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Why does a true 'global strategy' tend to be rare in practice?

Introduction

In this essay I will try to answer the question "Why does a true 'global strategy' tend to be rare in practice?" In order to understand the question, I need to define what a true 'global strategy' is. I see the objective as trying to determine the factors that limit the number of companies having such a strategy. In order to find those, I need to find out why such a strategy would be beneficial to a company, and of course what drawbacks and limitations influence the multinational corporations to reject such a strategy. I will also try to determine whether or not this will change in the future, looking at the recent trends of globalisation.

Main body

Due to the complexity of business strategy, and the varying uses of the term global strategy, it can be difficult to derive a definition of a "true global strategy". Is a company obliged to look at the global industry as a uniform market in order to have such a strategy, or how much are they allowed to adapt to conform to the social, cultural, ethical and legal norms of each country? Is the term connected to a global presence? According to Mellahi et al(2005), the requirements for a global strategy are the centralisation of management, standardisation of operations, and the exploitation of synergies by integrating strategy globally. However, they claim that a company only has to standardise its core elements in order to have a global strategy. A *true* global strategy must be seen as an absolute definition and cannot allow for any relative and varying properties.

Göran Svensson (2001) has found many examples where the term "global strategy" is being used in the context of internationalisation. He introduced the term *glocal* strategy to avoid confusion between a true global strategy, which he deems being a managerial utopia, and internationalisation. *Glocal* strategy basically means thinking globally, but acting locally. As the term *glocal* has been recognised by other researchers (Tian, 2006)(Merz & He, 2008)(Danova, 2005), I see fit to use it to describe semi-global companies in this essay. This leaves the term "true 'global strategy'" available only to companies looking at the world as a single homogenous global market. Conveniently, only one country-specific varying factor in the strategic approach is required to dismiss a company as not having a true global strategy.

The benefit of having a true global strategy is the ability to have standardised products, services and operations, centralised management and integrated global strategies. Instead of paying 10 managers for doing marketing in 10 countries, you can gather the 3 best from each country to make up one marketing department for all the countries, saving money and decreasing the need for long distance communication. Viswanathan and Dickson propose a conceptual framework for standardisation of

market strategy where “*the degree of marketing standardization would be a function of the level of homogeneity of customer response to the marketing mix, the transferability of competitive advantage, and homogeneity of economic freedom across markets.*” (Viswanathan & Dickson, 2007). They distinguish between homogeneity of the customers and homogeneity of customer response to the marketing mix, as demography and culture don’t necessarily have an impact on the customers’ willingness to buy a product. The consumers in different parts of the world certainly aren’t homogenous, but would their response be? The second factor relates to whether you can transfer your competitive advantages, such as low price or differentiation, from one market to another. Does the world allow this uniformly across borders? The third factor concerns the environment of your markets, using economic freedom as a variable that, if similar between markets, will facilitate standardisation, and if not, will discourage a standardisation of market strategy. As the world’s markets have become more and more liberalised (Wall, 2001), this factor has increased the suitability of a global strategy, but with the global economic environment recently changing direction, it can be difficult to determine whether this trend will continue.

So are there any companies operating with the “managerial utopia” that is a true global strategy? Coca Cola has been recognised as the world’s best global brand (Interbrand, 2008), and it may seem logical to assume that it has adapted a global strategy. However, the managers of Coca Cola must assess the culture of each country and subcultures within countries to be able to plan a marketing strategy and also be aware of the local availability of resources, such as drinkable tap water, in order to coordinate their operations. Studying their Chinese website, Tian (2006) found that they have adapted a *glocal* marketing strategy and that their “*online communication strategy accommodates the political, economic, social, and cultural characteristics of the target market.*” (Tian, 2006). Similarly, McDonalds, another major company perceived as following a global approach to marketing strategy, adapts to their customers’ varying tastes in different countries, selling the MacGyros burger in Cyprus, and chilli sauce instead of ketchup to their Mexican customers (Wall, 2001). These companies have fairly standardised operations and product portfolio, but have realized that the characteristics of the worldwide market still hasn’t conformed enough to enable a standardised approach in the marketing strategy.

So, dismissing two of the largest consumer brands in the world as having a *glocal* strategic approach, it would be reasonable to have a look at some global industrial companies, such as Siemens and Intel. Surely, with products such as automated indoor climate solutions and computer chips, there can be no variations in quality preferences between different countries? Not necessarily, but there is still a need to consider resources and activities upstream in the value chain. And as long as the products are tangible, there is a need for logistics, and as the transport infrastructure (roads, airports, railways) is different from country to country, companies are required to adapt their distribution activities accordingly.

Siemens also shows its *glocality* at their global website (Siemens.com), incorporating an interactive globe with geography-specific questions, such as “How can you provide sufficient and reliable water supply for people and industries?” for Asia and “How can you make healthcare affordable for a growing and ageing population?” for North America. They look at the globe as their market, but recognise that each continent has different priorities and problems, and require customized solutions. This makes them *glocal* or multi-regional, and not truly global.

There is one type of company that stands out in the question of global strategy. *Born globals* are companies who within short time after establishment decide to internationalise. These companies tend to be more flexible as they have less tangible resources to move about, and more competitive as they have more intangible resources that are hard to replicate, giving them an advantage over larger companies (Knight, Madsen, & Servais, 2004). They expand rapidly to other countries, and have a relatively global perspective on their international market. As the internet, a key factor to the emergence of born globals, is a relatively new phenomenon, most such companies are young, small or medium sized enterprises. This may restrict adapting a *glocal* strategy, as this requires resources to do research at a local level, and thereby forcing them to adapt a global strategy, whether it is profitable or not. Many of these companies produce intangible products, such as computer programs or mobile games, which makes them dependent on the distribution of the tangible computers and mobile phones of larger MNC's. As such, once this hardware has been standardised and distributed throughout the globe using a *glocal* strategy, the small software manufacturers are welcome to adapt a global strategy. Is it genuine, however?

It can be argued that everybody in the world will never conform to one standard, and as such not allow for a "true global strategy". However, the problem is not that people are different; but that the perceived differences are related to what country you live in i.e. the culture you are a part of. A true global strategy could include customization as long as there is no difference in market strategy between countries. For example, if Amazon only had one website and it was similar for all countries, until the customers logged in and it started to adjust to your specific needs, they would still have a true global strategy. They now have different portals for different countries and their Japanese website is clearly aimed at the Japanese market, with Manga-cartoons and gadgets on the front page (Amazon, 2009). The same goes for Google, who once had a global strategy, but in recent years have started to adapt the search algorithm depending on what country your current IP is registered, and have also agreed to filter government banned sites in their Chinese version due to restrictive Chinese legislation (Strategic Direction, 2007).

Alan M. Rugman (2001) argued that global strategy and globalisation is a myth, and that most companies operate regionally within the triad (North America, Europe and Japan). He was operating with the word globalisation as a state of existence and not a process. Where other managers claim their trade is global, they forget to mention that most of the trade is between members of economic trade unions. He concludes: "*Encourage all your managers to think regional, act local. And forget global!*" (Rugman, 2001). The environment may have changed a bit since this viewpoint article was written, but it is still evident that there is a clear separation line between the developed and the developing countries in terms of trade. Interestingly, he claims that "only in a few sectors, such as the consumer electronics is a global strategy of economic integration possible." (Rugman, 2001). This may be true, but would a consumer in Peru want the same television or mobile phone as the consumer in Sweden? The preferences are probably very different from region to region, and I believe that there is definitely a need to accommodate local wants and needs in the market strategy in this industry, thus not allowing a true global strategy.

Looking at the world post-crisis, a tendency of de-globalization can be seen in a reduction of the flow of goods, capital and jobs, which may lead to a reduction in the flow of knowledge between countries, especially from developed to developing countries (The Economist, 2009). A true global strategy is dependent on globalisation, and when this reverses, it cannot survive, and local

awareness becomes more important. An MNC cannot simply ignore the developing countries, focus on the triad markets of North America, Europe and Japan, which are known for being relatively homogenous (Viswanathan & Dickson, 2007), and say that they have a global strategy for the “important” parts of the world. If globalisation is to be seen as a positive thing, the privileged countries in the triad must acknowledge that it isn’t going to happen until the developing countries are fully developed, and this cannot happen without a permanent flow of knowledge and fair trade.

Conclusion

As can be seen from theory and different case studies, there are several reasons why a true global strategy is rarely seen in practice:

1. Consumer oriented MNC’s become *glocal* to accommodate the cultural and social heterogeneity of the consumers.
2. Industrial MNC’s have to accommodate for the regional differences in infrastructure and legislation.
3. Large MNC’s need a high local awareness in order to gain a competitive advantage in the local environment.
4. Small born globals simply don’t have the resources to conduct research on each local environment they are in, and may be forced to looking at the world as a homogenous market. However, as only around 1.5 billion people, 23% of the world’s population, have access to the internet (AMD, 2009), they have no ability to reach the entire global consumer market.

The true global strategy is dependent on globalisation, and although technology has brought the countries of the world closer together, there is still a clear fragmentation of customer culture, differences in economic freedom and varying quality of infrastructure between countries. These are all factors discouraging companies from adopting a true global strategy.

The technologic development may facilitate more global advertisement and communication in the future, and if the developing countries catch up in terms of economy and infrastructure and more people get access to the internet, there may come a time where a true global strategy would give a competitive advantage in the global market, but at present, *glocal* or regional strategy is the favoured approach by MNC’s.

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