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In the 1980s or 1990s, few observers would have speculated that transnational terrorism and global health pandemics would constitute major issues for international firms in most industries in the year 2006. But such are the factors impacting on organisations in a world of increasing globalisation. Defining the term, scholar David Held said:

"Globalisation denotes transcontinental or inter-regional flows and networks of activity, interaction and power. It is, in short, about the interconnections between different regions of the world – from the cultural to the criminal, the financial to the environmental – and the ways in which they change over time."

This description of globalisation is useful as it captures some of the complexity of a process which incorporates economic, political, cultural and environmental dimensions, among many others. It also points to the changing nature of globalisation as this process evolves or mutates.

From a business perspective, however, perhaps a more tractable definition of globalisation is the increasing (although uneven) integrations of financial, product, and labour markets across national boundaries over time. More specifically, this definition suggests a greater integration of financial linkages, consumer preferences, and labour mobility; that events in one national economy increasingly affect events in other economies, and that correspondingly, a firm’s activities in one national market increasingly impact its competitive position in other markets.

The decision to internationalise represents one of the most significant strategic choices any organisation can make. Management must ask the following questions: Why? (to improve cost and/or revenue structure, access key resources, or enter a new – and at least partially unknown – market); How to enter? (e.g., through exporting, franchising, joint venture or by establishing a wholly-owned subsidiary); How to compete?; And to what degree will these national operations be integrated with the firm’s regional/global activities?

In order to answer these questions correctly and therefore to provide the most sound basis for an international strategy, there are two fundamental features of globalisation that need to be recognised and addressed: the degree of market convergence and the issue of decentralisation versus centralisation.

Business history of the past 20 years is littered with examples of major global firms that overestimated convergence factors in international input and/or output markets – that is, the degree of similarity between their home base and the national business systems they were entering, in terms of either resourcing or markets and sales. They acted on their assumptions and were subsequently forced to undertake major restructuring efforts to correct their mistakes. In short, these firms got globalisation wrong.

The degree of similarity of the markets and business systems of the other nation with those of the home country is likely to impact significantly on how and where an organisation organises its value-chain, how it manages its employees, and how it serves its customers. Unless a firm understands the balance of convergence/divergence forces in its environment: that is, the extent to which business operational factors differ or remain the same as their home market, it cannot formulate and deploy effective strategies to deal with those differences. Despite the much-lauded advent of ‘globalists’, it is worth noting that the very high levels of convergence necessary to constitute genuinely ‘global’ input or output markets remain relatively scarce; in fact, much scarcer than some celebrants of globalisation such as Kees Schuijls Ohmae and Theodore Levitt suggested in the early 1980s.

One famous example of getting globalisation wrong with respect to output markets is Procter & Gamble, which in the 1980s overestimated the degree of convergence between American and Japanese consumers purchasing disposable nappies. In fact, it overestimated the size of Japanese babies, confidently assuming them to be the same as American babies. Then, once the product was launched, P&G confused sales with customer satisfaction as there were no competitors initially. Within a relatively short time the company had its market dominance toppled by local Japanese firms that had re-engineered the bulky American product for Japanese baby bottoms.

Another example, on the input market side, is the current ‘outsourcing’ of back-office functions to overseas providers, increasingly based in India. While many Western firms are doing so very effectively, a not insignificant number have been burned by overestimating the reliability of local service providers. Many such call-centres function in an environment whose basic infrastructure (transport, communications, electricity generation) is still quite undeveloped, and companies have fallen foul of power-supply interruptions and other issues of service quality.

Finally, the American-based steel company Lincoln Electric offers an example of the risks of overestimating convergence at the national business system level. Part of the company’s internationalisation strategy in the 1990s was to develop production facilities in Brazil. To this end it spent several hundred million dollars, only to find out much too late that Brazil’s industrial relations system prohibited individual pay-for-performance contracts in the steel industry. In its American operations, this compensation mechanism was at the centre of Lincoln Electric’s competitive advantage. The firm’s lack of experience in internationalisation led to the assumption of convergence where none existed, creating major headaches over how to generate competitive advantage once this mistake was realised.

A second issue fundamental to successful globalisation is the ability to manage and maintain the balance between centralisation and decentralisation. The expansion of transnational corporations from their home countries to global scale has been widely chronicled. What is new with contemporary globalisation is that the technologies exist today for firms to be spatially decentralised, with research and development, manufacturing, and/or distribution operations placed planet-wide, yet linked with each other and with headquarters and centrally coordinated in real-time. Increasingly, the span of control of these firms is extending beyond their own organisational boundaries to encompass complex networks of support systems that they construct, maintain, and dominate as an alternative to high levels of vertical integration. Such firms are thus simultaneously centralised and decentralised along various organisational dimensions.

The challenge for management with respect to this contradiction is to balance the efficiency-generating benefits of centralisation and control with the equally compelling rewards of fostering organisational entrepreneurship, creativity and flexibility, through decentralising responsibility, authority and budget for selected strategic decisions to national and regional managers.

To conclude, ‘globalisation’ is an imprecise and sometimes misleading term for a process of international convergence that is incremental and far from complete. It is vital for any company involved in overseas operations to have a working knowledge of what internationalisation means with respect to its industry environment, competitive group and key stakeholders’ interests and expectations.

Any globalisation initiative directed towards improving a firm’s revenue and/or cost structure must correctly answer the convergence/divergence question in terms of the prosoppective customers, employees, suppliers, and the wider institutional issues associated with operating in a new – and at least partially unknown – national business system. Failure to be aware of these issues and ask (and adequately answer) these questions can prove extremely harmful, even catastrophic, to what might superficially appear to be a promising internationalisation strategy.

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