should give rise to concerns.

Legal risk is risk that multinational companies encounter in the legal arena in a particular country. Legal risk is often closely tied to political country risk. An assessment of legal risk requires analyzing the foundations of a country's legal system and determining whether the laws are properly enforced. Legal risk analysis therefore involves becoming familiar with a country's enforcement agencies and their scope of operation. As many companies have learned, numerous countries have written laws protecting a multinational's rights, but these laws are rarely enforced. Entering such countries can expose a company to a host of risks, including the loss of intellectual property, technology, and trademarks.

Financial or economic risk in a foreign country is analogous to operating and financial risk at home. The volatility of a country's macroeconomic performance and the country's ability to meet its financial obligations directly affect performance. A nation's currency competitiveness and fluctuation are important indicators of a country's stability—both financial and political—and its willingness to embrace changes and innovations. In addition, financial risk assessment should consider such factors as how well the economy is being managed, the level of the country's economic development, working conditions, infrastructure, technological innovation, and the availability of natural and human resources.

Societal or cultural risk is associated with operating in a different sociocultural environment. For example, it might be advisable to analyze specific ideologies; the relative importance of ethnic, religious, and nationalistic movements; and the country's ability to cope with changes that will, sooner or later, be induced by foreign investment. Thus, elements such as the standard of living, patriotism, religious factors, or the presence of charismatic leaders can play a huge role in the evaluation of these risks.

Points to Remember

1. Although we often speak of global markets and a "flat" world, in reality, the world's competitive structure is best described as semi-global. Bilateral and regional trade and investment patterns continue to dominate global ones.
2. The center of gravity of global competition is shifting to the East, with China and India taking center stage. Russia and Brazil, the other two BRIC countries, are not far behind.
3. Global competition is rapidly becoming a two-way street, with new competitors from developing countries taking on traditional companies from developed nations everywhere in every industry.
4. Companies have several major reasons to consider going global: to pursue growth, efficiency, and knowledge; to better meet customer needs; and to preempt or counter competition.
5. Global companies are those that have a global market presence, supply-chain infrastructure, capital base, and corporate mind-set.
6. Although we live in a "global" world, distance still very much matters, and companies must explicitly and thoroughly account for it when they make decisions about global expansion.
7. Distance between countries or regions is usefully analyzed in terms of four dimensions: *cultural*, *administrative*, *geographic*, and *economic*, each of which influences business in different ways.
8. Even with the best planning, globalization carries substantial risks. Globalization risks can be of a *political, legal, financial-economic*, or *sociocultural nature*.