

PHILIPPE LASSERRE | FELIPE MONTEIRO



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MANAGEMENT

B L O O M S B U R Y

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'This book offers comprehensive treatment of contemporary global strategy, including coverage of born globals, emerging markets and open innovation, topics on which Monteiro is a leading authority. By highlighting the Sustainable Development Goals and the need for a post-Covid-19 'green recovery', the text equips business leaders of the future for the Decade of Action and beyond.'

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– [Karlheinz Schwuchow](#), **Hochschule Bremen University of Applied Sciences, Germany**

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Philippe Lasserre and
Felipe Monteiro

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Philippe Lasserre:

Pour mes enfants Virginie, Benoit, Marion, mes petits-enfants Abigail, Noé, Hélió,
mon arrière-petite-fille Brianna, ma compagne Aline et à la mémoire de Michelle

*Oh! combien de marins, combien de capitaines
Qui sont partis joyeux pour des courses lointaines ...*

Victor Hugo, *Oceano Nox* (1840)

Felipe Monteiro:

Para minha esposa Mariana, meus filhos Bernardo e Clara,
minha mãe Carmen e em memória do meu pai Luiz Felipe

Navegar é preciso; viver não é preciso

Fernando Pessoa

About the Authors

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Mini-cases and examples

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Examples				
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13 Global Human Resource Management	13.1	Appointing a divisional manager in France	Switzerland/ France	483
13 Global Human Resource Management	13.2	ABB's localization programme in China in the late 1990s	Sweden/ Switzerland/ China	504
14 Designing a Global Organisation	14.1	Evolution of two global organizations: Unilever and Procter & Gamble	UK/ Netherlands/ US	523
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14 Designing a Global Organisation	14.5	Matrix organizations – Olam and BASF	Nigeria/ Germany	536
14 Designing a Global Organisation	14.6	Strategy and organizational structure: IBM from the 1990s to the 2020s	US	542
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15 Current and Future Trends in GSM	15.1	The Millennium Project	US/Global	578
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Tour of the book

Chapter 1

Globalization of markets and competition

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
- Analyse the recent trend of deglobalization
- Discuss the consequences of the Covid-19 pandemic on globalization
- Position an industry or a business on the global/multi-local mapping



1 **Chapter introductions and learning objectives** | provide a guide to the material in each chapter and allow progress to be checked.

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.

MINI-CASE 1.1

Pharmaceutical industry: a global and local industry

The discovery and crafting of drugs dates back to antiquity, however, small scale production began in the late eighteenth century. This was followed in the mid-nineteenth century by mass production and the founding of firms including Merck, Squibb, Upjohn, Pfizer and Eli Lilly in the USA; Sandoz, Hoffman LaRoche in Switzerland; Bayer, Hoechst in Germany; Beecham, Wellcome in the UK; and Clin-Byla in France. At the beginning of the twentieth

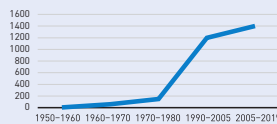


Figure 1.13 Total cost of drug development (average US\$ m)
Source: Author's calculation from Wouters, McKee and Luysens (2020).

3 **Inserts** | provide additional information that expands upon and contextualizes key information.

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 5,000 workers (half their total effort) to produce computer

Table 1.1 Globalization data

	US \$bn Current Price					Average Growth rate
	1990	2000	2010	2019	2020	
World GDP (US \$bn)	22800	33700	66200	87600	84700	5.10%
Gross Capital formation	5880	8150	16200	23000	na	5.20%
Trade (Export of goods and Services)	4300	7940	22900	24800	22600	6.90%
Foreign Direct Investments (Inward Stock)	2196	7377	19899	36377	41354	11%
Foreign Direct Investments (Inflows)	205	1356	1393	1530	999	10%
Cross Border Mergers and Acquisitions (Value)	98	960	347	423	379	18%
Sales of Foreign Affiliates	7615	17000	32960	33200*	na	8.43%
Royalties and Licences fees	31	75	191	427*	na	9.80%
Employment of Foreign Affiliates (Thousand)	30860	54000	62900	85500	na	5.40%
Daily Foreign Exchange Transactions (US \$bn)	539	1240	3972	6592	na	9%

Source: Authors' own, based on data from World Bank, World Development Indicators: <https://databank.worldbank.org/source/world-development-indicators>; UNCTAD: <https://unctad.org/statistics>; BIS (Bank of International Settlements): <https://www.bis.org/statistics/pxfx19.htm?m=6%7C381%7C677>

4 **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 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

5 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.

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:
 - Political: liberalization of trade and investment reduces trade barriers
 - Technological: technology reduces the cost of coordination and increases economies of scale
 - Social: convergence of customer choices encourages standardization and global branding
 - Competitive: emergence of new competitors induces integration companies to compete on all fronts with strong coordination

6 Summary and key points | provide an abbreviated version of the main concepts and theories. They are useful for revision and checking understanding of the key points.

Learning assignments

- 1 Among the enterprises that you know, can you identify one that qualifies as a global company? Why?
- 2 In Figure 1.9, 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 retail is positioned as a local business, with a very low globalization score. However, in the press, companies like Tesco, Walmart or Carrefour are described as 'global retailers'. Explain this discrepancy.
- 4 What are the social factors that have pushed for globalization, and which have been pushing against it?

7 Learning assignments | test understanding of the chapter and encourage further thought.

8 Key words | appear at the end of each chapter and can be used as checklists for revision.

Key words

- Arbitrage benefits
- Comparative advantage
- Global companies
- Global industries
- Global/multi-local mapping
- Globalization
- International product life cycle
- Multinational companies

9 Web resources | are included for students who want to delve a little further.

Web Resources

INSEAD:
<http://knowledge.insead.edu/>
Businessweek magazine:
<https://www.bloomberg.com/businessweek>
McKinsey Quarterly:
<http://www.mckinseyquarterly.com/>
 UNCTAD:
<http://unctad.org/en/Pages/Home.aspx>

Boston Consulting Group:
<https://www.bcgperspectives.com/>
 Provides information about the WTO:
<http://www.wto.org/>
 Provides statistics and papers from the IMF:
<http://www.imf.org/>
<https://www.globaltradealert.org/>

References and further reading**Books and articles**

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10 References and further reading | identify key texts for further research and include books and journal articles.

Companion website

Visit the companion website at bloomsbury.pub/global-strategic-management-5e for a range of teaching and learning resources including:

Global Strategic Management 5th Edition by Philippe Lasserre and Felipe Monteiro

Home
Instructor Resources
Student Resources

Seamlessly blending academic rigour and practicality, this textbook provides an introduction to global business strategy. Assuming a born global perspective, *Global Strategic Management* is supported by ample pedagogical features, including numerous case studies and examples featuring both established multinationals and unknown SMEs from across the globe.

The book takes an applied approach to global business strategy, emphasising functional parts of international business (managing marketing, operations, HR and finance). New to this fifth edition is increased material on sustainability and corporate social responsibility, including discussion of climate change, NGOs and sustainable development goals. Subjects such as the impact of technology, cryptocurrency and global strategy in the digital space are discussed in more detail.



For instructors:

- Microsoft® PowerPoint presentations for each chapter
- Answers to mini-case questions
- Answers to learning assignments
- A testbank of multiple choice and essay questions
- Videos illustrating issues covered in the chapters of the book

For students:

- Multiple choice questions for revision
- Appendices

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Introduction to the fifth edition

The fifth edition of this book was prepared from 2020 to mid 2022, a time in which the Covid-19 pandemic severely impacted economic, social and health conditions. More than 500 million people were infected with the Coronavirus and more than 6.3 million people have died as of June 2022. In early 2022 Russia invaded Ukraine affecting global trade and investments and disrupting global supplies.

Those events have triggered large-scale government support for businesses and industries and the recovery presents a unique occasion to rethink and reset priorities when rebuilding, focusing efforts on the sustainability, resilience and inclusiveness aspects of governments' policies and businesses' strategies and actions.

During this unprecedented time, businesses adapted rapidly to both changes in consumers' behaviours and a shift to remote working, rapidly deploying digital systems to accommodate these changes. The general consensus is that the move to digital, hybrid ways of working and work from everywhere trends are likely to persist even after the pandemic subsides.

Covid-19 has brought globalization front and centre of the debate, highlighting interconnectedness (the virus went global in a few weeks) and deglobalization (the difficulties in international cooperation and the re-emergence of nationalisms in the provision of vaccines, medical supplies, protective masks, etc.). The pandemic and the Ukrainian war have also highlighted the interdependence of global production and supply chains, as well as the risks and fragilities that they are exposed to, forcing multinationals to revise their localization and procurement strategies to gain resilience in the current uncertain environment.

Furthermore, a resurgence of several forms of nationalism in Russia, Turkey, China, Central Europe and the USA have given a new momentum to protectionism. The European Union itself, one of the most ambitious international integrative organizations, showed some signs of both disillusion and dissolution, with Brexit being the most notorious example. Even the emerging world is experiencing some economic slowdown. As a response to the Russian invasion of Ukraine in early 2022, Western democracies, lead by the US, UK and EU, imposed a series of economic and financial sanctions against Russia that affected global trade and finances in energy, food and disrupted global supply chains. In spite of 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 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.

On the technological front, the recent period has seen confirmation that the world has fully entered into a digital era that permeates nearly all segments of human activities: health, industrial production, entertainment, communication research and development and more.

This new edition considers that globalization is still an ongoing, fundamental economic phenomenon, but tries to take into consideration the above-mentioned geopolitical, technological and climatic trends. The objectives of this edition are to help students and managers to understand the forces that drive globalization and to put together all aspects of global strategic management to provide firms with the relevant skills to support their global ambitions. It is still about global firms and global management. Its objective remains to help graduate and undergraduate students to understand the main issues that companies and their managers confront when they 'go global' or 'manage globally', and how 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 courses 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?

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 'centres' 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 and more 'born global' companies and small and middle-sized firms have improved their global presence.

Some chapters have been strengthened to deal with the new reality of multinational corporations as they put environmental, social and corporate governance (ESG) at the front and centre of their strategies and operations.

New sections have been added to emphasize the role of digital technologies, which have revolutionized consumer behaviours, impacted core business models and blurred borders between industries and sectors. In the case of multinational corporations, these disruptive digital tools have also enabled

productive and innovative networks, supply chain management and marketing of products and services at a distance. The chapter on global alliances has been augmented with references to global ecosystems.

This edition, like the previous ones, is inspired largely by 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 analyse the key strategic and managerial challenges for firms, but does not pretend to be exhaustive or encyclopaedic. Many theoretical developments have been deliberately omitted: transaction costs theory, locational theory and agency theory, for instance. We have also avoided the temptation to provide long lists of publications. Instead, we have concentrated solely on the most relevant literature in each discussion. A more extensive list of references and further reading is available at the end of each chapter.

Several Examples and Mini-cases have been inserted in the chapters in order to illustrate the points made in the text. In addition, a number of online appendices can be found on the companion website, which provide further information on cryptocurrency, global/local mapping, country profiles, government support programs, globalization indices, country comparisons, cash flow adjustment, different types of risk, organizational design and scenario construction. These can be accessed and downloaded via the companion website, at **bloomsbury.pub/global-strategic-management-5e**.

Finally, the book owes a considerable debt to the work done by professors or ex-professors at INSEAD Business School, and has favoured their works rather than those of others. This has been a deliberate choice, given the long-standing involvement of the authors 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 16) tie up the arguments presented in that structure.

How can this book be used?

This book can be used in three ways:

- 1 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.
- 2 As background reading for a course based on case studies. To that end Appendix I.1 (see companion website) lists potential cases that can be used to support each chapter of the book. Those cases

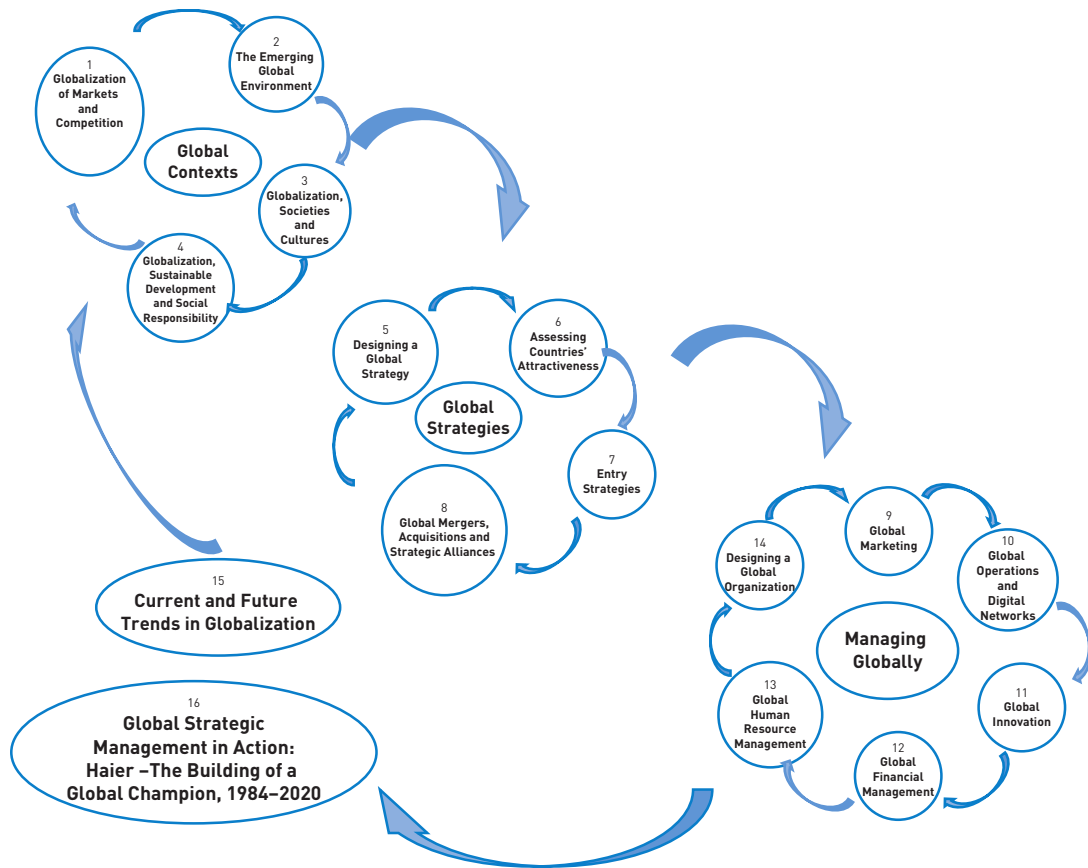


Figure 0.1 Structure of the book

are available from the most important case platforms, such as INSEAD Publishing, Harvard Business School Publishing and The Case Center. There are also some excellent casebooks available.²

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

Notes

- 1 Inkpen and Ramaswamy (2006); Tallman (2009); Peng (2021).
- 2 De la Torre, Doz and Devinney (2001); Bartlett and Ghoshal (2002).

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[http://onlinelibrary.wiley.com/journal/10.1002/\(ISSN\)1520-6874](http://onlinelibrary.wiley.com/journal/10.1002/(ISSN)1520-6874)

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 terms of the ways economic activities are structured, coordinated and managed, and how cultures influence the behaviour 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, labour laws and gender equality.

Chapter 1

Globalization of markets and competition

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
- Analyse the recent trend of deglobalization
- Discuss the consequences of the Covid-19 pandemic on 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 'international', then 'multinational' and finally 'global'. Using 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. Both the benefits and constraints of globalization are described. Some factors still push towards a local approach to management, on a country-by-country basis, and the elements inducing this localization are analysed.

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 and Figure 1.1). More products are sold in similar stores, with similar features 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. This is what is commonly referred to as the process of 'globalization'.

Table 1.1 Globalization data

	US\$ bn Current Price					Average
	1990	2000	2010	2019	2020	Growth Rate
World GDP (US \$bn)	22800	33700	66200	87600	84700	5.10%
Gross Capital Formation	5880	8150	16200	23000	na	5.20%
Trade (Export of Goods and Services)	4300	7940	22900	24800	22600	6.90%
Foreign Direct Investments (Inward Stock)	2196	7377	19899	36377	41354	11%
Foreign Direct Investments (Inflows)	205	1356	1393	1530	999	10%
Cross Border Mergers and Acquisitions (Value)	98	960	347	423	379	18%
Sales of Foreign Affiliates	7615	17000	32960	33200*	na	8.43%
Royalties and Licence fees	31	75	191	427*	na	9.80%
Employment of Foreign Affiliates (Thousand)	30860	54000	62900	85500	na	5.40%
Daily Foreign Exchange Transactions (US \$bn)	539	1240	3972	6592	na	9%

Source: Authors' own, based on data from World Bank, World Development Indicators: <https://databank.worldbank.org/source/world-development-indicators>; UNCTAD: <https://unctad.org/statistics>; BIS (Bank of International Settlements): <https://www.bis.org/statistics/rpfx19.htm?m=6%7C381%7C677>.

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. 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

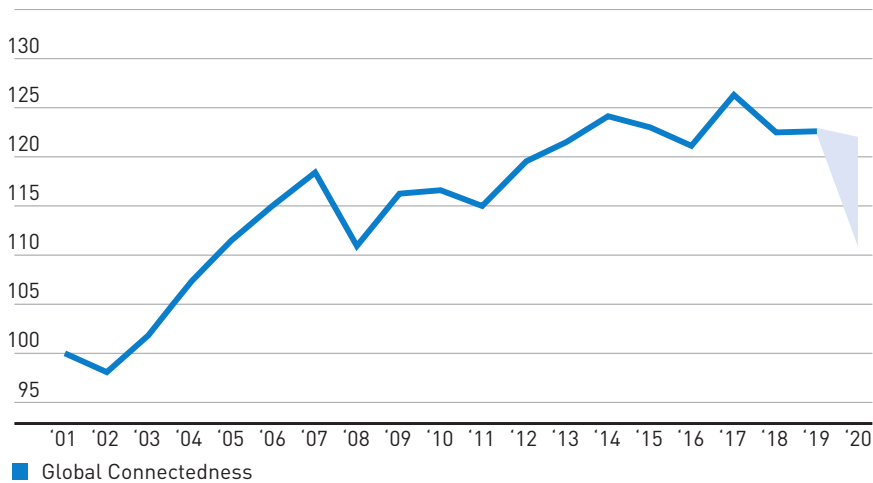


Figure 1.1 DHL Global Connectedness Index

Source: The Global Connectedness Index is a combination of measures concerning the global movement of trade, capital, Information and people, <https://www.dhl.com/content/dam/dhl/global/dhl-spotlight/documents/pdf/spotlight-g04-global-connectedness-index-2020.pdf>.

describes macroeconomic 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 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 (see 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 'transnational'. 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 fifty years ago. The global concept appeared in the early 1970s and progressively invaded boardrooms, classrooms and business literature. What is the exact meaning of globalization? What forces generated it? And what are the consequences for firms?

There is no single, 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 centres to be (re)located to more economical places, and for R&D labs 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 advantage of the new opportunities this environment offers.

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 5,000 workers (half their total effort) to produce computer motherboards and 5,000 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 500,000 consoles, marking an 11 per cent 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 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 Holcim Group, Apple and 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 conducted 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.

The *World 3.0* 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 transactions, 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 postwar 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).

The Eclectic (OLI) theory of International production asserts that internationalization of firms is determined by three sets of forces: the ownership of a competitive advantage (O), the location of an attractive external country where to invest (L) and the benefits of internalizing the operations (I) (Dunning 2001).

The Uppsala model of Internationalization (Johnson and Vahine 1977) proposes that the process of internationalization is a process of gradual resources commitments based on the knowledge about foreign markets possessed by a firm and the perceived risks and opportunities.

Globalization from a macro perspective

Historically the world has experienced various periods of intense trade across continents and free movement of people and capital (see Insert 1.2), 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

Insert 1.2 History of globalization

In a book published in 2020, Jeffrey Sachs, from Columbia University, states that 'Humanity has always been globalized, since the dispersal of modern humans from Africa some seventy thousand years ago'.⁵ He identifies seven distinct periods (ages) of globalization determined by the interplay of three major sets of factors: Geography, Institutions and Technology, and Know-how. The seven ages are:

- 1** Paleolithic (70,000–10,000 BCE): When the migration from the African nest of Homo sapiens reached sites along the Middle East coastal areas.
- 2** Neolithic (10,000–3000 BCE): Further global expansion in this period is linked with the development of agriculture progressively replacing hunting and allowed the settlement of population in the temperate zones of Europe and the Middle and Far East.
- 3** Equestrian (3000–1000 BCE): Fostered by the progressive domestication of animals (goat, camel, sheep, cattle, horses). The horse allowed the transport of goods on long distances and permitted the migrations and trade to northern Europe, India and China.
- 4** Classical (1000 BCE–1500 CE): Fostered by the creation of empires motivated by political and/or religious motives. Mongols, Roman, Assyrian, Persian, Greek, Arab, Ottoman empires are examples of such cultural, economic global developments.
- 5** Ocean (1500–1800 CE): The development of trans-oceanic sailing vessels initiated the Spanish and Portuguese implantation in America and Asia followed by British, Dutch and French explorers, creating the first global capitalism and colonialism illustrated by the advent of global trading houses.
- 6** Industrial (1800–2000 CE): The steam engine was the initiator of industrialization in Britain in the nineteenth century, which cumulated with the technological development of communication, transport and the expansion of the multinational firms.
- 7** Digital (twenty-first century): The global connectivity of the internet and artificial intelligence offers multiple possibilities for designing new global transactions reinforcing the world.

What are the factors that push for globalization?

Political factors: liberalization of trade and investments

The main political factor has been the stabilization of postwar peace in Organisation for Economic Cooperation and Development (OECD) countries, which allowed the development of free trade among nations. Two main organizations have been the source of trade liberalization – the General

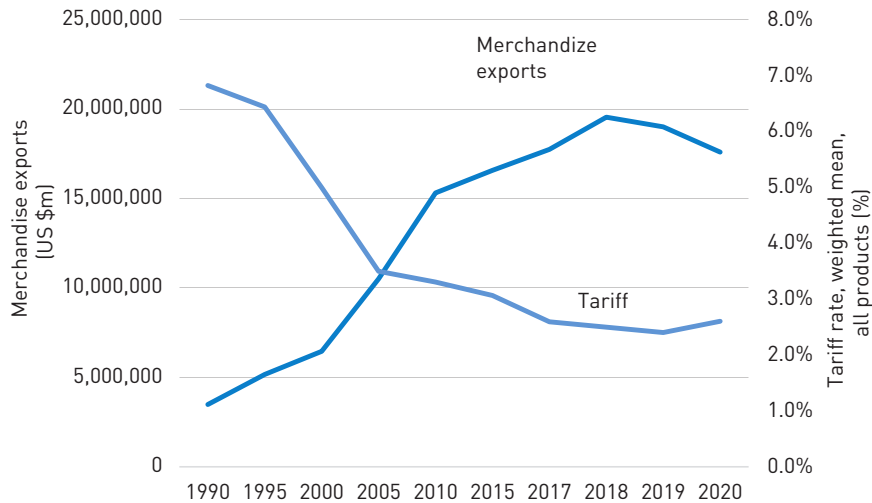


Figure 1.2 Tariff reductions and international trade

Source: Authors' creation using data from various World Bank Indicators.

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 twenty-three 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 1.2.

The European Economic Community (EEC), later subsumed by the European Union (EU), 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 EEC 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 nineteen countries, and passport-free travelling without any border controls was allowed between twenty-six 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. In 2020 the UK Left the European Union.

In addition, from 1948 to 2020 the number of preferential trade agreements (PTA) and regional trade agreements (RTA) notified to the GATT/WTO increased from practically none to around 600 in 2020 with

Insert 1.3 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, telecommunications, appliances, power generation, insurance and corporate data transmission are examples of global industries. 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 Samsung are global companies.

'Born global' companies have become multinational immediately upon or soon after being founded. Examples of born global companies include Airbnb, Netflix, Spotify and Uber.

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 centres and marketing teams; global account management demands that different country subsidiaries provide a service according to a plan negotiated centrally, and so on.

an acceleration in the twenty-first century. In particular from 2008, more than 300 PTA and RTAs were notified to the WTO, including the United Kingdom's post-Brexit generalized systems of preferences in January 2021.

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, favouring cross-border investments. According to the WTO, between 1958 and May, 2021 3,760 Bilateral Investment Treaties (BIT) that promote and protect investment in two respective countries or block of countries were signed and 2,298 are still in force.

Technological factors: transport, communication, education, science and production technology

Another set of 'push factors' for globalization are related to technological progress, which has 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 logistics have reduced the cost of shipping goods from country to country, as well as, in the case of air transport, enabling the travel of business managers. The development of telecommunications has reduced the cost of information exchange between business units scattered around the globe. On the scientific front, from 2005 to 2018 the percentage of foreign university-level students studying in OECD countries increased from 5 per cent to 9 per cent.⁶

Progress in manufacturing technology has given 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 also been able to source components or services from low-cost countries, either by setting up their own operations or by purchasing locally. Global value chains involving production of goods in two or more countries grew from 10 per cent of world GDP in 2000 to 14 per cent in 2017.⁷

Another motivating factor behind globalization is the need to quickly amortize increasing R&D costs. Companies are confronted with dual pressures: R&D budgets are increasing and the time elapsing between invention and commercialization is becoming shorter. For instance, it took fifty-two 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 model lasted five years.⁸ As a consequence, companies need to launch products and services at the same time in all major markets 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 online transactions that constitute the backbone of global communities today. During the Covid-19 pandemic, the global aspect of technology has been further demonstrated by the unprecedented global scientific cooperation necessary to develop new vaccines.

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's or Coca-Cola are known nearly everywhere. Kenichi Ohmae,⁹ in his book *Triad Power*, has discussed the 'Californization of society' – teenagers in São Paulo, Mumbai, Milan or Los Angeles listening to the same music, using the same iPhone, wearing the same pair of blue jeans and using TikTok, Instagram and YouTube. The convergence of customer behaviour 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, and later Korean, firms adopted a global approach at the very beginning of their international expansion. One of the reasons behind this global outlook was that they did not have many national subsidiaries, while their international expansion coincided with the opening of trade barriers. From the start 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.

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.

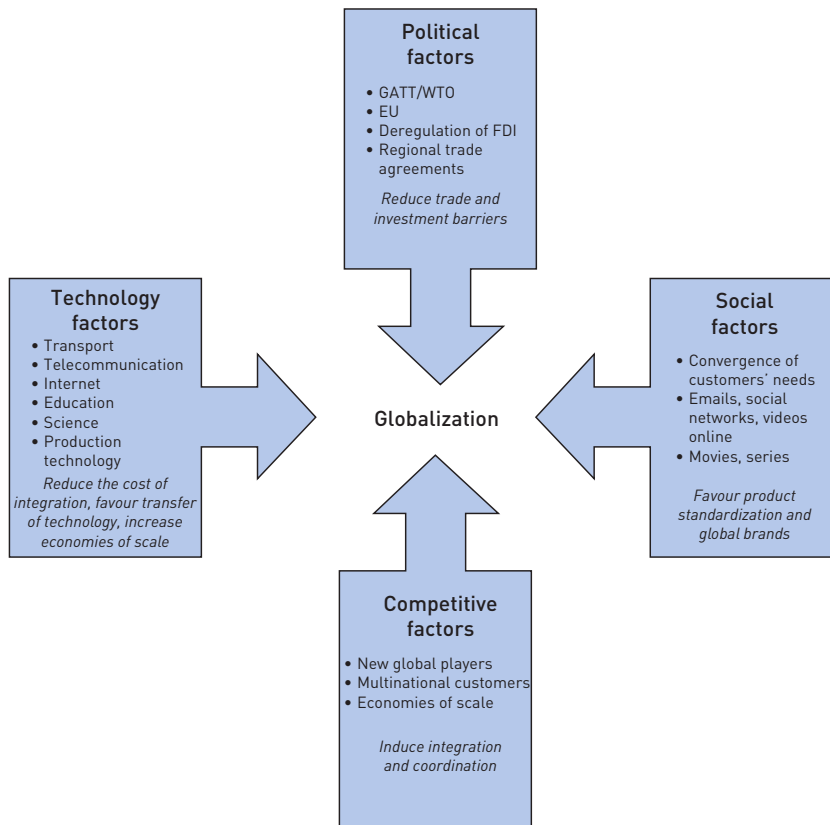


Figure 1.3 Globalization push factors

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, behaviour 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 consumption of which was typically a Burgundian and Parisian bistro event before the 1970s, is now available in Tokyo, Paris or New York; 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 and Latin American regions, 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 telephone services, hospitals, entertainment and 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 and 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 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 175 fulfilment centres 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 moulding, 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. 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 favour 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 blocs (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 World Trade Center attack in New York and similar incidents in London, Madrid, Moscow, Beirut, Nairobi and Paris, governments have adopted measures that constrain the movement of people and products. Security has become the chief priority.

Recent geopolitical issues, translated into commercial wars, have affected the globalization process. One can give as an example the constraints put on Huawei's development of its 5G network, the ban on export to Iran imposed by the USA and the economic and financial sanctions imposed on Russia in 2022.

Finally the Covid-19 pandemic and the Russian invasion of Ukraine have illustrated the fragility of global value chains in pharmaceutical energy, food, or semiconductor products. For instance, the production of medical masks is concentrated in China and this generated a shortage in the USA and Europe, leading these countries to relocalize production domestically.

Figure 1.4 summarizes these localization push factors.

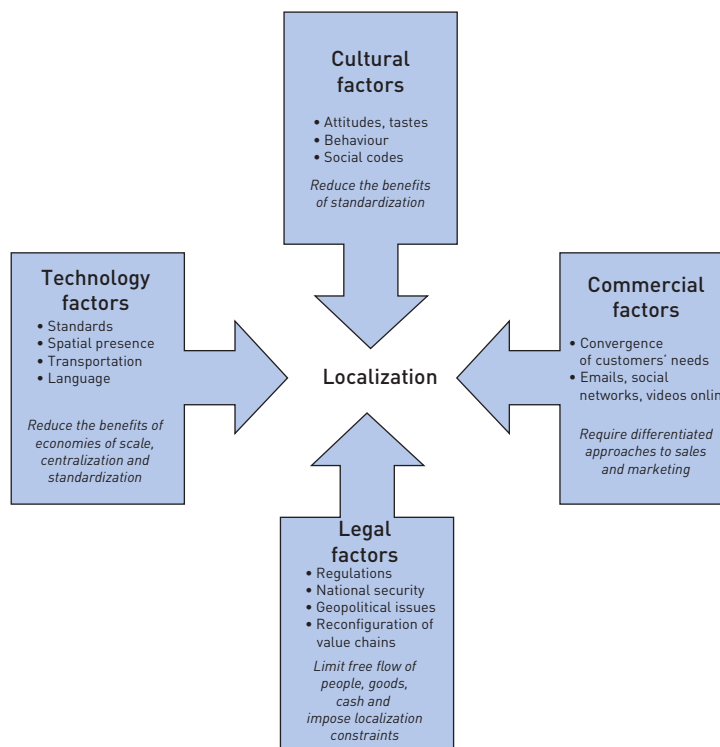


Figure 1.4 Localization push factors

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 and increased resilience in case of global shocks (e.g. pandemics).

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 advantage¹⁰ 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 advantages and disadvantages of globalization for society. Table 1.2 summarizes those arguments.

Table 1.2 The societal benefits of globalization

Arguments in favour of globalization	Arguments against globalization
Creates overall wealth for all nations because specialization increases trade	Imposes a massive strain on labour forces both in developed countries (job destruction) and developing countries (sweatshops, child labour)
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 have announced the 'end of globalization' or 'deglobalization': a concept that will be discussed later in the chapter.

Despite all this political turmoil, some analysts think that the world is becoming progressively more integrated. According to the consulting firm McKinsey,¹¹ by 1997 the value of truly global markets represented approximately \$6 trillion out of a total world output of \$28 trillion (21 per cent). In 1999, the firm anticipated that by 2030 the proportion of global markets would amount to \$73 trillion out of \$91 trillion (80 per cent). However, there is an ongoing debate about the future of globalization (see Chapter 15), fuelled by the pandemic that struck the world in 2020 and the Russian invasion of Ukraine in early 2022.

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.¹² 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.¹³ 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' 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 for over five decades, since the early 1900s. It corresponds to what was referred to 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 six regional organizations, with 200 factories and twelve engineering facilities.

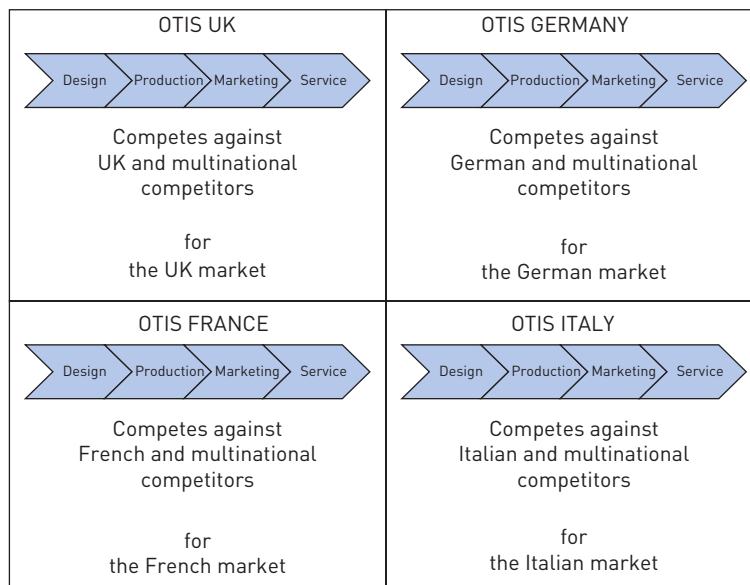


Figure 1.5 A multinational competitive configuration – Otis Elevators in the 1960s

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 centres and factories were specialized and interdependent.

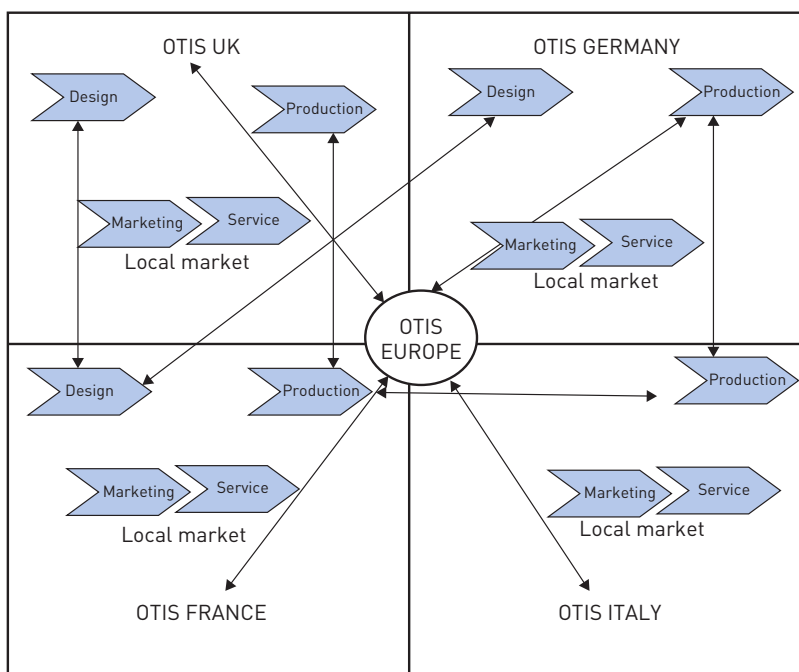


Figure 1.6 A global competitive configuration – Otis today

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 per cent of the European market, while limiting penetration from Japanese corporations which were rapidly expanding and succeeding internationally. If Otis had not adopted the regional strategy it would have been uncompetitive 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 1.3, 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 regions and countries.

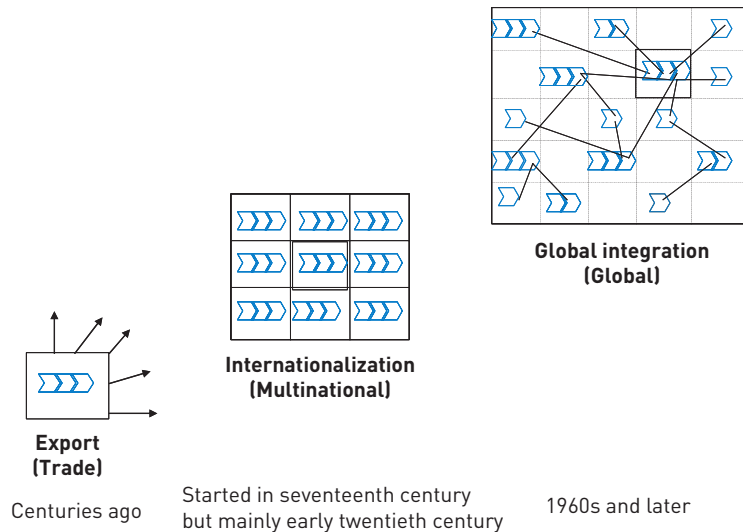


Figure 1.7 The three steps in globalization

Globalization called into question: deglobalization

From a historical perspective, the globalization phenomena experienced at the end of the twentieth century were not new. Some economic historians have observed that at the end of the nineteenth century the world was more 'global' than it is today. Obviously, the state of affairs was different: global powers such as Britain, France and the United States were globalized because of their colonial influence. Trade barriers were limited, and people, money and goods moved easily across borders. Nationalism, epitomized by the First and Second World Wars, provoked protectionism and restriction of exchange. Then postwar technological, political and economic factors, as described previously, reintroduced globalization and generated new management paradigms. But at the dawn of the twenty-first century, while globalism seemed triumphant, some dissonant voices are increasingly calling into question the concept of a borderless, free-market, monocultural world after the financial 'subprime' crisis, Covid-19 pandemic and

more recently Russia's invasion of Ukraine; there has been an increasing number of arguments stating that the world is entering a period of de-globalization.¹⁶ Table 1.2 summarizes those arguments.

The globalization debate gained political visibility during the 1990s. The *dissenting* voices are still increasing in the countries that have benefited the most from globalization – the OECD countries – and their point of view can be best summarized by Rodrik:¹⁷

- 'First, reduced trade barriers and investment accentuate the asymmetry between the groups that can cross international borders (either directly or indirectly, say via outsourcing) and those that cannot.' These semi-skilled and unskilled workers can be replaced by other cheaper workers abroad. This undermines the social fabric in the developed world.
- 'Second, globalization engenders conflicts within and between nations over domestic norms and the social institutions that embody them' (such as pension funds, social security, values and culture).
- 'Third, globalization has made it increasingly difficult for governments to provide social insurance.' The welfare state is under attack.
- 'The question therefore is how the tension between globalization and the pressures for socialization of risks can be eased. If the tension is not managed intelligently and creatively, the danger is that the domestic consensus in favour of open markets will ultimately erode to the point where a generalized resurgence of protectionism becomes a serious possibility.'

From a macroeconomic point of view, deglobalization is characterized by the decrease or slowing down of growth in international flow of trade, investment, capital and people migration (Figures 1.8, 1.9 and 1.10). Figure 1.10 presents the Global Trade barometer, an indicator established by DHL, the logistics company. It shows that from 2011–2019 international trade growth declined following the 'subprime' crisis, then regained momentum up to 2017 but declined again since to become negative.

From a political viewpoint deglobalization is materialized by the upsurge of economic nationalism, leading to trade disputes and discriminatory measures. Economic and political factors are interrelated: international trade declines negatively affect the desire for MNCs to invest in foreign lands and consequently impact on capital flows and migrant workers.¹⁸

Altogether these deglobalization trends can be due to the combination of several factors:

- a A slowdown in global demand
- b Protectionist policies
- c Calamities such as wars, pandemics and industrial hazards in key countries
- d Societal scepticism about the benefits of globalization (caused by the unequal distribution of benefits of growth and rising inequalities, the loss of cultural identity and the inability to influence decisions).

The Covid-19 pandemic crisis and the invasion of Ukraine in 2022 fuelled a resurgence of nationalism all over the world. Economic nationalism was epitomized by the policy of President Trump under his slogan 'Make America great again' and engagement in a series of tariffs increases against China and Western Europe. Similarly the decision by Britain to leave the European Union can be attributed to this social discontent. The Global Trade Alert Index created by the University of St Gallen noted that

Globalization is in retreat for the first time since the Second World War

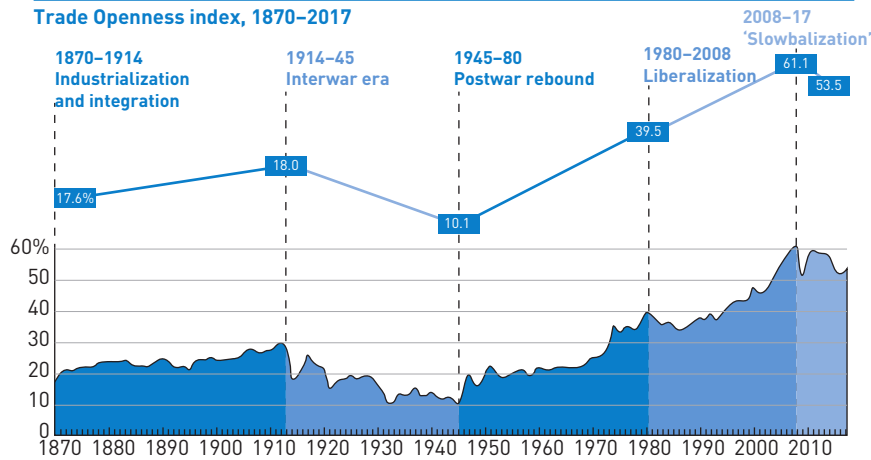


Figure 1.8 World trade evolution since 1870

Source: PIIE, <https://www.piie.com/research/piie-charts/globalization-retreat-first-time-second-world-war>.

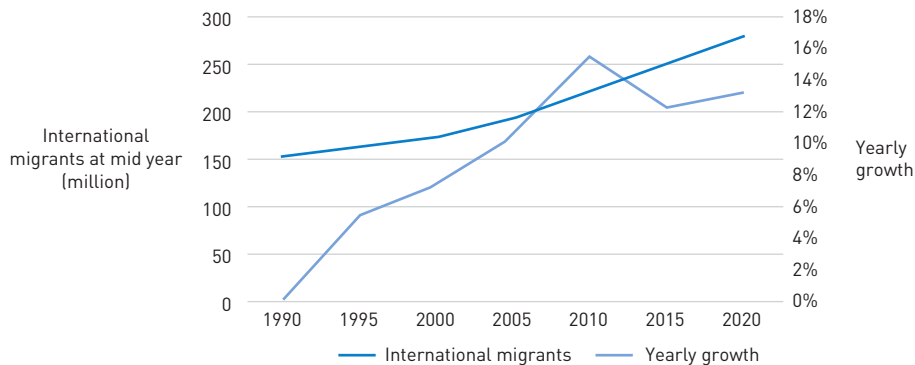


Figure 1.9 Migration Chart

Source: Authors' own using data from <https://www.un.org/development/desa/pd/content/international-migrant-stock>.

since 2011, the number of state interventions discriminating against international trade outpaced the number of interventions favouring international trade. The most frequent measures are import tariffs, subsidies to local companies and limitations for foreign bodies to participate in public procurement. Out of the 21,092 discriminatory measures implemented since 2019, 88 per cent were related to trade discrimination (Global Trade Alert 2021).

Globalization in turmoil: Covid 19 and the Ukrainian war

Whether the future will consist of further globalization or an increase in deglobalization due to the Covid-19 pandemic and to the Russian invasion of Ukraine in early 2022 is still being debated. In the short and medium terms, the global economy will be subject to important '*disruptions in commodity markets especially food and energy, logistic networks, supply chains and foreign direct investment*'. (World Bank report 2022.)

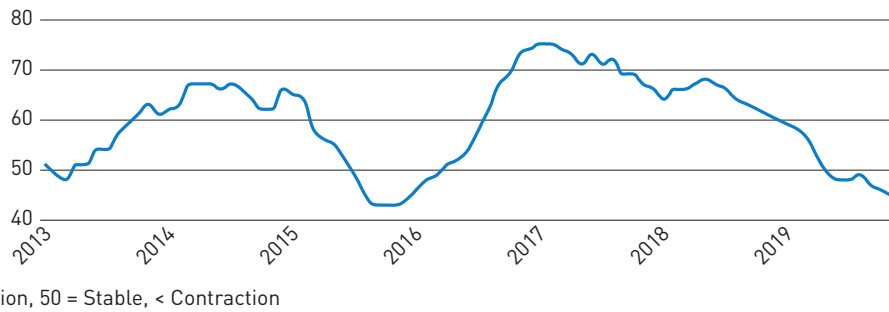


Figure 1.10 DHL Global Trade Barometer from 2013 to 2019

Note: The DHL Global Trade Barometer forecasts short-term trade growth over a three-month period.

Source: <https://lot.dhl.com/global-trade-barometer-gtb/reports/global/>.

What is for certain is that one can expect direct economic results to be at least as devastating as in the years following the financial crisis, with the drop in global demand 'compounded by the effect of governments protecting their own and implementing policies to boost local employment at the expense of imports' (Toulan 2020). Others stress the uncertainties surrounding future growth in various industrial sectors and their impact on global trade and investments (McKinsey Global Institute March 2021). For Yip (2021), the final economic global outcome of the pandemic depends on three factors:

- a The attitude of national policies with respect to limitation of free trade and repatriation of production to domestic territories
- b The fiscal and investment policies to stimulate demand
- c The attitude of multinational companies with respect to their global value chains and safety of supply.

The stimulus package of \$1.9 trillion in the USA, the €1.8 trillion from the European Union recovery plan and the \$500 billion from China are indicative of the fact that public policies are determined to encourage both growth in demand and in productive capacities.

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.

Business and competitive benefits can be grouped into four categories: cost, timing, learning and arbitrage.

- **Cost benefits.** These come, on the one hand, from economies of scale owing to the standardization of products and processes as well as increased bargaining power over suppliers of raw materials, components, equipment and services; and, on the other hand, from the ability to organize a logistic and sourcing network based on location factors. Examples of economies of scale through

standardization are numerous. Otis Elevators was able to lower the cost, and hence the price, to consumers of elevators in Europe by 30 per cent by introducing a pan-European manufacturing system.

- **Timing benefits.** These come from a coordinated approach to product launching in the early stage of the product life cycle. In a multinational setting, each subsidiary is more or less free to adopt products for its own market. This is sometimes called 'the shopping caddy' approach to product adoption. Such an approach generates inefficiencies in the management of the product life cycle since the optimal volume is obtained only after a lengthy process of product adoption by all subsidiaries. A classic example of the deficiency of the 'shopping caddy' approach is Philips America's refusal to adopt the V2000 video system, developed by Philips' mother company in the Netherlands. As a result, this innovation was not able to gain the volume of sales it needed in the most important world market and lost competitiveness compared to Japanese manufacturers such as Sony and Matsushita. In the late 1960s, the 'international product life cycle' theory of multinational product introduction postulated the progressive adoption of products over time according to the level of economic and scientific development of countries (see Figure 1.2). Such a theory is no longer valid. When industries globalize, waiting too long to launch a product can be fatal, particularly if the product has a short life cycle, which is more and more frequently the case. For example, Microsoft launched Windows 2000 at the same time everywhere in the world.
- **Learning benefits.** These accrue from the coordinated transfer of information, best practices and people across subsidiaries. Such transfer eliminates the costly 'reinvention of the wheel' and facilitates the accumulation of experience and knowledge. In Thailand, Unilever formulated and implemented an innovative strategy to produce and market ice cream. The Thai experience served as a template for other countries in the Asia Pacific region, giving the company a first-mover advantage. This example illustrates the benefits that can be gained from a coordinated transfer of best practice.
- **Arbitrage benefits.** These come from the advantages that a company can gain by using the resources in one country for the benefit of its subsidiary in another country. These can be direct competitive advantages or indirect cost advantages. A competitive advantage can be gained by playing a 'global chess game': for instance, engaging in a price war in one country in order to tie up the resources of competitors in that country, thus depriving them of cash flow which could be used elsewhere. This strategy was used by the Korean car manufacturer Hyundai, who avoided targeting European car companies in their home countries. Instead, they entered the UK market with the Pony car model. In the UK continental European competitors enjoyed a strong position and were very profitable. To counter the Korean assault European firms were obliged to lower their prices, diminishing their cash flow that could have been used to reinforce their competitiveness in other markets. Another type of arbitrage comes from differential cost elements such as taxes, interest and possibly risk reduction through the pooling of currencies.

These four benefits are real but achieving them is subject to certain conditions, and their adoption has to be measured against the real competitive advantage they provide to the firms adopting them.